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UEN No: S99SS0111B  
GST Reg No: M90367530Y0Y

**Issuer:** Hiap Tong Corporation Ltd

**Stock code:** 5PO

**Meeting details:**

Date: 25 Jul 2024

Time: 3.00 p.m.

Venue: 11 Slim Barracks Rise, Alumni House, Lecture Theatre 301 @level 3, Singapore 138664

**Q1.** Would the board/management provide shareholders greater clarity on the following operational and financial matters? Specifically:

- (i) **Project delays:** For the financial year ended 31 March 2024, the group recognised revenue of \$92.2 million, a decline of 6.7% from the previous year. The decrease was attributed to lower revenue in the lifting and haulage segment, mainly due to the completion of certain projects and a delay in the commencement of new projects in FY2024. **Can management elaborate on the underlying reasons for the delays and clarify if they are due to internal issues or external circumstances? If the delays are on the customers' ends, are there terms in the contracts that protect and compensate the group for any such delays?**
- (ii) **Gross profit margin:** Over the past five years, the group's gross profit margin has shown significant fluctuations, ranging from 16.2% in FY2020, 4.2% in FY2021, 10.5% in FY2022, 27.7% in FY2023 to 18.3% in FY2024.

## FINANCIAL HIGHLIGHTS

\$'000	FY2020	FY2021	FY2022	FY2023	FY2024
Revenue	58,758	54,326	68,066	98,837	92,263
Cost of sales	(49,217)	(52,024)	(60,902)	(71,479)	(75,419)
Gross profit	9,541	2,302	7,164	27,358	16,844
Gross profit margin	16.2%	4.2%	10.5%	27.7%	18.3%
Net Profit/(loss) for the year	(8,119)	(335)	1,608	13,844	4,127

(Adapted from company annual report)

**What are the factors contributing to this wide range in gross profit margin? Specifically, how much of this variation can be attributed to the utilisation rate of the group's lifting and haulage fleet?**

- (iii) **What were the utilisation rates of the lifting and haulage fleet in FY2023 and FY2024? How does the board systematically track and assess these utilisation rates in relation to the gross profit margin for the segment?**

In FY2023 and FY2024, the group incurred \$26.8 million and \$21.6 million in capital expenditure respectively in the lifting and haulage services segment (page 57; Note 4E Financial information by segments). This capital expenditure is reflected in the additions to “plant and machinery”, which amounted to \$25.0 million and \$20.1 million in FY2023 and FY2024 respectively (Note 13; page 63).

- (iv) **What guidance has the board given to management regarding the optimisation of capital expenditure, specifically in plant and machinery? Can the board elaborate on the hurdle rate used for evaluating capital investment projects, and what processes are in place for the board’s oversight and approval of capital expenditures?**
  
- (v) **Given the independent directors’ backgrounds in finance, legal affairs, and accounting, how do they provide constructive scrutiny and challenge to the group’s business plans and capital expenditure strategies to ensure alignment with long-term shareholder value?**

**Q2.** In the corporate governance report, the board stated that the company and its subsidiaries are committed to achieving high standards of corporate governance to enhance investor confidence in its management and financial reporting.

However, the board has deviated from Provisions 2.2 and 2.3 of the Code of Corporate Governance 2018.

Provision 2.2 stipulates that if the chairman is not independent, independent directors should constitute a majority of the board. Provision 2.3 requires non-executive directors to make up a majority of the board. Currently, the board comprises three executive directors and three independent directors. The company has justified the deviations and concluded on page 17 of the annual report that the nominating committee (NC) and the board believe there is **no necessity** for independent directors to make up a majority of the board where the chairman is not independent [emphasis added].

- (i) **Can the NC elaborate further on the underlying reasons for the board's deviation from Provision 2.2 of the Code of Corporate Governance 2018? Specifically, what factors have prevented the board from meeting the requirements of Provision 2.2?**
- (ii) **Similarly, what are the underlying reasons, if any, for the deviation from Provision 2.3?**
- (iii) **Did the NC consider appointing an independent chairman to the board? Will the NC review the board composition with the aim of meeting the requirements of the CG Code 2018, particularly Provisions 2.2 and 2.3?**

Subject to the approval at the annual general meeting on 25 July 2024, Mr Yee Chia Hsing is proposed to be appointed as an independent director of the company. Additional information on directors seeking re-election appointment can be found on pages 93 to 99 of the annual report. Mr Yee Chia Hsing currently serves on seven other boards.

- (iv) **Would the NC elaborate further on the rationale, selection criteria, board diversity considerations and the search and nomination process, that led to the nomination of Mr Yee Chia Hsing, as required in the SGX template?**
- (v) **Did the NC consider that Mr Yee Chia Hsing already holds seven other board positions?**

- (vi) **Given that all independent directors are assessed to lack relevant industry knowledge or experience, how did the NC evaluate the effectiveness of the independent directors in constructively challenging management? Do independent directors provide adequate oversight of operational and financial matters given their lack of relevant industry experience?**

Core Competencies	Number of Directors	Percentage
Accounting and finance	2	33%
Legal expertise	1	17%
Business and management experience	4	67%
Relevant industry knowledge or experience	3	50%
Strategic planning experience	4	67%

**Q3.** Based on SGX StockFacts, shares of the company trade at below 0.3 times its book value. As at 31 March 2024, the company’s market capitalisation was approximately \$29 million compared to the group’s total net assets of \$97.5 million. In addition, the share price over the past year has declined gradually from about 15 cents to less than 9 cents.

