

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

Notes to the Quarterly Report – 30 April 2015

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

1. Basis of preparation

These interim financial statements are unaudited and have been prepared in accordance with MFRS 134 “Interim Financial Reporting” issued by Malaysian Accounting Standards Board (“MASB”) and paragraph 9.22 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 2014. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 July 2014.

2. Significant Accounting Policies

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 2014, except for the adoption of the following new and revised MFRSs, IC Interpretations and Amendments to MFRSs and IC Interpretation that are effective for the financial year ending 31 July 2015:

- Amendments to MFRS 10, Consolidated Financial Statements: Investment Entities
- Amendments to MFRS 12, Disclosure of Interests in Other Entities: Investment Entities
- Amendments to MFRS 127, Separate Financial Statements (2011): Investment Entities
- Amendments to MFRS 132, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
- Amendments to MFRS 136, Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to MFRS 139, Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
- IC Interpretation 21, Levies

2. Significant Accounting Policies (cont'd)

- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)
- Amendments to MFRS 2, Share-based Payment (Annual Improvements 2010 – 2012 Cycle)
- Amendments to MFRS 3, Business Combinations (Annual Improvements 2010 – 2012 Cycle and 2011-2013 Cycle)
- Amendments to MFRS 8, Operating Segments (Annual Improvements 2010 – 2012 Cycle)
- Amendments to MFRS 13, Fair Value Measurement (Annual Improvements 2010 – 2012 Cycle and 2011-2013 Cycle)
- Amendments to MFRS 116, Property, Plant and Equipment (Annual Improvements 2010 – 2012 Cycle)
- Amendments to MFRS 119, Employee Benefits – Defined Benefit Plan: Employee Contributions
- Amendments to MFRS 124, Related Party Disclosures (Annual Improvements 2010 – 2012 Cycle)
- Amendments to MFRS 138, Intangible Assets (Annual Improvements 2010 – 2012 Cycle)
- Amendments to MFRS 140, Investment Property (Annual Improvements 2011 – 2013 Cycle)

The adoption of above Standards and Interpretations do not have any significant effect on the financial statements of the Group.

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016

- MFRS 14, Regulatory Deferral Accounts
- Amendments to MFRS 11, Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations
- Amendments to MFRS 116, Property, Plant and equipment - Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to MFRS 138, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017

- MFRS 15, Revenue from Contracts with Customers

2. Significant Accounting Policies (cont'd)

MFRSs, Interpretations and amendments effective for date yet to be confirmed

- MFRS 9, Financial Instruments (2009)
- MFRS 9, Financial Instruments (2010)
- MFRS 9, Financial Instruments – Hedge Accounting and Amendments to FRS 9, FRS 7 and FRS 139
- Amendments to MFRS 7, Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures

3. Audit qualification

There were no audit qualifications on the annual financial statements of the Group for the year ended 31 July 2014.

4. 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.

5. Material unusual items

The concrete flooring at one of the Group's factories in Klang experienced a caving-in incident on 18 April 2015. The affected area measures approximately 9,600 sq. ft. and is part of the raw material storage yard. The incident resulted in failure of the existing concrete slab, surrounding structure and the hot-rolled coils at the particular area sunken into the soft ground underneath.

The incident has been reported to the insurance company and discussion on the claim is yet to finalise. The Company had made a provision of RM8,471,624.26 on the missing hot-rolled coils in the quarter under review.

Rectification works and recovery of the hot-rolled coils are in progress.

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

6. 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.

7. 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 except the following:

- a) Issuance of 28,000 new ordinary shares at par of RM0.50 each for cash arising from the exercise of Employees' Share Options Scheme ("ESOS") at an exercise price of RM0.50 each;
- b) No shares were bought back in the current quarter. As at quarter ended 30 April 2015, a total of 5,482,000 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 30.04.2015	5,482,000	1.37	7,496,143

8. Dividend paid

A single tier final dividend of 0.6 sen per ordinary share in respect of the financial year ended 31 July 2014 was approved by the shareholders on the 18th Annual General Meeting of the Company held on 17 December 2014. A total amount of RM4,277,910 was paid on 13 February 2015 to depositors registered in the Record of Depositors at the close of business on 28 January 2015.

