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RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The Board of Directors of Hiap Tong Corporation Ltd (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to inform that the Company has not received any questions from the Shareholders but questions from the Securities Investors Association (Singapore) ("**SIAS**") prior to the upcoming Fourteenth Annual General Meeting to be held by way of electronic means on 28 July 2022 at 3.00 p.m.

The Appendix annexed herein sets out the Company's responses to the questions received from SIAS.

By order of the Board

Lim Guek Hong
Company Secretary

24 July 2022

This announcement has been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "Sponsor"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "Exchange") and the Exchange assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Ms. Lim Hui Ling, 16 Collyer Quay, #10-00 Income at Raffles, Singapore 049318, sponsorship@ppcf.com.sg

Appendix

Q1. In September 2021, the Group was awarded a contract for the provision of services for Works Train Operations for MRT projects by the Land Transport Authority. This was followed by another contract win in January 2022 for the provision of crane rental and/or lifting services work.

(i) In view of the constricted labour pool in Singapore, does the Group have the necessary manpower to fulfill these new contracts?

The Works Train Operations contract involves a scheduled timeline for the build-up of manpower. While the project has met with some initial constraints, we are currently back on schedule with the progress of the build-up of manpower. The crane rental contract does not involve huge manpower requirements and is progressing smoothly.

(ii) What are the challenges, if any, in recruiting and retaining experienced operators?

Recruitment of local experienced operators remains a challenge across the industry due to aging workforce among our operators and within the tight labour market. Furthermore, there is now a longer lead time required to recruit foreign operators.

(iii) What is the level of oversight by the board and senior management on workplace safety?

The Group has in place an occupational health and safety management framework on workplace safety. There are processes to identify, mitigate and report risks and communicate best practices across the Group. Designated managers have been assigned to oversee the implementation of the measures. Any significant incident or breach of safety management measures will be promptly reported by the management to the Board. For more information, you may refer to the Group's sustainability report 2021.

In 2018, the Group was awarded a long-term Port Services contract by PSA Corporation Limited for a period of 5 years commencing from 1 April 2018 with an option to extend for another 5 years. The segment has been loss making mainly due to higher local manpower costs, foreign manpower shortage and lower productivity as a result of port congestion. In FY2022, the segment loss before tax was $(2.8) million.

(iv) What are management's plans to improve the performance of the Port Services segment?

The management is working with our customer, PSA Corporation Ltd, to improve productivity and has thus far seen improvements in the performance of the Port Services segment.

(v) Is management confident in turning around the Port Services segment? Will the Group be able to negotiate with PSA to absorb some of the industry-wide cost increases?

Our contract with PSA has a price adjustment mechanism which is adjusted on a yearly basis which will mitigate part of the cost increase.

(vi) Will the Group be exercising the option to extend the contract for another 5 years from April 2023?

The option to extend the contract can only be exercised by our customer, PSA Corporation Ltd. We are currently at the initial stage of discussing the extension of the contract.

Q2. The “assessment of the impairment loss on property, plant and equipment” is a key audit matter (KAM) highlighted by the independent auditors in their report on the audit of the financial statements. 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, management has determined three Cash Generating Units (CGUs) namely the Singapore Lifting and Haulage business CGU, Malaysia Lifting and Haulage business CGU and Port Services CGU for assessing the impairment loss.

The Group recognised impairment loss of $(8.0) million and $(2.1) million on property, plant and equipment for the year ended 31 March 2020 for the Singapore Lifting and Haulage business CGU and 31 March 2021 for the Singapore and Malaysia Lifting and Haulage business CGU respectively.

Despite the impairment losses, the Group invested a further $10.1 million and $32.2 million in capital expenditure in FY2021 and FY2022 respectively. As at 31 March 2022, the Group has commitments to purchase property, plant and equipment (PPE) amounting to $10.99 million (Note 27 Capital commitments).

(i) **For the benefit of shareholders, has management considered disclosing the utilisation rates of its cranes and haulage equipment to help shareholders better understand the performance of its operations?**

For commercial reasons, we are unable to disclose the utilization matrix.

(ii) **How has the nature/make-up of the Group’s (a) lifting and (b) haulage fleet changed in the past two years?**

In the past two years, we have substantially increased the number of crawler cranes in our lifting fleet from 15% to 40% of the lifting fleet. There is also a slight increase in the number of haulage fleet to support the bigger fleet of lifting equipment.

(iii) **With oil prices recovering strongly and activities in the marine sector picking up, how is the Group positioning itself to capitalise on the opportunities?**

Our Group is seeing demand recovering across all sectors of the business. As such we have formed a strong tie up with our lifting equipment suppliers to make on time delivery of new lifting equipment for secured jobs as well as granting favourable credit terms to our Group.

In Note 12 (page 68; Property, plant and equipment), one can see that management’s projections for revenue and EBITDA growth rates have steadily decreased in the past 3 years. As at 2022, revenue growth is expected at 2% while the EBITDA growth rate is negative 1%.

