



HTVB

HIAP TECK VENTURE BERHAD

Registration No : 199701005844 (421340-U)

15 December 2023

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: 27th Annual General Meeting of
Hiap Teck Venture Berhad (“HTVB” or the “Company”)**

We refer to your letter dated 21 November 2023 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) Manufacturing segment

For the financial year under review, the segment reported a loss of RM27.69 million (FY2022: Segment profit of RM89.85 million). The sluggish performance was principally due to the high cost of inventories brought forward coupled with lower steel prices despite higher sales volumes and stringent costs control.

(Page 15 of the Annual Report 2023/AR2023).

(a) What current measures are being taken to manage the segment’s inventory issue, which is the leading cause for the segment’s loss in FY2024?

The Group maintains a strong focus on mitigating inventory risks, with close supervision by the Chief Operating Officer and the Chief Commercial Officers, who carefully monitor inventory levels and prices for strategic procurement decisions. The procurement team exercises diligent control to mitigate the risk of losses in the event of adverse price movements. Mitigating measures include purchases made after consensus is reached with Senior Management and the Executive Directors; with procurement aligned with actual requirements, avoiding the accumulation of excessive stocks.



(b) What is the segment's financial performance outlook in FY2024? Does HTVB expect the segment's bottom-line result to turn around in FY2024?

The Group is committed on cost efficiency, quality improvement, and strategic investments in plant and technology. The Group is investing in a new Enterprise Resource Planning (ERP) system to optimize workflows, access real-time data and to improve decision-making process. Alpine has also added a new production line and is progressively upgrading older machines to allow for faster line speed and increased range of products. The Group expects its initiatives to have a positive impact on the financial performance of the segment for the upcoming year.

2) Trading segment

Despite the higher revenue, the trading segment reported a much-reduced profit of RM1.76 million in FY2023, compared to RM43.76 million recorded in the previous financial year due to distortions in margin despite higher volumes.

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(a) What has caused the distortions in the margin?

The distortions in the margin for the Trading Segment are attributed to several factors, including changes in market dynamics, volatility in steel prices, slower market conditions and increased competition. Despite achieving higher revenue, the profitability of the trading business has been adversely affected by these external variables.

(b) What is the previous and current margin?

The margin is influenced by the external factors outlined in our response to question 2(a). The current margin is lower than the previous year, a consequence of these aforementioned factors.

(c) How can the segment improve its margin? What is the segment's targeted margin in the next two financial years?

In an anticipated lower-margin setting, the Group aims to reshape its market strategy by boosting volume sales of key products which we have dominant positions. The goal is to increase absolute profit, focus on strategic pricing, and efficient inventory and receivable management, to drive sustainable revenue growth.

3) HTVB incurred a higher finance cost of RM20,673,000 in FY2023 (FY2022: RM13,383,000) *(Page 77 of AR2023)*, mainly due to rising interest rate *(Page 14 of AR2023)*. This represents a year-on-year increase of 54.5%.

Does the Group expect the finance cost to remain at the same level or higher in FY2024? If it is higher, to what extent can it increase?

The Group is dedicated to sound financial management and aims to mitigate borrowing costs by disciplined inventory and credit management practices. For FY2024, the Group expects borrowings to remain at relatively the same level and any increases in finance cost will be largely attributable to the country's interest rate environment.

4) Eastern Steel Sdn. Bhd. ("ESSB")

With the successful ignition of its newly completed 1,380 m³ Blast Furnace Plant on 1 August 2023 and first production on 8 October 2023, ESSB's production capacity has increased from the current 700,000 MT of steel slabs and billets per annum to 2,700,000 MT per annum. ESSB's production is targeted to be sold locally to satisfy domestic demand and also exported to neighbouring countries principally in Southeast Asia and North Asia.

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(a) With the inclusion of the newly completed plant and increased production capacity, what is the current and targeted capacity utilization rate in FY2024?

Presently, the utilisation of the expanded production capacity stands at approximately 80%, and the goal is to achieve full capacity utilisation in first quarter of 2024.

(b) What are ESSB's targeted sales for local and overseas markets in the next two financial years?

Currently, the domestic and export market distribution of ESSB is approximately 30:70. However, upon the anticipated completion and commissioning of the Hot Rolling Mill and the production of Hot Rolled Coil (HRC) by September 2024, the distribution ratio is expected to shift to 70:30, with the majority of HRC aimed to satisfy local demand, which are currently all imported.

Environmental, Social, and Governance (ESG)

5) What relevant ESG initiatives will the Group carry out in the next few years, and what is the budget requirement for those initiatives?

The Group is committed to a range of ESG initiatives to enhance environmental, social, and governance practices. We have commenced with a budget of RM10.0 million to install, on our buildings, roof top solar PV system with a total estimated capacity of 4,681 kWp that can generate more than 6.0 million kWh of electricity. This is scheduled to complete by the second half of 2024 and will promote clean energy practices, lower carbon emissions and helps combat climate change. Our Group will integrate ESG budgeting with the overall corporate budget to ensure alignment of our ESG goals with the Group's values and broader business objectives.

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