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

Notes to the Quarterly Report – 31 July 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, MFRS 12, Disclosure of Interests in Other Entities and MFRS 128, Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception

2. Significant Accounting Policies (cont'd)

- 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
- Amendments to MFRS 134, Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)

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

- Amendments to MFRS 107, Statement of Cash Flows – Disclosure Initiative
- Amendments to MFRS 112, Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses

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

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*

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

- 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

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 except the following:

a) Issuance of 285,163,313 Five (5)-Year 5% Redeemable Convertible Unsecured Islamic Debt Securities ("RCUIDS") at 100% of its nominal value of RM0.50 each for cash arising from the subscription of right issue at price of RM0.50 each;

b) Issuance of 570,326,626 new ordinary shares at par of RM0.50 each arising from subscription of right issue;

c) Issuance of 285,163,313 Warrants 2016 arising from subscription of right issue;

d) Issuance of 70,826,936 Warrants 2012/2017 arising from adjustments to the outstanding number of Warrants 2012/2017 pursuant to the right issue;

e) Issuance of 43,718,783 Employees' Share Options Scheme ("ESOS") arising from adjustments to the outstanding number of ESOS pursuant to the right issue;

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

8. Dividend paid

No dividend has been paid during the quarter under review.

9. Segment information

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

	12 months ended 31 July 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	589,033	548,834	192	2	-	-	**1,138,061**
- Intersegment sales	-	4,955	188,066	3,938	-	(196,959)	-
Total sales	**589,033**	**553,789**	**188,258**	**3,940**	**-**	**(196,959)**	**1,138,061**
RESULTS							
Finance income	568	534	25,892	26	-	-	27,020
Finance costs	9,370	8,676	13,676	-	-	-	31,722
Dividend income	-	-	33	-	-	-	33
Inventories recovered	-	4,835	-	-	-	-	4,835
Depreciation & amortisation	2,927	15,105	3,162	441	230	-	21,865
Share of loss of jointly controlled entity	-	-	-	-	-	-	(99,223)
Segment profit/(loss)	9,175	56,507	9,853	423	(1,352)	(99,223)	(24,617)

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 31 July 2016 are as follow:

Unsecured Contingent Liabilities :-	Group	
	31.07.2016 RM'000	**31.07.2015 RM'000**
In respect of indemnity provided for bank guarantees issued	6,520	15,523
In respect of guarantees issued in favour of Royal Custom and Excise Department	-	3,000
In respect of corporate guarantees issued to a jointly controlled entity	16,497	138,712
Total	**23,017**	**157,235**

14. Capital commitments

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

	RM'000
Capital expenditure:	
Approved and contracted for	22,530
	22,530

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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 31.07.2016	Current year-to-date 31.07.2016
	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.	56,156	181,092
Sales of steel products from trial production by ES to JK Ji Seng Sdn.Bhd.	-	93,814
Purchases of equipment, products, services and raw materials by ES from Shougang Corporation	615	891

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 RM260.54 million for the 4th quarter of FY 2016, representing a decrease of 17.03% over the preceding year corresponding quarter's revenue of RM314.00 million.

Both the trading and manufacturing divisions reported lower revenues as compared to the preceding year corresponding quarter. Manufacturing division reported revenue of RM130.99 million as compared to RM150.20 million in the preceding year corresponding quarter. Trading division reported revenue of RM132.24 million as compared to RM162.87 million in the preceding year corresponding quarter. The decline in revenues as compared to the preceding year corresponding quarter was primarily due to lower sales volume for both the trading and manufacturing division.

The Group registered a profit before tax of RM17.80 million in Q4FY2016 as compared to a loss before tax of (RM64.65 million) in Q4FY2015 mainly due to a combination of improved margins in Q4FY2016 and the provision for impairment of investment in jointly controlled entity ("JCE") of RM55 million in Q4FY2015.

Whilst the Group recorded revenue decrease of 9.51% to RM1.14 billion in FY2016 from RM1.26 billion in FY2015, loss before tax declined from (RM66.46 million) in FY2015 to a loss before tax of (RM24.62 million) in FY2016. The reduced loss was mainly due to higher margins achieved in FY2016 and the provision for impairment of investment in JCE of RM55 million in FY2015. The share of loss of JCE was higher at (RM99.22 million) in FY2016 compared to the share of loss of JCE of (RM59.67 million) in FY2015 due to higher cost or loss associated with its trial production, weak market conditions and unrealized foreign exchange losses arising from the weakening of the ringgit against the US Dollar.

17. Comparison with immediate preceding quarter's results

For the quarter under review, the Group's revenue decreased by 8.60% from RM285.05 million in the immediate preceding quarter to RM260.54 million, mainly due to lower sales volume.

However, the Group's profit before tax increased to RM17.80 million in Q4FY2016 from a profit before tax of RM12.54 million in Q3FY2016 despite a share of loss of JCE of (RM27.16 million) in Q4FY2016 as compared to a share of profit of RM3.17 million in Q3FY2016. The significant improvement in performance was mainly due to better gross profit margin in Q4FY2016 as compared to Q3FY2016 arising from a recovery in steel prices in the quarter under review.

18. Prospects

ASEAN's strong fundamentals offer significant potential for growth in steel consumption. The concern on the steel industry within ASEAN and particularly Malaysia will remain in the near future as China continues to export large quantities of commercial steel products into regional markets. The Chinese imports into Malaysia began increasing significantly as early as 2012 and reached 3.4 million MT in 2015. However, Chinese government's recent announcement to reduce surplus capacity augurs well for the industry.

