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

Notes to the Quarterly Report – 31 January 2016

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 2015. 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 2015.

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 2015.

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 5, Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)
- Amendments to MFRS 7, Financial Instruments: Disclosures (Annual Improvements 2012-2014 Cycle)
- Amendments to MFRS 10, Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

2. Significant Accounting Policies (cont'd)

- Amendments to MFRS 10, Consolidated Financial Statements, MFRS 12, Disclosure of Interests in Other Entities and MFRS 128, Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception
- Amendments to MFRS 11, Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations
- Amendments to MFRS 101, Presentation of Financial Statements – Disclosure Initiative
- Amendments to MFRS 116, Property, Plant and Equipment and MFRS 138, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to MFRS 116, Property, Plant and Equipment and MFRS 141, Agriculture – Agriculture: Bearer Plants
- Amendments to MFRS 119, Employee Benefits (Annual Improvements 2012-2014 Cycle)
- Amendments to MFRS 127, Separate Financial Statements – Equity Method in Separate Financial Statements

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, Financial Instruments (2014)
- MFRS 15, Revenue from Contracts with Customers

The initial application of the abovementioned accounting standards, amendments or interpretations are not expected to have any material impacts to the financial statements of the Group and the Company.

3. Audit qualification

There were no audit qualifications on the annual financial statements of the Group for the year ended 31 July 2015.

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

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.

As at quarter ended 31 January 2016, a total of 5,482,000 buy-back shares were held as treasury shares and carried at cost.

8. Dividend paid

A single tier final dividend of 0.3 sen per ordinary share in respect of the financial year ended 31 July 2015 was approved by the shareholders on the 19th Annual General Meeting of the Company held on 15 December 2015. A total amount of RM2,138,726.62 was paid on 27 January 2016 to depositors registered in the Record of Depositors at the close of business on 8 January 2016.

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9. Segment information

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

	6 months ended 31 January 2016						
	Trading RM'000	Manufac-turing RM'000	Property and Investment RM'000	Transport-ation RM'000	Mining explor-ation RM'000	Elimina-tion RM'000	Group RM'000
SALES							
- External sales	312,258	278,890	96	1	1,222	-	**592,467**
- Intersegment sales	-	2,790	12,213	2,072	-	(17,075)	-
Total sales	**312,258**	**281,680**	**12,309**	**2,073**	**1,222**	**(17,075)**	**592,467**
RESULTS							
Finance income	187	301	421	11	-	-	920
Finance costs	4,915	4,454	5,871	-	-	-	15,240
Inventories recovered	-	4,877	-	-	-	-	4,877
Depreciation & amortisation	1,508	8,529	1,597	221	-	-	11,855
Share of loss of jointly controlled entity	-	-	-	-	-	-	(75,229)
Segment profit/(loss)	2,959	23,916	(6,001)	215	(815)	(75,229)	(54,955)

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

On 25 February 2016, the Company announced that the Royal Malaysian Customs Department (RMCD) had taken custody of certain documents of two (2) of its subsidiaries and frozen certain bank accounts of one (1) of the said subsidiaries for purposes of audit and investigation. The Company understands from the Malaysian Iron & Steel Industry Federation and an article from the Edge Financial Daily dated 25 February 2016 that RMCD has concurrently conducted similar audit visits to other companies in the steel industry in Malaysia.

The RMCD had on 16 March 2016 completed its audit in respect of the two (2) subsidiaries, and RMCD had returned all documents taken into custody and released the bank accounts of the subsidiary frozen for the purpose of the audit.

There were no material effects to the operations of the Group.

11. Significant events (cont'd)

Save for the above, 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 31 January 2016 are as follow:

Unsecured Contingent Liabilities :-	Group	
	31.01.2016 RM'000	**31.01.2015 RM'000**
In respect of indemnity provided for bank guarantees issued	6,466	10,506
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	79,345	108,016
Total	**88,811**	**121,522**

14. Capital commitments

Share of capital commitments of the jointly controlled entity as at 31 January 2016 are as follow:

	RM'000
Capital expenditure:	
Approved and contracted for	29,108
	29,108

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 31.01.2016	**Current year-to-date 31.01.2016**
	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")	-	33
Purchases of steel products by certain wholly owned subsidiaries of the Group from JK Ji Seng Sdn.Bhd.	31,753	77,895
Sales of steel products from trial production by ES to JK Ji Seng Sdn.Bhd.	64,510	141,435
Purchases of equipment, products, services and raw materials by ES from Shougang Corporation	162	276

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.

