Notes to the Quarterly Report – 31 October 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 2016. 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 2016.

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 2016.

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 2016.

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 items of an unusual nature or amount 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 October 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.

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9. Segment information

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

	3 months ended 31 October 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	136,480	142,595	48	-	-	-	**279,123**
- Intersegment sales	-	1,006	2,667	934	-	(4,607)	-
Total sales	**136,480**	**143,601**	**2,715**	**934**	**-**	**(4,607)**	**279,123**
RESULTS							
Finance income	185	290	8,463	9	-	-	8,947
Finance costs	2,138	2,365	3,892	-	-	-	8,395
Depreciation & amortisation	714	2,457	786	110	57	-	4,124
Share of loss of jointly controlled entity	-	-	-	-	-	-	(25,241)
Segment profit/(loss)	2,221	22,977	5,665	144	(393)	(25,240)	5,374

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.

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13. Changes in contingent liabilities and assets

The contingent liabilities as at 31 October 2016 are as follow:

Unsecured Contingent Liabilities :-	Group 31.10.2016 RM'000	Group 31.10.2015 RM'000
In respect of indemnity provided for bank guarantees issued	6,739	6,481
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	9,516	140,903
Total	**16,255**	**150,384**

14. Capital commitments

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

	RM'000
Capital expenditure:	
Approved and contracted for	22,990
	22,990

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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 31.10.2016	Current year-to-date 31.10.2016
	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")	-	-
Purchases of steel products by certain wholly owned subsidiaries of the Group from JK Ji Seng Sdn.Bhd.	62,977	62,977
Sales of steel products from trial production by ES to JK Ji Seng Sdn.Bhd.	-	-
Purchases of equipment, products, services and raw materials by ES from Shougang Corporation	-	-

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 RM279.12 million for the 1st quarter of FY 2017, representing a decrease of 12.05% over the preceding year corresponding quarter's revenue of RM317.37 million.

Trading division reported lower revenue of RM136.48 million as compared to RM177.87 million in the preceding year corresponding quarter. The decline in revenue compared to the preceding year corresponding quarter was primarily due to lower sales volume for the trading division. However, the manufacturing divisions reported slightly higher revenues as compared to the preceding year corresponding quarter. Manufacturing divisions reported revenues of RM143.60 million as compared to RM139.86 million in the preceding year corresponding quarter.

Despite a lower revenue, the Group reported a profit before tax of RM5.37 million in Q1FY2017 as compared to a loss before tax of (RM35.80 million) in Q1FY2016 mainly due to improved margins and a lower share of loss of jointly controlled entity of (RM25.24 million) in Q1FY2017. The jointly controlled entity's losses were due to unrealised foreign exchange loss arising from USD denominated shareholders' loan and the higher costs associated with trial production in Q1FY2016.

17. Comparison with immediate preceding quarter's results

For the quarter under review, the Group's revenue increased by 6.66% from RM260.54 million in the immediate preceding quarter to RM279.12 million, mainly due to higher sales volume.

However, the Group's profit before tax decreased to RM5.37 million in Q1FY2017 from a profit before tax of RM17.80 million in Q4FY2016 mainly due to higher other income in Q4FY2016 and better gross profit margin in Q4FY2016.

18. Prospects

The outlook for the steel industry remains challenging due to market cyclicality and volatility. Among the key challenges are excess capacity in China and continued influx of cheaper imports, volatility in prices, under-utlisation of production capacity. Globally, steel companies and governments around the world are bringing safeguard duties and anti-dumping duties against importers to try to stem the global tide of imports.

18. Prospects (cont'd)

Domestically, the development and infrastructure projects under the 11th Malaysia Plan will lead to increase demand for steel products and building materials over at least next two years. Developing ASEAN countries will provide export opportunity in the short to medium term along with developed countries including Australia and South Korea. The group is aware of all these challenges and various measures have been taken and implemented within the Group in order to stay competitive in the industry.

The group will continue its effort to strive for a positive performance for the financial year.

19. Variance of actual and forecast profit

Not applicable.

