

HIAP TECK VENTURE BERHAD
(Company No: 421340-U)

Notes to the Quarterly Report – 31 January 2011

**PART A : EXPLANATORY NOTES AS PER FINANCIAL REPORTING
STANDARDS (“FRS”) 134, INTERIM FINANCIAL REPORTING**

1. Basis of preparation

These interim financial statements are prepared in compliance with FRS 134 “Interim Financial Reporting” issued by Malaysian Accounting Standards Board (“MASB”) and Chapter 9 Part K of the Listing Requirement of Bursa Malaysia Securities Berhad. The interim financial report should be read in conjunction with the Company’s annual audited financial statements for the year ended 31 July 2010.

This interim financial report has been prepared based on accounting policies and methods of computation which are consistent with those adopted in the annual audited financial statements for the year ended 31 July 2010, except for the following new and revised FRSS, IC Interpretations and Amendments to FRSS and IC Interpretation which are applicable to its financial statements:

Effective for financial periods beginning on or after 1 January 2010

FRS 7, Financial Instruments: Disclosures

FRS 101, Presentation of Financial Statements

FRS 123, Borrowing Costs

FRS 139, Financial Instruments: Recognition and Measurement

Amendments to FRS 1 and FRS 127, First-time Adoption of Financial Reporting Standards and Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

Amendments to FRS 2, Share-based Payment Vesting Conditions and Cancellations

Amendment to FRS 5, Non Current Assets Held for Sale and Discontinued Operations

Amendments to FRS 7, Financial Instruments: Disclosures

Amendment to FRS 8, Operating Segments

Amendment to FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors

Amendment to FRS 117, Leases

Amendment to FRS 119, Employee Benefits

Amendment to FRS 120, Accounting for Government Grants and Disclosures of Government Assistance

Amendment to FRS 123, Borrowing Costs

Amendment to FRS 127, Consolidated and Separate Financial Statements

Amendment to FRS 128, Investment in Associates

Amendment to FRS 129, Financial Reporting in Hyperinflationary Economies

1. Basis of preparation (cont'd)

Effective for financial periods beginning on or after 1 January 2010 (cont'd)

Amendment to FRS 131, Interests in Joint Ventures
Amendments to FRS 132, Financial Instruments: Presentation
Amendment to FRS 134, Interim Financial Reporting
Amendment to FRS 138, Intangible Assets
Amendment to FRS 140, Investment Property
IC Interpretation 9, Reassessment of Embedded Derivatives
IC Interpretation 10, Interim Financial Reporting and Impairment
IC Interpretation 11, FRS 2, Group and Treasury Share transactions
IC Interpretation 13, Customer Loyalty Programmes
IC Interpretation 14, FRS 119, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
Amendments to IC Interpretation 9, Reassessment of Embedded Derivatives

Effective for financial periods beginning on or after 1 July 2010

FRS 1, First-time Adoption of Financial Reporting Standards
FRS 3, Business Combinations
FRS 127, Consolidated and Separate Financial Statements
Amendments to FRS 2, Share-based Payment
Amendments to FRS 5, Non-Current Assets Held for Sale and Discontinued Operations
Amendments to FRS 138, Intangible Assets
IC Interpretation 12, Service Concession Arrangements
IC Interpretation 16, Hedges of a Net Investment in a Foreign Operation
IC Interpretation 17, Distributions of Non-cash Assets to Owners
Amendments to IC Interpretation 9, Reassessment of Embedded Derivatives

The adoption of the above Standards and Interpretations does not have significant effects on the financial statements of the Group upon initial application other than as discussed below:

FRS 101, Presentation of Financial Statements (Revised)

The revised FRS 101 introduces changes in the presentation and disclosures of financial statements. The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. The Standard also introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the classification of items in the financial statements. The revised FRS 101 does not have any impact on the financial position and results of the Group.

1. Basis of preparation (cont'd)

Amendments to FRSs 'Improvements to FRSs (2009)' - FRS 117: Leases

FRS 117 clarifies on the classification of leases of land and buildings. The resulting effect of this Standard taking effect is the reclassification of prepaid leases on land back into property, plant and equipment, rather than being separately classified under prepaid lease payments on the consolidated balance sheet.