**Hiap Tong (5PO/HTCL.SI)** ▼ 0.086 -0.003 (-3.371%)

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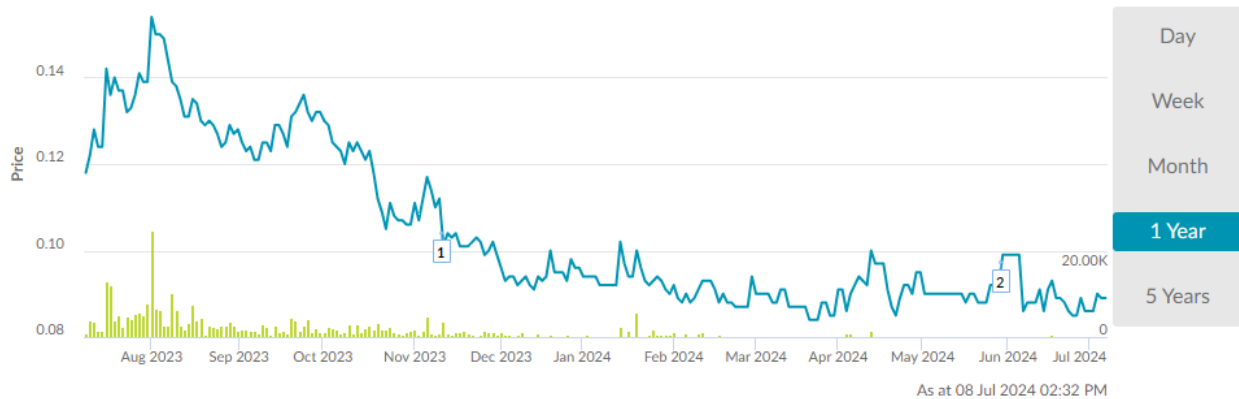
Industry: Industrial & Commercial Services, Business Support Services

This company reports in this currency: SGD

For latest update, please refer to Company Announcements.

Cum Dividend/ Distribution

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Price/Book Value ⓘ	0.290	Enterprise Value	83.06M
Price/Sales ⓘ	0.306	Price/CF ⓘ	1.334
Dividend Yield ⓘ	1.12	P/E Ratio ⓘ	6.75
Dividend Yield 5-yr avg ⓘ	-	Net Debt ⓘ	54.81M



(Source: <https://investors.sgx.com/securities/stocks?security=5PO>; emphasis added)

- (i) **Could the board provide insight into the specific strategies and actions it has undertaken to create and realise value for all shareholders, particularly minority shareholders?**
- (ii) **What are the capital expenditure plans for the next 18-24 months? How does the board assess the obsolescence risk of its fleet?**

In recent years, stock exchanges and regulators, including Tokyo Stock Exchange and Korea's Financial Services Commission, have started to ask companies to set up and disclose valuation boosting plans. These corporate value-boosting initiatives are needed as it is recognised that "corporate values" of listed companies have to improve and that the main driver in enhancing corporate value is the company itself. Efforts have been targeted at companies that trade below a price-to-book ratio of below 1. The plans focussed on increasing awareness and literacy of the cost of capital, capital efficiency and stock prices of listed companies.

Specifically, Tokyo Stock Exchange has required companies with price-to-book consistently below 1x to disclose their policies and specific initiatives to improve their valuations.

- (iii) **Has the board benchmarked the company's share price performance to its peers?**
- (iv) **What is the company's cost of capital? Has the board evaluated if management consistently delivers returns exceeding this benchmark?**
- (v) **Could the board, particularly the independent directors, explain their efforts to increase corporate value and improve capital efficiency?**
- (vi) **Beyond attributing share price fluctuations solely to external factors, has the board considered formulating, disclosing and implementing strategic initiatives aimed at enhancing capital efficiency and bolstering corporate valuation, thereby crystallising value for all shareholders?**

At the annual general meeting, shareholders are also asked to approve the renewal of the share buyback mandate<sup>1</sup>.

- (vii) **Can the board help shareholders recall if the company has carried out any share buybacks? What are the challenges, if any, of the company carrying out share buybacks?**
- (viii) **Has the board considered carrying out any off-market purchases, especially an equal access scheme?**

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<sup>1</sup>

[https://links.sg.com/FileOpen/2.%20Ltr%20to%20Shr\\_FY2024.ashx?App=Announcement&FileID=808591](https://links.sg.com/FileOpen/2.%20Ltr%20to%20Shr_FY2024.ashx?App=Announcement&FileID=808591)



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*Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.*

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