20. Tax

	Group	
	Current year quarter 31.10.2016	Current year-to-date 31.10.2016
	RM'000	RM'000
Income tax	6,787	6,787
Deferred tax	(278)	(278)
	6,509	6,509

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.

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21. Status of corporate proposal

21.1 Rights Issue

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

Purpose	Proposed Utilisation RM'000	Actual Utilisation RM'000	Amount Unutilised RM'000
a) Working Capital Requirement	140,082	138,258	1,824
b) Expenses incidental to the right issue	2,500	2,500	-
Total	142,582	140,758	1,824

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.

21. Status of corporate proposal (cont'd)

21. 2 Memorandum of Understanding ("MOU") (cont'd)

On 31 October 2016, HTVB announced that the Company had on 31 October 2016 entered into a Cooperation Agreement ("COOP Agreement") with (1) An Steel International Co., Limited ("Ansteel"); (2) Orient Steel Investment Pte. Ltd. ("Orient Steel"); (3) Chinaco Investment Pte. Ltd. ("Chinaco"); and (4) Eastern Steel Sdn. Bhd. ("ESSB") (collectively referred to as "Parties" and individually referred to as "Party") whereby the Parties intend to carry out a series of transaction as set out below ("Proposed Transactions"):

(a) Orient Steel – Ansteel Transaction;
(b) ESSB Additional Shares Issuance; and
(c) ESSB Shareholders' Agreement.

The Parties shall use their best endeavors to negotiate and finalize the details of the Proposed Transactions such that the definitive agreements shall be entered into by 31 December 2016 and the conditions precedents as set out therein to be fulfilled before 28 February 2017.

22. Borrowings

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

	Long Term RM'000	Short Term RM'000	Total RM'000
Secured:			
Bankers' Acceptances	-	416,862	416,862
Revolving credit	-	60,000	60,000
Liability component of redeemable convertible secured bonds	136,196	553	136,749
Unsecured:			
RCUIDS	30,337	-	30,337
Term Loan	-	33,549	33,549
	166,533	510,964	677,497

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 RM476.86 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.

22. Borrowings (cont'd)

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

The redeemable convertible unsecured Islamic debt securities ("RCUIDS") are constituted by a Trust Deed entered into between the Company and the trustee on 10 May 2016.

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.

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 31.10.2016	Current Year-to-date 31.10.2016
Loss attributable to owners of the parent (RM'000)	(958)	(958)
Weighted average number of ordinary shares in issue ('000)	1,283,235	1,283,235
Basic loss per share (sen)	**(0.07)**	**(0.07)**

25. Loss per share ("LPS") (cont'd)

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.

25. Loss per share ("LPS") (cont'd)

a) Diluted LPS (cont'd)

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 31.10.2016 RM'000	Immediate Preceding Quarter 31.07.2016 RM'000
Total retained earnings of the Company and its subsidiaries		
- Realised	387,153	364,679
- Unrealised	17,801	16,088
	404,954	380,767
Total share of accumulated losses of the joint venture		
- Realised	(180,564)	(158,733)
- Unrealised	(30,407)	(26,997)
Less: Consolidation adjustments	(24,558)	(24,654)
Total retained profits	169,425	170,383

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27. Profit from operations

	Current Year Quarter 31.10.2016 RM'000	Current Year-to-date 31.10.2016 RM'000
Profit for the year is arrived at after charging:		
Depreciation of property, plant and equipment	4,085	4,085
Depreciation of investment property	39	39
Provision for slow moving inventories	3,020	-
Equity-settled share based payments	112	112
Finance costs	8,395	8,395
and after crediting/(charging):		
Gain on disposal of property, plant and equipment	2,815	2,815
Finance income:		
Available-for-sale fnancial assets	612	612
Deposits	1,145	1,145
Jointly controlled entity	7,190	7,190
Net foreign exchange gain/(loss)		
Realised	(84)	(84)
Unrealised	1,990	1,990
Rental income	202	202

28. Authorisation for Issue

The Interim Financial Statements were authorised for issue by the Board of Directors on 15th December 2016.