The following comparative figures have been restated following the adoption of the amendment to FRS 117:

	As at 31/7/2010 RM'000	Effect of FRS 117 RM'000	As at 1/8/2010 RM'000
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<i>Assets</i>			
Prepaid land lease payments	144,569	(144,569)	-
Property, plant and equipment	326,320	144,569	470,889
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FRS 139, Financial Instruments: Recognition and Measurement

Prior to the adoption of FRS 139, financial derivatives were recognised on their settlement dates. Outstanding derivatives at the reporting date were not recognised. With the adoption of FRS 139, all financial assets and financial liabilities, including derivatives, are recognised at contract dates when, and only when the Company or any subsidiaries becomes a party to the contractual provisions of the instruments.

The measurement base applied to the financial assets and financial liabilities in the prior financial year are changed to conform to the measurement standards of the FRS 139 in the current quarter. At initial recognition, all financial assets and financial liabilities are measured at their fair value plus in the case of financial instruments not a fair value through profit or loss, transaction costs directly attributable to the acquisition or issuance of the instruments.

1. Basis of preparation (cont'd)

FRS 139, Financial Instruments: Recognition and Measurement (cont'd)

In accordance with the transitional provisions of FRS 139, the above changes are applied prospectively and the comparatives as at 31 July 2010 are not restated. Instead, the changes have been accounted for by restating the opening balances as at 1 August 2010 in the consolidated statement of financial position. The effect of changes in the consolidated statement of financial position is as follows:

	As at 31/7/2010 RM'000	Effect of FRS 139 RM'000	As at 1/8/2010 RM'000
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<i>Assets</i>			
Other Investments	186	(186)	-
Available-for-Sale Investments	-	186	186
Short Term Money Market Fund	71,542	(71,542)	-
Available-for-Sale Short Term Money Market Fund	-	71,542	71,542
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The adoption of FRS 139 does not have any significant impact on the financial result for the financial year-to-date.

2. Audit qualification

There were no audit qualifications on the annual financial statements of the Group for the year ended 31 July 2010.

3. Seasonal or cyclical factors

The Group's business operations are not materially affected by any major seasonal factors except during Hari Raya, Christmas and Chinese New Year festive seasons where business activities generally slow down.

4. Material unusual items

There were no unusual nature and amount of items affecting assets, liabilities, equity, net income or cash flows during the quarter.

5. Material changes in estimates

There were no material changes in estimates of amount reported in prior interim period that have material impact in the current quarter under review.

6. Issuances, cancellation, repurchase, resale and repayment of debt and equity securities

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current quarter under review.

As at 31 January 2011, a total of 5,440,000 buy-back shares were held as treasury shares and carried at cost as follow:

	No. of Shares Purchased	Average Purchase Price (RM)	Consideration Paid (RM)
As at 1.8.2010	5,430,000	1.37	7,457,579
December 2010	10,000	1.19	11,886
As at 31.1.2011	5,440,000	1.37	7,469,465

7. Dividend paid

A single tier final dividend of 3% totaling RM4,829,400 in respect of the financial year ended 31 July 2010 was paid on 25 January 2011.

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8. Segment information

The Group's activities, which are located in Malaysia, are identified into the following business segments:

	← 6 months ended 31 January 2011 →					
	Trading	Manufacturing	Property and Investment	Transportation	Elimination	Group
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
SALES						
- External sales	293,059	196,285	-	3	-	489,347
- Intersegment sales	8,466	13,580	9,572	2,163	(33,781)	-
Total sales	<u>301,525</u>	<u>209,865</u>	<u>9,572</u>	<u>2,166</u>	<u>(33,781)</u>	<u>489,347</u>
RESULTS						
Interest income	699	328	-	3	-	1,030
Dividend income	-	-	4,880	-	(4,880)	-
Depreciation & amortisation	956	8,126	2,183	63	-	11,328
Other non-cash expenses	44	-	-	-	-	44
Segment profit/(loss)	<u>10,895</u>	<u>(3,281)</u>	<u>2,888</u>	<u>228</u>	<u>(4,880)</u>	<u>5,850</u>

9. Valuation of property, plant and equipment

The valuations of property, plant and equipment have been brought forward without amendments from the previous annual report.

