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

Notes to the Quarterly Report – 31 July 2017

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 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

2. Significant Accounting Policies (cont'd)

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
- Clarifications to MFRS 15, Revenue from Contracts with Customers
- IC Interpretation 22, Foreign Currency Transactions and Advance Consideration
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 2, Share-based Payment – Classification and Measurement of Share-based Payment Transactions
- Amendments to MFRS 128, Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 140, Investment Property – Transfers of Investment Property

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 other issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current quarter under review except the following:

a) Issuance of 12,777,500 new ordinary shares at par of RM0.50 each arising from the conversion of RCUIDS for the current quarter under review.

b) As at quarter ended 31 July 2017, a total of 5,492,000 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 2017						
	Trading RM'000	Manufacturing RM'000	Property and Investment RM'000	Transportation RM'000	Mining exploration RM'000	Elimination RM'000	Group RM'000
SALES							
- External sales	500,011	573,473	172	1	-	-	**1,073,657**
- Intersegment sales	-	19,822	17,362	3,162	-	(40,346)	-
Total sales	**500,011**	**593,295**	**17,534**	**3,163**	**-**	**(40,346)**	**1,073,657**
RESULTS							
Finance income	697	954	31,332	37	-	-	33,020
Finance costs	7,955	9,431	12,869	-	-	-	30,255
Depreciation & amortisation	2,081	8,883	3,145	411	230	-	14,750
Share of loss of jointly controlled entity	-	-	-	-	-	-	(215,322)
Segment profit/(loss)	29,201	102,993	8,678	38	(408)	(215,322)	(74,820)

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 2017 are as follow:

	Group	
Unsecured Contingent Liabilities :-	**31.07.2017 RM'000**	**31.07.2016 RM'000**
In respect of indemnity provided for bank guarantees issued	6,510	6,520
In respect of corporate guarantees issued to a jointly controlled entity	10,319	16,497
Total	**16,829**	**23,017**

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14. Capital commitments

Share of capital commitments of the jointly controlled entity as at 31 July 2017 are as follow:

	RM'000
Capital expenditure:	
Approved and contracted for	20,019
	20,019

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**
	31.07.2017	**31.07.2017**
	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.	57,609	231,486
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

Table 1: Financial review for current quarter and financial year to date for the quarter ended 31 July 2017.

	Individual Quarter		Changes		Cumulative Quarter		Changes	
	Current Year Quarter 31/07/2017	Preceding Year Corresponding Quarter 31/07/2016	Amount	%	Current Year To-date 31/07/2017	Preceding Year Corresponding Period 31/07/2016	Amount	%
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	228,280	260,541	(32,261)	-12%	1,073,657	1,138,061	(64,404)	-6%
Profit from Operations	20,976	53,273	(32,297)	-61%	170,757	106,328	64,429	61%
Profit/(Loss) Before Tax	(139,416)	17,797	(157,213)	-883%	(74,820)	(24,617)	(50,203)	204%
Profit/(Loss) for the Period	(137,869)	7,696	(145,565)	-1891%	(103,161)	(42,173)	(60,988)	145%
Profit/(Loss) Attributable to:								
Owners of the parent	(137,867)	7,875	(145,742)	-1851%	(102,977)	(41,561)	(61,416)	148%
Minority Interest	(2)	(179)	177	-99%	(184)	(612)	428	-70%
	(137,869)	7,696	(145,565)	-1891%	(103,161)	(42,173)	(60,988)	145%

The Group reported revenue of RM228.28 million for Q4 FY2017, representing a decrease of 12% over the preceding year corresponding quarter's revenue of RM260.54 million. The decrease was due to lower sales volume for both the Trading and Manufacturing divisions, and can be attributable to slower economic activities during the Hari Raya celebrations.

The Trading division reported lower revenue of RM99.44 million as compared to RM132.24 million in the preceding year corresponding quarter. However, the Manufacturing division reported slightly higher revenues as compared to the preceding year corresponding quarter. The Manufacturing division reported revenue of RM135.56 million as compared to RM130.98 million in the preceding year corresponding quarter.