---- the rest of the page is intentionally left blank ----

9. Segment information

The Group's activities are identified into the following business segments:

	← 9 months ended 30 April 2015 →						
	Trading	Manufac-	Property	Transport-	Mining	Elimina-	Group
	RM'000	turing	and	ation	explor-	tion	RM'000
	RM'000	RM'000	Investment	RM'000	ation	RM'000	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
SALES							
- External sales	484,954	458,432	144	87	-	-	943,617
- Intersegment sales	1,938	18,042	28,200	2,949	-	(51,129)	-
Total sales	486,892	476,474	28,344	3,036	-	(51,129)	943,617
RESULTS							
Finance income	850	582	15,164	15	-	-	16,611
Finance costs	6,918	7,661	8,656	-	-	-	23,235
Prov for loss of Inventories	-	8,472	-	-	-	-	8,472
Depreciation & amortisation	2,663	13,320	1,471	314	-	-	17,768
Share of loss of jointly controlled entity	-	-	-	-	-	-	(33,555)
Segment profit/(loss)	5,370	22,013	4,129	443	(261)	(33,484)	(1,790)

10. Valuation of property, plant and equipment

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

11. Significant events

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

12. Changes in the composition of the Group

There were no significant changes in the composition of the Group as at the date of this report.

13. Changes in contingent liabilities and assets

The contingent liabilities as at 30 April 2015 are as follow:

Unsecured Contingent Liabilities :-	Group	
	30.04.15 RM'000	30.04.14 RM'000
In respect of indemnity provided for bank guarantees issued	15,385	16,501
In respect of guarantees issued in favour of Royal Custom and Excise Department	3,000	3,000
In respect of corporate guarantees issued to a jointly controlled entity	134,006	15,074
Total	152,391	34,575

14. Capital commitments

Share of capital commitments of the jointly controlled entity as at 30 April 2015 are as follow:

	RM'000
<u>Capital expenditure:</u>	
Approved and contracted for	28,657
Approved but not contracted for	3,850
	<hr/>
	32,507

---- the rest of the page is intentionally left blank ----

15. 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
	30.04.15	30.04.15
	RM'000	RM'000
Sales of steel products by certain wholly owned subsidiaries of the Group to 55% owned jointly controlled entity, Eastern Steel Sdn. Bhd. ("ES")	133	1,360
Purchases of steel products by certain wholly owned subsidiaries of the Group from JK Ji Seng Sdn.Bhd.	39,553	115,799
Sales of steel products from trial production by ES to JK Ji Seng Sdn.Bhd.	81,383	81,383
Purchases of equipment, products, services and raw materials by ES from Shougang Corporation	45	504

These transactions have been entered into in the normal course of business and at arm's 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.

---- the rest of the page is intentionally left blank ----

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

16. Review of performance

The Group reported revenue of RM335.05 million for the 3rd quarter of FY 2015, representing an increase of 12.9% over the preceding year corresponding quarter revenue of RM296.74 million. The increase was attributable to higher sales volume achieved in the current quarter under review.

Both the trading and manufacturing divisions reported sales volume higher than the preceding year corresponding quarter. Trading Division's revenue for the current quarter under review was RM14 million higher than preceding year corresponding quarter, recorded at RM162.6 million. Manufacturing Division outperformed by achieving revenue of RM174.9 million in the 3rd quarter of FY 2015, an 18% increase as compared to RM148.1million in preceding year same quarter.

However, the Group registered a loss before tax of RM4.83 million in Q3FY2015 as compared to a profit before tax of RM11.67 million in Q3FY2014 mainly due to share of loss of jointly controlled entity of RM12.47 million in the reporting quarter and a one-off provision for loss of inventories amounting to RM8.47 million as a result of the caving-in incident.