10. Significant events

There were no material events subsequent to the end of the interim period up to the date of this report.

11. Changes in the composition of the Group

On 25 January 2011, the wholly-owned subsidiary of the Company, Huatracco Scaffold Sdn. Bhd. (formerly known as Huatracco Marketing Sdn. Bhd.), has incorporated a wholly-owned subsidiary company, Huatracco Investment Pte. Ltd. (“Huatracco Investment”) under Companies Act (CAP 50, 1994 Rev Ed), Singapore. The registered capital of Huatracco Investment is SGD100.00 and its principal activity is an investment holding.

Subsequent to its incorporation, Huatracco Investment has on 11 February 2011 incorporated a 55% subsidiary company, Huatracco Singapore Pte. Ltd. (“Huatracco Singapore”) under the Companies Act (CAP 50, 1994 Rev Ed), Singapore. The registered capital of Huatracco Singapore is SGD200,000. The shareholders of Huatracco Singapore are Wai Fong Construction Pte. Ltd. holding 90,000 shares of SGD1.00 each and Huatracco Investment holding 110,000 shares of SGD1.00 each. The principal activity of Huatracco Singapore is renting of construction and civil engineering machinery and equipment.

12. Changes in contingent liabilities and assets

The contingent liabilities at 31 January 2011 are as follow:

Unsecured Contingent Liabilities :-	Company	
	31.01.11 RM'000	31.07.10 RM'000
Corporate Guarantee in favour of financial institutions for facilities granted to subsidiaries	343,333	453,787
Total	343,333	453,787

13. Capital commitments

As at 31 January 2011, Capital Commitment approved by the Board and contracted for plant and equipment amounted to RM0.832 million.

14. Related party transactions

Related party transactions for the quarter under review in which certain directors have direct/indirect interest are as follows:

	Group	
	Current year quarter	Current year-to- date
	31.01.11	31.01.11
	RM'000	RM'000
Sales of steel products	14	24
Purchases of steel products	42,212	76,236
Professional fees	2	2

These transactions have been entered into in the normal course of business and at arms length basis and on terms no more favourable to the related party than those generally available to the public and are not detrimental to minority shareholders.

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**PART B: ADDITIONAL INFORMATION REQUIRED BY THE BURSA MALAYSIA
SECURITIES BERHAD LISTING REQUIREMENTS**

15. Review of performance

During the current quarter under review, the Group achieved a turnover of RM244.85 million as compared to RM251.43 million for the corresponding period of the previous year. The slight decrease in revenue was mainly due to lower sales volume in the current quarter.

The Group recorded a profit before tax (“PBT”) of RM5.35 million for the current quarter under review as compared to profit before tax of RM7.10 million in the corresponding period of previous year which mainly due to increase in operating expenses.

16. Comparison with preceding quarter’s results

The Group recorded a turnover of RM244.85 million for the current quarter as compared to RM244.50 million achieved in the immediate preceding quarter. However, the Group’s profit before tax of RM5.35 million for the current quarter under review was higher than profit before tax in the immediate preceding quarter by RM4.85 million. The immediate preceding quarter’s profit before tax was RM0.5 million.

The increase in profit is mainly due to improve in margins of steel products during the current quarter.

17. Prospects

Demand for steel products is expected to increase gradually when more development projects are being rolled out under Tenth Malaysia Plan and Economic Transformation Programme.

Nevertheless, the Group will continue its efforts to improve its operational efficiency and increase its competitiveness and to achieve satisfactory results for the financial year ending 31 July 2011.

18. Variance of actual and forecast profit

Not applicable.

19. Tax

	Group		
	Current year quarter 31.01.11 RM'000	Current year-to- date 31.01.11 RM'000	
	Income tax	1,411	3,486
	Deferred tax	(9)	(17)
	1,402	3,469	

The Group's effective tax rate was higher than the statutory income tax rate due to non-deductibility of certain expenses.

20. Unquoted investment or properties

There were no disposals of unquoted investments or properties during the quarter under review.

