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HIAP TECK VENTURE BERHAD

(421340-U)

GST REG. NO.: 001660665856

15 December 2022

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

Tingkat 11, Bangunan KWSP
No. 3, Changkat Raja Chulan
Off Jalan Raja Chulan
50200 Kuala Lumpur

Attention: **Mr. Devanesan Evanson**
Chief Executive Officer

Dear Sirs,

Re: **26th Annual General Meeting of
Hiap Teck Venture Berhad ("HTVB" or the "Company")**

We refer to your letter dated 2 December 2022 and are pleased to answer the points you have raised in the interest of minority shareholders and all other stakeholders of the Group.

Operational & Financial Matters

1) Financial Performance

	2018	2019	2020	2021	2022
Revenue (RM'000)	1,127,859	1,186,607	932,907	1,081,939	1,583,278
Profit From Operations (RM'000)	118,240	75,620	23,380	130,308	147,987

(Source: Page 17 of the Annual Report 2022)

As shown above, HTVB recorded the highest revenue and profit from operations since FY2018.

a) What is the prospect of maintaining such good revenue from HTVB's core business operations in the following financial year?

Revenue is a function of volume and selling price. For FY2022 the higher revenue was largely driven by higher steel prices. Moving forward, the uncertainties present in both the domestic and export markets together with the downward trend in steel prices will pose a challenge. Nonetheless, Management is optimistic of achieving a higher sales volume for our core business operations for FY2023.

b) What is the outlook for HTVB's business in FY2023?

The Group's performance in the 1st quarter of FY2023 was negatively impacted due to challenging market conditions caused by the on-going Ukraine war, high inflation, rapidly rising interest rates, China's zero-Covid policy and declining steel prices.

However, the Malaysian Iron and Steel Industry Federation ("MISIF") has forecasted Apparent Steel Consumption ("ASC") for Malaysia to grow 11% and 9%, respectively in 2022 and 2023. And in light of recent positive news namely, the formation of the new government in our country, peaked inflation, slower interest rate hikes and relaxation of China's lockdown policy, the outlook for the Group's businesses in the coming quarters can be expected to improve.

- 2) Despite recording the highest revenue and profit from operations since FY2018, the Group's gross profit margin (GPM) reduced to 11.80% (RM186,761,000 / RM1,583,278,000 *100) in FY2022 from 15.70% (RM169,898,000 / RM1,081,939,000 *100) in FY2021 (Page 73 of the Annual Report 2022).

a) What are the reasons for the decline in the GPM?

The decline in GPM was mainly attributed to declining steel prices particularly in the last quarter of the financial year and the write down of inventory to Net Realizable Value.

b) In what ways can the Group improve the GPM? What is the outlook for the GPM in FY2023?

Against this backdrop, the Group will continue to adopt prudent procurement strategies and inventory management to optimize financial performance. Additionally, the Group will further embrace technology and is adding a new production line to improve efficiency and expand product range.

For the coming quarters of FY2023, GPM could be expected improve amidst the more optimistic outlook.

3) Plant Utilization Rate

a) What is the previous and current capacity utilization rate for HTVB's plants?

The Group has two major manufacturing operations under:

- (i) Alpine Pipe Manufacturing Sdn. Bhd. ("APM"); and
- (ii) Huatraco Scaffold Sdn.Bhd. (Huatraco).

APM produces structural pipe and hollow sections with an installed capacity of 500,000 MT per annum. Due to lock-downs and manpower availability as a result of the pandemic, capacity utilization was at around 30% - 35% over past two years.

Huatraco is a pioneer in the scaffolding industry in Malaysia. The plant utilization was also low in the last two years due to weak market demand caused by Covid-19 pandemic which has severely affected the construction industry.

b) What is the targeted utilization rate for HTVB's plants in FY2023?

We are targeting to achieve utilization rate of 45% - 50% for APM, while higher output is also expected from Huatraco's plant in tandem with the gradual recovery of construction industry.

- 4) As part of the improvement initiatives to further enhance cost efficiency, Eastern Steel Sdn. Bhd. ("ESSB") has also embarked on a project to develop its own coke oven plant. To date, Phase 1 of 400,000 MT has been completed. The coke oven plant will further reduce production costs moving forward (Page 13 of the Annual Report 2022).

With the completion of Phase 1 of ESSB's coke oven plant, what is the targeted reduction in production costs in FY2023?

The cost savings from the new coke oven plant will largely depend on prevailing market prices of coking coal and coke, but can be reasonably estimated to reduce production costs over the long term by no less than 5%.

Sustainability/Economic, Environmental, Social, and Governance (EESG)

- 5) Under the Company's material topics of EESG, one of the key risks identified by the Company is high carbon emission release during peak hours (Page 49 of the Annual Report 2022).

What measures have been taken to manage this key risk, to date? Have the measures taken managed to reduce carbon emissions?

To date, we have implemented various energy saving measures including the replacement of the existing spotlights and fluorescent light tubes with Light-Emitting Diode ("LED") tubes on factory floors, offices and streets. As disclosed in page 56 of the Annual Report 2022, our Scope 2 carbon emission in FY2022 has been reduced by 21% compare to average data for 2018 and 2019. Management is currently also exploring other sources of energy including solar to further reduce carbon emissions.

We thank Minority Shareholder Watch 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 Siew
Executive Director

c.c. Company Secretary

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