On year-to-date basis, the Group recorded revenue growth of 14% to RM943.62 million in the first nine months of FY2015 from RM826.32 million in the corresponding period of FY2014. Profit before tax declined from RM40.98 million to a loss before tax of RM1.79 million for the first nine months of FY2015 mainly due to provision for loss of inventories of RM8.47 million and higher share of loss of jointly controlled entity. The share of loss of jointly controlled entity was RM33.55 million in the reporting period compared to RM1.84 million in the corresponding period in FY 2014. The entity's losses were mainly due to unrealised foreign exchange loss arising from USD denominated shareholders' loan and the higher costs associated with trial production.

17. Comparison with immediate preceding quarter's results

For the quarter under review, the Group's revenue increased from RM301.12 million in the immediate preceding quarter to RM335.05 million, an increase of 11.3%, contributed by higher sales volume mainly attributable to the Manufacturing Division.

The Group's higher loss before tax of RM4.83 million in Q3FY2015 compared to a loss before tax of RM1.95 million in Q2FY2015 was mainly due to provision for loss of inventories of RM8.47 million in the current quarter.

18. Prospects

The steel industry has been operating in a difficult environment and the recent depreciation of the Ringgit against the major currencies further aggravated the challenges faced by the industry.

However, the Group is optimistic that demand for steel products in the domestic market will remain resilient with the ongoing major construction projects implemented by the government.

Despite the challenges ahead, the Group's trading and downstream manufacturing divisions will continue to strive to maintain a satisfactory performance for the remaining period of the financial year. Effort to strengthen its productivity, efficiency and various cost control measures will continue to be implemented. However, the performance of the Group's jointly controlled entity will continue to be affected by the volatility of US Dollar and start up challenges.

19. Variance of actual and forecast profit

Not applicable.

20. Tax

	Group	
	Current year quarter	Current year-to- date
	30.04.15	30.04.15
	RM'000	RM'000
Income tax	444	6,210
Deferred tax	(86)	431
	358	6,641

The Group's effective tax rate was higher than the statutory income tax rate of 25% mainly due to share of loss of jointly controlled entity which resulted in a loss before tax. The Group's effective tax rate was lower than the statutory income tax rate should the calculation exclude the share of loss of the jointly controlled entity.

21. Status of corporate proposal

On 1 June 2015, the Company had made an announcement that the Company is proposing to undertake the following proposal:

- (i) A Renounceable Rights Issue of up to RM213,718,300.00 nominal value of five (5)-year 5% Redeemable Convertible Unsecured Islamic Debt Securities (“RCUIDS”) at 100% of its nominal value on the basis of two (2) RM0.50 nominal value of RCUIDS for every five (5) existing ordinary shares of RM0.50 each in the Company (“HTVB shares” or “shares”) held on an entitlement date to be determined later together with up to 320,577,450 free detachable warrants (“new warrants”) on the basis of three (3) new warrants for every four (4) RM0.50 nominal value of RCUIDS subscribed (“Proposed Rights Issue”);
- (ii) A Bonus issue of up to 213,718,300 new HTVB shares to be credited as fully paid-up (“bonus shares”) on the basis of one (1) bonus share for every two (2) RM0.50 nominal value of RCUIDS subscribed by the entitled shareholders of the Company and/or their renounce(s) pursuant to the proposed rights issue (“Proposed Bonus Issue”);
- (iii) An increase in the authorised share capital of the Company from RM1,000,000,000 comprising 2,000,000,000 HTVB shares to RM2,000,000,000 comprising 4,000,000,000 HTVB shares (“Proposed ISAC”); and
- (iv) An amendment to the Memorandum and Articles of Association of the Company (“Proposed Amendments”).

The Proposed Rights Issue, Proposed Bonus Issue, Proposed ISAC and Proposed Amendments are inter-conditional upon each other.

On 24 June 2015, the Company made the Private Debt Security application to the Securities Commission Malaysia for the issuance of the RCUIDS.