21. Quoted and marketable investments

There were neither purchases nor sales of quoted securities for the quarter under review.

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22. Status of corporate proposal

On 28 January 2011, the Company has proposed to undertake the following:

- a) Proposed renounceable rights issue of 321,960,000 new ordinary shares of RM0.50 each in the Company at an issue price to be determined later on the basis of 1 Rights Share for every 1 existing ordinary share of RM0.50 each held in the Company together with 80,490,000 free detachable warrants on the basis of 1 free Warrant for every 4 Rights Shares subscribed on an entitlement date to be determined later (“Proposed Rights Issue with Warrants”);
- b) Proposed issuance of up to RM180 million nominal value of 7-year Redeemable Convertible Secured Bonds (“Proposed Bonds Issue”);
- c) Proposed employees’ share option scheme (“ESOS”) for the employees and directors of the Company and its subsidiaries and
- d) Proposed increase in the authorised share capital of the Company from RM200,000,000 comprising 400,000,000 Hiap Teck Shares to RM1,000,000,000 comprising 2,000,000,000 Hiap Teck Shares.

(collectively referred to as the “Proposals”).

The purpose of the Proposals is to subscribe to a fund raising exercise to be undertaken by Eastern Steel Sdn. Bhd. (“Eastern Steel”), a 55% owned subsidiary of the Company. As stated in the announcement dated 29 December 2009, Eastern Steel proposed to set up a blast furnace plant in Kemaman, Terengganu. The 1st phase of the blast furnace plant comprises a 530 cubic metre blast furnace with a slab caster and is expected to have an annual production capacity of up to 700,000 metric tonnes.

Eastern Steel requires RM750.0 million for the setting up and commissioning of the 1st phase of the blast furnace plant. The fund-raising exercise by Eastern Steel will be via the issuance of securities by Eastern Steel to its shareholders and/or via advances from the shareholders of Eastern Steel.

The capital requirement for the Company’s 55% equity interest in Eastern Steel is RM412.5 million. The Company proposes to utilise approximately RM348.803 million of the proceeds from the Proposed Rights Issue with Warrants and the Proposed Bonds Issue to subscribe to the proposed fund raising exercise by Eastern Steel. The balance of the funds required will be funded via internally generated funds.

On 28 February 2011, applications have been submitted to the Ministry of International Trade and Industry (“MITI”) for the Proposed Bond Issue and Bank Negara Malaysia (“BNM”) for the Proposed Rights Issue with Warrants. Approvals have been obtained from MITI and BNM on 22 March 2011 and 25 March 2011 respectively.

The above corporate exercise is still in progress.

23. Borrowings

The Group's borrowings as at 31 January 2011 are as follows:

	Long Term RM'000	Short Term RM'000	Total RM'000
<u>Unsecured:</u>			
Bankers' Acceptances	-	264,685	264,685
Revolving credit (RM denominated)	-	30,000	30,000
<u>Secured:</u>			
Term loan (RM denominated)	34,793	13,855	48,648
	<u>34,793</u>	<u>308,540</u>	<u>343,333</u>

Bankers' Acceptances and revolving credit are secured by corporate guarantees of the Company.

Term Loan is secured by specific charge over certain property of a subsidiary and corporate guarantees of the Company.

24. Financial instrument

With the adoption of FRS 139, financial instruments are recognised on their respective contract dates with its accounting policy as disclosed in Note 1 to this report. There is no outstanding financial instrument at the reporting date.

25. Material litigation

There is no material litigation for the quarter under review.

26. Dividend

The Board of Directors does not recommend any dividend for the period under review.

27. Earning per share

	Current Year Quarter 31.01.11	Current Year to-date 31.01.11
Profit attributable to owners of the parent (RM'000)	4,460	3,305
Weighted average number of shares in issue ('000)	321,965	321,968
Basic earning per share (sen)	1.39	1.03

28. Retained earnings

	Current Year Quarter 31.01.11 RM'000	Immediate Preceding Quarter 31.10.10 RM'000
Realised	477,738	483,048
Unrealised	(6,703)	(6,156)
	471,035	476,892
Less: Consolidation adjustments	(38,818)	(44,306)
Total retained profits	432,217	432,586