The Group registered a Profit from Operations of RM20.98 million for Q4 FY2017 compared to RM53.27 million in the preceding year quarter corresponding. The decline was principally due to lower volume sales and a one-off Fair Value Adjustment of RM9.46 million from the early redemption of the Convertible Bonds.

16. Review of performance (cont'd)

For the quarter under review, JCE took a non-cash impairment loss of (RM266.15 million) on its Property, Plant & Equipment ("PPE"). As a result, the Group's Share of Loss of Jointly Controlled Entity ("JCE") increased from (RM27.16 million) in Q4 FY2016 to (RM154.99 million) in the current quarter. In total, the Group registered a Loss before Tax of (RM139.42 million) as compared to a Profit before Tax of RM17.79 million in Q4 FY2016.

17. Comparison with immediate preceding quarter's results

Table 2: Financial review for current quarter compared with immediate preceding quarter

	Individual Quarter		Changes	
	Current Year Quarter 31/07/2017	Immediate Preceding Quarter 30/04/2017	Amount	%
	RM'000	RM'000	RM'000	%
Revenue	228,280	297,125	(68,845)	-23.17%
Profit from Operations	20,976	54,209	(33,233)	-61.31%
Profit/(Loss) Before Tax	(139,416)	41,728	(181,144)	-434.11%
Profit/(Loss) for the Period	(137,869)	31,942	(169,811)	-531.62%
Profit/(Loss) Attributable to:				
Owners of the parent	(137,867)	31,944	(169,811)	-531.59%
Minority Interest	(2)	(2)	-	0.00%
	(137,869)	31,942	(169,811)	-531.62%

For the quarter under review, the Group's revenue decreased by 23% from RM297.13 million in the immediate preceding quarter to RM228.28 million, mainly due to lower sales volume. The decreased in sales volume was principally due to the festive season during the quarter under review.

The Group reported a Loss before Tax of (RM139.42 million) in Q4 FY2017 as compared to a Profit of RM41.73 million in Q3 FY2017 due to the higher Share of Loss of JCE of (RM154.99 million) in Q4FY2017. The higher Share of Loss of JCE of (RM154.99 million) was mainly due to an impairment loss of assets recorded by the JCE in the current quarter.

18. Prospects

Steel consumption in ASEAN-6 expanded strongly in 2016, compared with the rest of the world. According to the data from SEAISI, total apparent steel consumption in the six ASEAN member countries of SEAISI i.e. Indonesia, Malaysia, Vietnam, Philippines, Thailand and Singapore surged by about 12% year on year to reach 77 million tonnes. In the same year, global steel consumption growth was a low 1.0%. In Asia, China's steel consumption growth rate was only 1.3%, India 4.1%, South Korea 2.3% while Japan registered a negative growth rate of 1.3%,

As China continues with its plan to reduce production capacity and steel prices across the world have surged. This has benefitted the steel players and is a marked improvement from the earlier years of depressed prices due to the influx of cheap imports.

On the domestic front, steel consumption growth rate was maintained at 2.6% to 10.30 million tonnes in 2016. The outlook for the steel industry in Malaysia remains positive as construction investment is expected to grow supported by the 11th Master Plan (2016-2020) where RM260 billion has been allocated for development expenditure through 2020. These development expenditures will boost demand for steel products and sustained by the enforcement of the Government's Policy on Procurement of Locally Produced Products.

Moving forward, the Group will continue to focus on improving its manufacturing efficiency, procurement and working capital management. The Group will stay agile to enhance on technical capabilities and expand its product range to remain at forefront in the steel industry in Malaysia.

19. Variance of actual and forecast profit

Not applicable.

20. Tax

	Group	
	Current year quarter 31.07.2017	Current year-to-date 31.07.2017
	RM'000	RM'000
Income tax	3,157	33,146
Deferred tax	(4,704)	(4,805)
	(1,547)	28,341

20. Tax (cont'd)

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 lower profit before tax at Group level. 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

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.