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

16. Review of performance

The Group reported revenue of RM275.09 million for the 2nd quarter of FY 2016, representing a decrease of 8.64% over the preceding year corresponding quarter's revenue of RM301.12 million.

Both the trading and manufacturing divisions reported lower revenues as compared to the preceding year corresponding quarter. Manufacturing division reported revenue of RM141.8 million as compared to RM150.4 million in the preceding year corresponding quarter. Trading division reported revenue of RM134.4 million as compared to RM150.6 million in the preceding year corresponding quarter. The decline in revenues as compared to the preceding year corresponding quarter was due to lower selling prices following the depressed global steel market. Average selling prices dropped from RM2,300/mt to RM2,015/mt, a decreased of 12.4%.

The Group registered a loss before tax of RM19.15 million in Q2FY2016 as compared to a loss before tax of RM1.95 million in Q2FY2015 mainly due to lower interest income and a higher share of loss from the Jointly Controlled Entity ("JCE") in the reporting quarter. The higher share of losses from the JCE was due to losses associated with its trial production and weak market conditions. To minimise losses, the JCE has temporarily suspended its trial production in October 2015 until market conditions improved. As a result, the Group has also ceased to recognize interest income from the JCE effective FY2016.

17. Comparison with immediate preceding quarter's results

For the quarter under review, the Group's revenue decreased by 13.32% from RM317.37 million in the immediate preceding quarter to RM275.09 million, mainly due to lower sales volume.

The Group's loss before tax of RM19.15 million in Q2FY2016 was lower than the loss before tax of RM35.80 million in Q1FY2016, due principally to a lower share of loss from the JCE of RM25.02 million as compared to RM50.21 million previously. A write back of inventory of RM4.9 million was included in Q1FY2016 results.

While overall gross profit margin has improved, the Group's performance in Q2FY2016 was affected by poor market sentiment which resulted in lower sales volume. The Group's performance was also adversely affected by the increased volatility in the foreign exchange markets.

18. Prospects

2015 was a turbulent year for the steel industry with falling prices, economic slowdown in China, cheaper imports into the country and greater volatility in the foreign exchange markets. As we enter 2016, the challenging conditions that have prevailed seem to be moderating. And in Malaysia, the 11th Malaysia Plan has reaffirmed the strong pipeline of construction jobs till 2020 driven by public transport, oil & gas downstream infrastructure and water-related projects. This will help sustain the robustness of the steel sector

The Group will continue to actively enhance its productivity and efficiency and to increase its competitiveness within the sector.

19. Variance of actual and forecast profit

Not applicable.

20. Tax

	Group	
	Current year quarter 31.01.2016	**Current year-to-date 31.01.2016**
	RM'000	**RM'000**
Income tax	1,753	3,424
Deferred tax	2,277	2,016
	4,030	5,440

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 approximate the statutory income tax rate should the calculation exclude the share of loss of the jointly controlled entity.

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21. Status of corporate proposal

On 1 June 2015, the Company had made an announcement ("Initial 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 ("Initial 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 ("Initial 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 ("Initial Proposed Corporate Exercise") are inter-conditional upon each other.

The Initial Proposed Corporate Exercise has been approved by all the relevant authorities. However, having considered the current challenging market conditions, the Company believes that it would be in the best interest of the Company and its shareholders that the Proposed Corporate Exercise be implemented at a later date when both (i) the market conditions as well as investors' sentiment and confidence have improved; and (ii) the Company's share price performance have recovered and stabilised.

An application has been made for an extension of time for the Company to issue the Circular. On 29 October 2015, the Bursa Securities had, vide its letter dated 28 October 2015, approved the application for an extension of time until 3 February 2016 for the Company to issue the Circular.

21. Status of corporate proposal (cont'd)

Since the Initial Announcement, the market price of HTVB Shares has declined from RM0.505, being the closing market price of HTVB Shares as at 1 June 2015, to RM0.205 being the closing market price of HTVB Shares as 13 January 2016, which is a discount of 50.5% to the par value of HTVB Shares of RM0.50 each.