On the domestic front, demand for steel products will continue to be supported by the new and ongoing projects under the Economic Transformation Programme. Overall, the local steel market will remain challenging with intense competition from cheap imports and the higher costs of doing business, although the improvements in average selling prices in the beginning of the year have giving the industry players some respite.

Going forward, the Group will continue to focus on strict cost monitoring, efficient procurement strategies and working capital management, expansion of product range and improvements in quality and delivery of our products to drive market share and profitability.

19. Variance of actual and forecast profit

Not applicable.

20. Tax

	Group	
	Current year quarter 31.07.2016	**Current year-to-date 31.07.2016**
	RM'000	**RM'000**
Income tax	7,723	13,716
Deferred tax	2,378	3,840
	10,101	17,556

The Group's effective tax rate was higher than the statutory income tax rate of 24% 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.

21. Status of corporate proposal

21.1 Rights Issue

On 28 June 2016, the Company has completed the following corporate exercise:

(i) Renounceable Rights Issue of up to RM142,581,656.50 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 285,163,313 New Warrants on the basis of one (1) New Warrant for every one (1) RM0.50 nominal value of RCUIDS subscribed (“Right Issue”); and

(ii) Bonus Issue of up to 570,326,626 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 Rights Issue (“Bonus Issue”); and

(iii) An adjustment of 70,826,936 additional Warrants 2012/2017 have been issued.

The Company received proceeds of RM142.58 million from the Rights Issue and have been utilised in the following manner as at 31 July 2016.

Purpose	Proposed Utilisation RM'000	Actual Utilisation RM'000	Amount Unutilised RM'000
a) Working Capital Requirement	140,082	75,497	64,585
b) Expenses incidental to the right issue	2,500	2,500	-
Total	142,582	77,997	64,585

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21. Status of corporate proposal (cont'd)

21. 2 Memorandum of Understanding ("MOU")

HTVB had on 15 June 2016 announced that its 55% owned jointly controlled entity, Eastern Steel Sdn Bhd ("ESSB") has entered into a MOU with Angang Group Hong Kong Company Limited ("Angang-HK), to explore, discuss and negotiate areas of cooperation between ESSB and Angang-HK including the resumption of production of ESSB, future expansion of ESSB's production capacity and product range, and Angang-HK's participation in the equity of ESSB. Both parties shall negotiate in good faith with a view to enter into a Formal Agreement within a period of 60 days from 1st July 2016.

On 1 September 2016, HTVB had announced that both parties have agreed that the Exclusivity Period shall be extended up to 30 September 2016 to negotiate in good faith with a view to enter into a Formal Agreement within the Exclusivity Period.

On 29 September 2016, HTVB had announced that both parties have agreed that the Exclusivity Period shall be extended from 30 September 2016 to 31 October 2016 to negotiate in good faith with a view to enter into a Formal Agreement within the Exclusivity Period.

22. Borrowings

The Group's borrowings as at 31 July 2016 are as follows:

	Long Term RM'000	Short Term RM'000	Total RM'000
Secured:			
Bankers' Acceptances	-	328,111	328,111
Revolving credit	-	60,000	60,000
Term Loan	-	61,050	61,050
Liability component of redeemable convertible secured bonds	135,200	2,199	137,399
	135,200	451,360	586,560

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

As at 31 July 2016, the Company has extended corporate guarantees amounting to RM388.11 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 is pleased to propose a Single Tier Final Dividend of 0.3 sen per share for the financial year ended 31 July 2016, subject to shareholders' approval at the forthcoming Annual General Meeting.

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 31.07.2016	**Current Year-to-date 31.07.2016**
Loss attributable to owners of the parent (RM'000)	7,875	(41,561)
Weighted average number of ordinary shares in issue ('000)	1,283,235	1,283,235
Basic loss per share (sen)	**0.61**	**(3.24)**

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.

26. Realised and unrealised profit disclosure

	Current Year Quarter 31.07.2016 RM'000	Immediate Preceding Quarter 30.04.2016 RM'000
Total retained earnings of the Company and its subsidiaries		
- Realised	378,579	596,284
- Unrealised	2,188	(2,730)
	380,767	593,554
Total share of accumulated losses of the joint venture		
- Realised	(158,733)	(142,163)
- Unrealised	(26,997)	(16,409)
Less: Consolidation adjustments	(24,655)	(25,471)
Total retained profits	170,382	409,511

27. Profit from operations

	Current Year Quarter 31.07.2016 RM'000	Current Year-to-date 31.07.2016 RM'000
Profit for the year is arrived at after charging:		
Depreciation of property, plant and equipment	5,013	21,706
Depreciation of investment property	40	159
Equity-settled share based payments	112	448
Finance costs	8,316	31,722
and after crediting/(charging):		
Gain on disposal of property, plant and equipment	1,379	3,811
Finance income:		
Available-for-sale fnancial assets	243	787
Deposits	979	1,988
Inventories recovered	(42)	4,835
Net foreign exchange gain/(loss)		
Realised	374	3,772
Unrealised	948	(1,400)
Rental income	200	804

28. Authorisation for Issue

The Interim Financial Statements were authorised for issue by the Board of Directors on 29th September 2016.