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.

21. Status of corporate proposal (cont'd)

Memorandum of Understanding ("MOU") (cont'd)

On 30 December 2016, HTVB had announced that all parties have agreed that the Cooperation Agreement ("COOP Agreement") shall be extended from 31 December 2016 to 28 February 2017 for the parties to negotiate and finalize the details of the Proposed Transactions such that the definitive agreements shall be entered into within the extended period.

On 28 February 2017, HTVB had announced that all parties have agreed that the Cooperation Agreement ("COOP Agreement") shall be further extended from 28 February 2017 to 31 March 2017 for the parties to negotiate and finalize the details of the Proposed Transactions such that the definitive agreements shall be entered into within the extended period.

On 3 April 2017, HTVB had announced that the extended period ending 31st March 2017 for the parties to enter into the definitive agreements for the Proposed Transaction envisaged under the Cooperation Agreement has passed, and that the Board of Directors of Eastern Steel Sdn Bhd has decided not to extend the deadline.

Moving forward, Eastern Steel Sdn Bhd will commence planning for the resumption of production.

On 6 April 2017, HTVB had added that the decision by the Board of Directors' of Eastern Steel Sdn Bhd ("ESSB's Board") not to extend the deadline was because the parties failed to agree, finalize and enter into definitive agreements for the Proposed Transaction despite the extended period of up to 31 March 2017. ESSB's Board felt that the negotiations, which have taken more than nine months, was too long and the continued suspension of ESSB's operations is not in the best interest of the company. ESSB will commence planning for the resumption of production.

22. Borrowings

The Group's borrowings as at 31 July 2017 are as follows:

	Long Term RM'000	Short Term RM'000	Total RM'000
Secured:			
Bankers' Acceptances	-	351,317	351,317
Revolving credit	-	60,000	60,000
Unsecured:			
RCUIDS	25,245	-	25,245
Term Loan	-	17,110	17,110
	25,245	428,427	453,672

22. Borrowings (cont'd)

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

As at 31 July 2017, the Company has extended corporate guarantees amounting to RM411.32 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 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 31.07.2017	**Current Year-to-date 31.07.2017**
Loss attributable to owners of the parent (RM'000)	(137,867)	(102,977)
Weighted average number of ordinary shares in issue ('000)	1,295,051	1,287,658
Basic loss per share (sen)	**(10.65)**	**(8.00)**

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

b) Diluted EPS

The diluted earnings per share is calculated by dividing the Group's net profit 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 earnings per share is disclosed as there was no effect on earnings 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 31.07.2017 RM'000	**Immediate Preceding Quarter 30.04.2017 RM'000**
Total retained earnings of the Company and its subsidiaries		
- Realised	188,253	458,912
- Unrealised	15,219	28,255
	203,472	487,167
Total share of accumulated losses of the joint venture		
- Realised	(365,778)	(204,440)
- Unrealised	(35,274)	(41,627)
Less: Consolidation adjustments	279,592	(24,706)
Total retained profits	82,012	216,394

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27. Profit from operations

	Current Year Quarter 31.07.2017 RM'000	Current Year-to-date 31.07.2017 RM'000
Profit for the year is arrived at after charging:		
Depreciation of property, plant and equipment	3,300	14,362
Depreciation of investment property	39	158
Provision for slow moving inventories	(302)	7,483
Provision for doubtful debts	(42)	2,193
Equity-settled share based payments	112	448
Loss on redemption on Convertible Bonds	9,457	9,457
Finance costs	5,407	30,255
and after crediting/(charging):		
Dividend income	-	33
Gain on disposal of property, plant and equipment	188	6,803
Finance income:		
Available-for-sale fnancial assets	129	1,084
Deposits	158	2,939
Jointly controlled entity	7,363	28,997
Net foreign exchange gain/(loss)		
Realised	125	3,173
Unrealised	(853)	1,744
Rental income	174	775

28. Authorisation for Issue

The Interim Financial Statements were authorised for issue by the Board of Directors on 28th September 2017.