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Issuer: Transit-Mixed Concrete Ltd

Security: Transit-Mixed Concrete Ltd

Meeting details:

Date: 27 June 2018

Time: 10.00 a.m.

Venue: Connaught Room, Level 2, Carlton Hotel Singapore, 76 Bras Basah Road, Singapore 189558

Company Description

Transit-Mixed Concrete Ltd, an investment holding company, engages in the manufacture, sale, and supply of ready-mixed concrete in Singapore and Malaysia. It operates through three segments: Ready-Mixed Concrete, Concrete Pumping Services, and Waste Management. The company is also involved in the rental of concrete pumping services; and trading of spare parts, pipes, and accessories of concrete pump business, as well as sells new and used concrete pumping equipment, such as concrete placing booms, and mobile and stationary concrete pumps. In addition, it provides waste management services, including sewer pipeline inspection with video camera, as well as cleaning of sewer pipelines and grease-interceptors. Further, the company is involved in the provision of batching services; and rental of truck mixers. Transit-Mixed Concrete Ltd was incorporated in 1979 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=570)

1. Revenue in the latest financial year dropped by 23% to \$17.0 million, the lowest level in the last 5 financial years. The group also reported a loss attributable to owners of the company of \$4.6 million, the first loss in the last 5 years (as seen in the Financial highlights (page 5) shown below).

FINANCIAL YEAR ENDED 28 FEBRUARY

	2014	2015	2016	2017	2018
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	25,768	29,186	32,729	22,106	17,036
Profit/(Loss) before tax	4,145	5,732	6,166	2,017	(5,030)
Profit/(Loss) for the year	3,519	5,490	5,725	1,883	(4,760)
Profit/(Loss) attributable to owners of the company	3,378	5,358	5,547	1,938	(4,602)
Earnings/(Loss) per share (cents)	4.85	7.70	7.97	2.78	(6.61)
Shareholders' equity	18,895	22,104	24,625	24,000	17,988
Total assets	30,637	33,314	36,026	31,311	25,455
Total liabilities	11,045	10,406	10,514	6,524	6,458
Net asset value per ordinary share (cents)	27.15	31.76	35.39	34.49	25.85
Return on equity (%)	17.88	24.24	22.53	8.08	NA
Dividends (cents)	3.00	3.50	4.00	2.50	1.00

(Source: Company annual report)

The main segments of Ready-mixed concrete and Concrete pumping services experienced revenue declines of 15%-30% and both segments reported segment losses.

As noted in the Letter to Shareholders (pages 6 and 7 of the annual report), the group faces the following challenges of:

- economic headwinds and challenging business conditions
- continued competition within the industry
- depressed pricing for concrete pumping services and ready-mixed concrete
- heightened competition due to the increased use of prefabricated concrete
- slowdown of construction activities in Singapore and Malaysia

In response to the market conditions, the group is said to be focusing on leveraging its strengths to navigate through an increasingly crowded market.

- (i) **Other than improving operational efficiency, what is the board's strategy to address the possible long-term/structural "decline" of its core business segments due to the government's push for more prefabricated concrete and the slowdown of construction activities?**
- (ii) **Has the board explored other value-added services, complementary services or even new markets to increase the group's topline?**

- (iii) How agile is the group in responding to changes in the market?**
- (iv) What is management’s strategy to secure “better-margin opportunities”?
What is the group’s value proposition to allow it to stand out from the competition in the crowded market?**

2. The “Valuation of plant and equipment” is a key audit matter (KAM) highlighted by the Independent Auditors in their Report on the Audit of the Financial Statements (page 33). Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, the group identified indicators of impairment in the concrete pumping services segment, a cash-generating-unit of the group. Due to weak market conditions and intense competition, the profitability of the Singapore unit of the concrete pumping services segment continues to decline in the current year [...] Management’s value-in-use computations includes judgement used in estimating the future cash flow from the Singapore Concrete Pumping Unit which are subject to estimation uncertainties.

Based on management’s assessment, the recoverable amount of the Singapore Concrete Pumping Unit is lower than its carrying amount. Consequently, the Group recognised an allowance for impairment loss of \$3,985,000.

As at 28 February 2018, after the adjustment for impairment of \$3.985 million, the carrying value of the group’s concrete pumps stood at \$10.1 million (2017: \$17.2 million).

- (i) Would management help shareholders understand the number of such concrete pumps owned by the group?**
- (ii) What were the utilisation rate and the average age of the concrete pumps?**
- (iii) The key assumptions used in the value-in-use calculation included average revenue growth rate of 3.0%. Can management help shareholders understand the reason for using an average revenue growth rate of 3.0%? What was the average growth rate in the past 5 years?**

3. At the 38th Annual General Meeting to be held on 27 June 2018, Mr Yap Boh Lim will be retiring by rotation pursuant to Article 89 of the Company’s Constitution and, being eligible, will offer himself for re-election.

As noted in the Corporate Governance Statement (page 19), Dr Yap Eng Ching, an alternate director to Mr Yap Boh Lim since 15 September 2009, was appointed to assist Mr Yap who is currently 80 years old.

Guideline 4.5 of the 2012 Code of Corporate Governance (CG Code) states the following:

Boards should generally avoid approving the appointment of alternate directors. Alternate directors should only be appointed for limited periods in exceptional cases such as when a director has a medical emergency. If an alternate director is appointed, the alternate director should be familiar with the company affairs, and be appropriately qualified [...] Alternate directors bear all the duties and responsibilities of a director.

- (i) **As Mr Yap is seeking his re-election at the AGM, would the board and the nominating committee (NC) help shareholders understand the need for an alternate director to Mr Yap?** The CG Code recommends that alternate directors are to be appointed for limited periods, and in exceptional circumstances such as medical emergencies.

Separately, would the NC also elaborate in greater detail the company's succession planning for the Board chairman, the board directors (especially the independent directors) and the CEO?

A copy of the questions for the Annual Report for the financial year ended 28 February 2017 could be found here:

https://sias.org.sg/index.php?option=com_qaannualreports&view=qareports&filter_company=204

The company's response could be found here: -----