---- the rest of the page is intentionally left blank ----

22. Borrowings

The Group's borrowings as at 30 April 2015 are as follows:

	Long Term RM'000	Short Term RM'000	Total RM'000
<u>Secured:</u>			
Bankers' Acceptances	-	442,238	442,238
Revolving credit	-	60,000	60,000
Onshore foreign currency loan	-	15,281	15,281
Liability component of redeemable convertible secured bonds	130,402	550	130,952
	<u>130,402</u>	<u>518,069</u>	<u>648,471</u>

Bankers' Acceptances, revolving credit and onshore foreign currency loan are secured by corporate guarantees of the Company.

As at 30 April 2015, the Company has extended corporate guarantees amounting to RM517.52 million to financial institutions for banking facilities granted to certain subsidiaries. The financial impact of the guarantees is not material as the subsidiaries concerned are in positive financial standings to meet their obligations as and when they fall due.

The redeemable convertible secured bonds are constituted by a Trust Deed entered into between the Company and the trustee on 21 March 2012.

23. Material litigation

There is no material litigation for the quarter under review.

24. Dividend

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

---- the rest of the page is intentionally left blank ----

25. Loss per share (“LPS”)

a) Basic LPS

The basic loss per share is calculated by dividing the Group’s net loss attributable to ordinary equity holders for the period by the weighted average number of ordinary shares in issue.

	Current Year Quarter 30.04.15	Current Year to-date 30.04.15
Loss attributable to owners of the parent (RM'000)	(5,187)	(8,427)
Weighted average number of ordinary shares in issue ('000)	712,895	708,597
Basic loss per share (sen)	(0.73)	(1.19)

b) Diluted LPS

The diluted loss per share is calculated by dividing the Group’s net loss attributable to ordinary equity holders for the period by the weighted average number of ordinary shares that would have been in issue upon full exercise of the remaining options under ESOS, warrants and redeemable convertible secured bonds, adjusted for the number of such ordinary shares that would have been issued at fair value.

The computation has not taken into account the diluted effect on earnings per share on exercise of warrants and conversion of redeemable convertible secured bonds on the assumptions that no exercise of warrants and conversion of redeemable convertible secured bonds as the exercise price of warrants and conversion price of redeemable convertible secured bonds were higher than the average market price.

	Current Year Quarter 30.04.15	Current Year to-date 30.04.15
Loss attributable to owners of the parent (RM'000)	(5,187)	(8,427)
Weighted average number of ordinary shares in issue ('000)	722,626	718,328
Basic earnings/(loss) per share (sen)	(0.72)	(1.17)

---- the rest of the page is intentionally left blank ----

26. Realised and unrealised profit disclosure

	Current Year Quarter 30.04.15 RM'000	Immediate Preceding Quarter 31.01.15 RM'000
Total retained earnings of the Company and its subsidiaries		
- Realised	611,832	602,343
- Unrealised	3,754	5,977
	615,586	608,320
Total share of accumulated losses of the joint venture		
- Realised	(24,162)	(7,176)
- Unrealised	(39,095)	(41,593)
	(22,580)	(24,615)
Less: Consolidation adjustments	(22,580)	(24,615)
Total retained profits	529,749	534,936

27. Profit from operations

	Current Year Quarter 30.04.15 RM'000	Current Year- to-date 30.04.15 RM'000
<i>Profit for the year is arrived at after charging:</i>		
Depreciation of property, plant and equipment	5,927	17,649
Depreciation of investment property	40	119
Provision for loss of inventories	8,472	-
Equity-settled share based payments	333	781
Finance costs	8,114	23,235
<i>and after crediting/(charging):</i>		
Gain on disposal of property, plant and equipment	287	1,749
Finance income:		
Available-for-sale financial assets	433	1,360
Deposits	124	262
Jointly controlled entity	4,894	14,989
Net foreign exchange gain/(loss)		
Realised	1,199	2,858
Unrealised	(498)	1,448
Rental income	116	573

28. Authorisation for Issue

The Interim Financial Statements were authorized for issue by the Board of Directors on 29th June 2015.