



Securities Investors Association (Singapore)

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GST Reg No: M90367530Y

Issuer: Hupsteel Limited

Security: Hupsteel Limited

Meeting details:

Date: 29 October 2018

Time: 2.30 p.m.

Venue: 116 Neythal Road Singapore 628603

Company Description

HUPSteel Limited, an investment holding company, trades in industrial steel products. The company offers pipes, butt weld fittings, flanges, and forged fittings; and structural steel products, such as mild steel plates, high tensile steel plates, mild steel ship plates, boiler plates, mild steel chequered plates, mild steel and high universal beams, sheet piles, bulb flats, channel bars, equal and unequal angle bars, inverted angle bars, flat bars, square and round bars, cold formed hollow sections, lipped channels, circular hot finished sections, and square and rectangular hot finished sections. It also provides building materials, including adhesives, acrylic waterproofing systems, sealants, primers, backer rods, application tools, chair gate padlocks, win steel slotted angles, and dove cutting abrasives. In addition, the company offers storage systems comprising pallet, double deep, drive-in, and cantilever racking systems; medium duty and two/three tiers shelving systems; supervic and unirack boltless systems; and unirack two tier structures, modular steel platforms, multi-tiers systems, palletainers, tire racks, and fencing products. Further, it provides racking and logistics services; and engages in property investment activities. The company serves oil and gas, chemical and petrochemical, energy, infrastructure, marine, and other industries in Singapore, Malaysia, Indonesia, and other Southeast Asian countries; and internationally. HUPSteel Limited was founded in 1945 and is headquartered in Singapore.

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

1. Would the board/company provide shareholders with better clarity on the following operations matters? Specifically:

- (i) **Revenue breakdown:** As noted in the Operation review, the recovery in oil prices has yet to spill over to the marine and shipbuilding sector while the construction sector remained lackluster. **What is the breakdown by revenue of its steel products trading? Please show the revenue derived from Marine, Oil & Gas and Construction sectors.**
- (ii) **Replenishment policy:** **Has the board/management reviewed its stock replenishment policy?** On one hand, the uncertainties affecting steel prices, especially trade tariffs that could affect the global supply chain, and rising interest rates make it unfavourable for the group to be holding on to a large inventory although the stockist with the right products at the right time can benefit from the upswing, if/when it happens.
- (iii) **Inventory write-down:** Following the large inventory impairment of \$(3.3) million in FY2015 and \$(10.6) million in FY2016, the group recognised just \$(30,000) of inventory write-down in FY2017. However, inventory write-down increased to \$(742,000) in FY2018. **Can management help shareholders understand the reason(s) for the write-down? Were these new inventories procured in the past two years? What is the group doing to “keep its ears close to the ground” to understand the market trends and market demand?**
- (iv) **Staff cost:** In the operation review, it was disclosed that the group had provided more incentives to staff to recognise their efforts and sacrifices made over the last few years “when the market was in doldrums”.

	FY2014	FY2015	FY2016	FY2017	FY2018
Revenue (\$ 'M)	116.6	83.7	55.8	49.1	59.7
Net profit/(loss) (\$ 'M)	3.6	(8.0)	(19.1)	0.7	4.7^
Staff cost	8.5	7.5	7.8	6.6	7.4
Dividend per share (cents)	5.0	0.5	1.0	2.0	4.0

^ included a \$2.1 million net one-off gains from the disposal of 359 Jalan Besar, offset by write off of 38 Genting Lane

What were the financial and operational performance indicators used to support the increase in employee compensation? Even though the revenue slide has been reversed, it is still 30% below the FY2015 level but staff cost has been restored to the FY2015 level. **Does management consider that the market has recovered and is no longer in the doldrums? Does the group have a clear and structured compensation policy that aligns employee compensation with the performance of the group and of the individual?**

2. The chairman has also mentioned in his statement that management will “seek ways to unlock value for shareholders” (page 7), including monetising long term assets and returning cash to shareholders by way of dividends.

- (i) **What are management's plans for 365/365A Jalan Besar and the office units at Hoa Nam Building?**
- (ii) **With the experience gained from the redevelopment of 6 Kim Chuan Drive, how is the group approaching the development of 38 Genting Lane?**
- (iii) **Are the factories at Subang Industrial Park and Shah Alam being used to support the group's operations in Malaysia?**
- (iv) In Note 29(c) (page 78 – Commitments: Operating lease commitments – where the Group is a lessor), it is shown that the lease receivable not later than one year is \$1.262 million. The majority of it should be due to the lease of 6 Kim Chuan Drive. **Can management disclose the lease terms of 6 Kim Chuan Drive? Are there rental escalations built into the 5-year contract?**
- (v) Further in Note 20 (page 68 – Investment properties), the total income was \$1.03 million while the direct operating expenses arising from Investment properties that generate rental income and Investment properties that do not generate rental income were \$663,000 and \$324,000 respectively. **What is the reason for the high costs of \$663,000 relating to the costs associated with the investment properties that are rented out? What is the return from the group's investment properties?** As at 30 June 2018, the fair value of investment properties is \$74.9 million.

3. As mentioned in the Chairman's message, the board would be pouring in more resources to look for a new independent director (ID). It had been unsuccessful in the last year to add to the board. The board is also cognisant that the current slate of ID has served for more than 9 years.

- (i) **Has the nominating committee (NC) reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?**

The chairman had said that the board was *"unfortunate in that effort to secure a new candidate for the appointment was not successful"* (page 7) while in the Corporate Governance report, it was reported that *"to-date, [the board] has not identified a suitable candidate for the position"* (page 22).

- (ii) **Can the board clarify what were its efforts made in the past year to search and to appoint a new independent director?** The statement by the chairman seems to suggest that a candidate was identified but his/her appointment fell through whereas it was also mentioned that the board has not identified a suitable candidate.
- (iii) **What are the criteria in terms of skills, knowledge, experience and competencies including behavioural skill sets that the NC is looking for in the new director?**

The NC has also stated that it leverages professional search firms, contacts, and recommendations to “cast its net as wide as possible for the right candidates”. It has been a year since the resignation of Mr Ong Kian Min, the former independent chairman of the board.

(iv) Did the NC use professional search firms to widen the search for suitable candidates in the last year? Would the NC consider doing so?

[Additional comments: On pages 17 to 19, the company presented its inaugural Sustainability Report which detailed the group's commitment to the various stakeholder groups, namely the employees, environment, community and shareholders & external parties.

Under Chapter 7 of the Listing Manual on Continuing Listing Obligations, Rule 711B states that the sustainability report must describe the issuer's sustainability practices with reference to the following primary components: (a) material environmental, social and governance factors; (b) policies, practices and performance; (c) targets; (d) sustainability reporting framework; and (e) board statement.

Could the board/management clarify if it will be publishing a full Sustainability Report, including the key material issues affecting the company, in accordance with Rule 711B?]

A copy of the questions for the Annual Report for the financial year ended 30 June 2017 and 30 June 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=HUPSteel%20Ltd>

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