	2022 %	2021 %	2020 %	2019 %
Singapore Lifting and Haulage business				
Discount rate (pre-tax)	9.0	10.3	10.3	9.3
Revenue compound annual growth rate	2.0	3.9	5.1	0.5
EBITDA compound annual growth rate	(1.0)	3.0	4.5	(2.6)

(Compiled from the company annual reports)

(iv) Given the declining revenue and EBITDA projections, what are the factors considered and the investment criteria used by management and the board in the approval of new capital expenditure bearing in mind that the Group had to impair its PPE by more than $10 million in FY2020 & FY2021?

The information on the revenue and EBITDA compound growth rate (Note 12, page 68 of the FY2022 annual report) were used for the assessment by the management on any requirement for impairment of fixed asset under the lifting and haulage business. It has taken into consideration the challenging environment due to the economic uncertainty caused by the COVID-19 pandemic for the past few years. Based on the assessment, no impairment was required for FY2022.

Nevertheless, with the further easing of the COVID-19 measures as well as the opening of borders in Singapore, the Group is seeing increasing enquiries and demand for its lifting and haulage services in Singapore.

The new capital expenditure on the equipment for the Group were approved generally for projects which have been secured by the Group which are to be delivered for the year ended 31 March 2023. As such, the utilization for the equipment is expected to be high. In addition, the Group has also taken into consideration the projected returns from the secured projects, the lead time for delivery of the equipment as well as the overall strategy on the renewal of the Group's fleet of equipment to cater for the general market demand by its customers.

Q3. As at 31 March 2022, the Group recognised loans and borrowings of $12.49 million and total lease liabilities of $33.6 million. Cash and cash equivalents stood at $10.1 million as at 31 March 2022.

Finance costs were approximately $2.1 million per year in the past two financial years (see

FINANCIAL HIGHLIGHTS

$'000	FY2018	FY2019	FY2020	FY2021	FY2022
Revenue	43,239	54,221	58,758	54,326	**68,066**
Cost of sales	(35,577)	(43,396)	(49,217)	(52,024)	**(60,902)**
Gross profit	7,662	10,825	9,541	2,302	**7,164**
Other income	2,571	2,469	2,242	10,501	**6,388**
Distribution expenses	(262)	(205)	(214)	(354)	**(228)**
Administrative expenses	(7,921)	(8,303)	(7,726)	(7,742)	**(8,878)**
Other expenses:					
Impairment losses on property, plant and equipment	—	—	(8,000)	(2,120)	—
Others	(624)	—	(154)	(1,248)	**(829)**
Net change in fair value of investment properties	1,400	(1,146)	(850)	(300)	**(20)**
Net finance costs	(1,291)	(2,068)	(2,589)	(2,050)	**(2,064)**
Profit/(loss) before tax	1,535	1,572	(7,750)	(1,011)	**1,533**
Tax credit / (expense)	(391)	654	(369)	676	**75**
Net Profit/(loss) for the year	1,144	2,226	(8,119)	(335)	**1,608**

table below).

(Source: company annual report; emphasis added)

(i) What is the Group's cost of capital?

The Group's investments in equipment are mainly financed by hire purchase with financial institutions, hence the cost of debt would be a better indicator of the Group's cost of capital. The financing of about 90% of the equipment cost has an interest rate of up to 3.4% per annum.

(ii) What is management's plan to hedge its borrowing costs in the face of rising interest rates?

As at 31 March 2022, about 89% of the Group's bank borrowings and hire purchase liabilities have fixed interest rate. The remaining borrowings mainly relate to short term loan over one to three months period. As such, the Group's exposure to rising interest rate cost is minimal.

(iii) Has the board evaluated if management has created long-term, sustainable value for shareholders given the Group's cost of capital and the returns achieved?

The Board provides corporate strategy and direction for the Group, including guidance and approval of major funding and investments, taking into consideration the rationale and evaluation presented by the management. It always works with the management for long-term success of the Group.

Excluding FY2020 to FY2022 which were affected by the COVID-19 pandemic situation, the Group has an average equity growth rate of about 6.6% over the 9 years period from FY2011 to FY2019.

In addition, the company disclosed that it had entered into a sale of 8 Tuas South Street 10 on 17 February 2022 for an aggregate sale consideration of $6 million, subject to JTC Corporation's approval.

(iv) What is the progress of the sale?

As the Company and the potential purchaser of the investment property could not agree on the terms in the Sale and Purchase agreement ("SPA"), the proposed transaction did not materialize.

(v) Did the company announce the proposed sale of the investment property on SGXNet after it had entered into the agreement on 17 February 2022?

As the parties could not agree on the terms, the SPA was not signed and therefore was not announced.

(vi) Is the property being sold below the carrying value as the investment property has a book value of $7.7 million?

As explained on note (v) above, the Company will not be proceeding with the proposed sale.

(vii) What are the intended uses of the proceeds?

Please refer to note (v) and (vi) above.