Our Board, having considered among others, the historical market price of HTVB Shares for the past seven (7) months, the minimum issue price of RM0.50 each for the RCUIDS and the prevailing market condition, had resolved to enhance the attractiveness of the Initial Proposed Rights Issue. Hence, on 15 January 2016 the Company made an announcement proposing to revise the basis of entitlement of the Initial Proposed Rights Issue and Initial Proposed Bonus Issue to as follows:

(i) Renounceable Rights Issue of up to RM213,534,700.00 nominal value of RCUIDS at 100% of its nominal value on the basis of two (2) RM0.50 nominal value of RCUIDS for every five (5) HTVB Shares held on the Entitlement Date together with up to 427,069,400 New Warrants on the basis of one (1) New Warrant for every one (1) RM0.50 nominal value of RCUIDS subscribed ("Proposed Right Issue"); and

(ii) Bonus Issue of up to 854,138,800 new HTVB Shares to be credited as fully paid-up on the basis of two (2) Bonus Shares for every one (1) RM0.50 nominal value of RCUIDS subscribed by the Entitled Shareholders and/or their renouncee(s) pursuant to the Proposed Rights Issue ("Proposed Bonus Issue").

In summary, for every 100 HTVB Shares held by the Entitled Shareholders, the Entitled Shareholders' entitlements pursuant to the Proposed Rights Issue and Proposed Bonus Issue would be 40 RM0.50 nominal value of RCUIDS amounting to RM20.00 together with 40 New Warrants and 80 Bonus Shares.

On 5 February 2016, Ministry of International Trade and Industry (MITI) had, via its letter dated 4 February 2016, confirmed that it has no objection to and has taken note of the Proposed Rights Issue and Proposed Bonus Issue.

On 24 February 2016, Securities Commissions Malaysia (SC) had, via its letter dated 23 February 2016, approved the revision of the terms and conditions of the RCUIDS pursuant to Paragraph 13.02 (Chapter 13 – Revision to Principal Terms and Conditions) of the Guidelines.

On 26 February 2016, the listing application in relation to the Proposed Rights Issue, the Proposed Bonus Issue and the adjustments to the number and/or conversion price of the existing convertible securities of HTVB pursuant to the Proposed Rights Issue and/or Proposed Bonus Issue has been submitted to Bursa Securities Malaysia.

22. Borrowings

The Group’s borrowings as at 31 January 2016 are as follows:

	Long Term RM'000	Short Term RM'000	Total RM'000
Secured:			
Bankers' Acceptances	-	394,660	394,660
Revolving credit	-	60,000	60,000
Term Loan	-	38,791	38,791
Liability component of redeemable convertible secured bonds	133,232	2,199	135,431
	133,232	495,650	628,882

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

As at 31 January 2016, the Company has extended corporate guarantees amounting to RM454.66 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.

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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 31.01.2016	Current Year-to-date 31.01.2015
Loss attributable to owners of the parent (RM'000)	(22,805)	(60,025)
Weighted average number of ordinary shares in issue ('000)	712,909	712,909
Basic loss per share (sen)	**(3.20)**	**(8.42)**

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.

No diluted loss per share is disclosed as there was no effect on loss per share for the current period as the exercise price for option under ESOS and warrants and conversion price of redeemable convertible secured bonds were higher than the average market price.

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26. Realised and unrealised profit disclosure

	Current Year Quarter 31.01.2016 RM'000	Immediate Preceding Quarter 31.10.2015 RM'000
Total retained earnings of the Company and its subsidiaries		
- Realised	586,190	571,564
- Unrealised	(64)	14,794
	586,126	586,358
Total share of accumulated losses of the joint venture		
- Realised	(127,492)	(91,264)
- Unrealised	(34,244)	(45,455)
Less: Consolidation adjustments	(25,468)	(25,773)
Total retained profits	398,922	423,866

27. Profit from operations

	Current Year Quarter 31.01.2016 RM'000	Current Year-to-date 31.01.2016 RM'000
Profit for the year is arrived at after charging:		
Depreciation of property, plant and equipment	5,465	11,775
Depreciation of investment property	40	80
Equity-settled share based payments	112	224
Finance costs	7,780	15,240
and after crediting/(charging):		
Gain on disposal of property, plant and equipment	657	1,390
Finance income:		
Available-for-sale fnancial assets	311	373
Deposits	377	547
Inventories recovered	-	4,877
Net foreign exchange gain/(loss)		
Realised	2,361	7,606
Unrealised	(5,876)	(3,860)
Rental income	201	402

28. Authorisation for Issue

The Interim Financial Statements were authorised for issue by the Board of Directors on 25th March 2016.