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HIAP TECK VENTURE BERHAD

(421340-U)

18 December 2017

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
Tingkat 11, Bangunan KWSP
No. 3, Changkat Raja Chulan
Off Jalan Raja Chulan
50200 Kuala Lumpur

Attention: **Mr. Lya Rahman**
General Manager

Dear Sirs,

Re: 21st Annual General Meeting of Hiap Teck Venture Berhad ("HTVB" or the "Company")

With reference to your letter dated 14 December 2017, we are pleased to answer the points you have raised in the interest of minority shareholders and all other stakeholders of the Group.

Strategic/Financials

1) During the year under review, the Group's 55%-owned JV took a non-cash impairment of RM266.15 million on its assets and as a result, the Group's share of loss of JV increased to RM215.32 million in FY2017 compared to a loss of RM99.22 million in the previous financial year.

   a) Does the Board foresee that the JV would have to go through another impairment exercise in FY2018? Please explain.

   b) What is the total cost of investment in the JV to-date?

   The non-cash impairment of RM266.15 million on the JV's assets is a one-off impairment in FY2017 and the Board does not foresee another impairment exercise in FY2018. The total amount invested in the JV to-date is RM757 million.

2) As reported on page 123 of the Annual Report under Key Audit Matter, the Auditors, KPMG LPT had carried out audit procedures with regards to the recoverability of Investment in the JV and the amount due from this JV. Please enlighten the shareholders on the recovery aspect of this investment and the amount due.

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The total cost of investment including the amount due from the JV were impaired to RM498 million, an amount assessed as recoverable and which is higher than the carrying amount of RM421 million at the Group level as at FY2017. The JV is planning on resuming production in FY2018 in view of the current favourable market conditions.

3) What are the prospects for the trading and manufacturing segments in the next 12 months and what is the current capacity utilisation rate of the production and what measures have been taken to improve the efficiency in FY2018?

The Group remains positive on the prospects for both the trading and manufacturing segments in the next 12 months with the following essential drivers.

- Steel demand in Malaysia is expected to register a positive growth rate supported by the country's strong economic growth of 6.2% in the third quarter of 2017.

- The government infrastructure projects that are to be implemented as announced in the 11th Malaysian Plan (2016 to 2020) and the Budget 2017. Among key infrastructure projects are the East Coast Rail Line (ECRL), the Kuala Lumpur-Singapore High-Speed Rail (HSR), Mass Rapid Transit Line 2 and 3 (MRT), Light Rail Transit Line 2 and 3 (LRT), the Pan Borneo Highway, the Merdeka PNB 118 skyscraper, and the Refinery and Petrochemicals Integrated Development project in Johor.

- The continuing efforts by Chinese Government and its plans to cut production capacity will help stabilise world steel prices and which will benefit the local steel industry players.

The current capacity utilisation rate of the production ranges between 45%~55%. The Group has expanded product range to achieve greater economy of scale and has also engaged external consultants to review the production process with a view to further improve efficiency.

4) Please update shareholders on the Group's property business and its outlook in FY2018.

The Group does not have a property business. The rental revenue as reported in page 92 at the Company level is essentially rental income received from the operating subsidiaries within the Group.

5) As reported on page 13 of the Annual Report, inventories were at RM323.85 million, a 27% increase over the previous year due to lumpy purchases from import and timing of shipment arrivals. Could the Board share on its plan to improve the inventory level and would there be any write-down for FY2018?

The Group's inventory policy is to maintain 2 to 2.5 months' stock holding for raw materials which is in line with the lead time for importation. This is critical to ensure smooth production and to avoid disruption due to materials shortage. The lumpy purchases are to capture the benefits of cost efficiency from savings in logistics and bulk discount in pricing.

The Group reviews and write-down slow moving inventories on a quarterly basis in line with the Group's policy on Inventories and as reported on page 53 of the Annual Report.

Corporate Governance Matter

Directors' Remuneration

We noted that in respect of FY2017, Non-Executive Directors were paid allowance of RM16,000. However, there is no resolution tabled pertaining to the approval of payment of directors' other benefits pursuant to Section 230 (1) of the Companies Act 2016.

Does it mean during FY2018, no allowances or benefits-in-kind or any other benefits would be paid to the directors until a resolution is tabled at the AGM in 2018 and shareholders' approval obtained?

As the resolution has not been tabled, no allowances or benefits-in-kind would be paid to the Non-Executive Directors during FY2018 until a resolution is tabled at the AGM in 2018 and shareholders' approval is obtained.

We thank Minority Shareholder Watchdog Group ("MSWG") for its continuing interests in our Company and we take this opportunity to highlight that the Board of Directors of HTVB fully supports the work of MSWG in promoting good corporate governance best practices in PLCs.

Thank you.

Yours sincerely,
For and on behalf of
HIAP TECK VENTURE BERHAD

Foo Kok Slew
Executive Director

c.c. Company Secretary