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Issuer: Hiap Tong Corporation Ltd.

Stock code: 5P0

Meeting details:

Date: 25 September 2020

Time: 3.00 p.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. Since the COVID-19 outbreak which resulted in construction work being suspended in Singapore, the company has not provided shareholders with an update. On 18 May 2020, the company announced that it will avail itself to the extension of time for the release of the full year results and to hold the AGM. On 23 July 2020, the company issued a profit guidance prior to the results announcement a week later.

So far, the company has only stated that “the group expects the Leasing business (now known as lifting and haulage services) to be significantly affected in the Singapore and Malaysia market” without providing shareholders with sufficient visibility on the impact of its core business in Singapore.

- (i) **Would the board consider a review of its shareholders’ communication framework, including the manner/threshold to update the market of significant matters affecting its operations?**
- (ii) **In particular, would management provide shareholders with greater clarity on the impact of COVID-19 on the group’s lifting and haulage services in Singapore and Malaysia?**
- (iii) **What was the utilisation rate of its fleet in FY2020?**
- (iv) Most construction activities in Singapore and Malaysia were suspended from April 2020 for at least 2-3 months. **What pro-active actions did management take to ensure that the group’s financial position remains strong?** As at 31 March 2020, the group has net debt of \$48.8 million (page 73) with cash and cash equivalents of \$6.7 million. Gearing has increased to 0.62x as at 31 March 2020, from 0.51x a year ago.
- (v) **Can management also help shareholders understand the progress it has made in Vietnam in the past two years?**

In the Corporate profile, it is shown that the group services “a large and diverse customer base, mainly from the marine, petrochemical and construction industries” (page 1).

- (vi) **Given that all three industries (marine, petrochemical and construction) are facing head winds, can the board elaborate further on the group’s strategic growth objectives?**

Q2. The “Impairment assessment of 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 (page 35).

Key audit matters are those matters that, in the professional judgement of the Independent Auditors, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, as at 31 March 2020, the group's market capitalisation of \$20.6 million is below the net asset value attributable to shareholders by \$57.5 million, which indicates that the property, plant and equipment may be impaired.

As disclosed in Note 4 (page 68 – Property, plant and equipment: Impairment assessment), the group recognised an impairment loss of \$8,000,000 on property, plant and equipment for the year ended 31 March 2020, on the Singapore lifting and haulage business CGU.

The breakdown of the impairment loss is shown below (page 68; reproduced below).

The impairment loss was allocated pro rata to the different class of assets constituting the Singapore Lifting and Haulage business as follows:

	2020 \$'000	2019 \$'000
Group		
Right-of-use land and dormitories	1,006	—
Leasehold property	847	—
Plant and machinery owned	3,143	—
Right-of-use plant and machinery	2,966	—
Renovation	4	—
Office equipment	3	—
Motor vehicles	31	—
	<u>8,000</u>	<u>—</u>

(Source: company annual report)

Following the impairment loss, the group's carrying value of its property, plant and equipment amounted to \$113.4 million as at 31 March 2020. The group had carried out the impairment assessment for the lifting and haulage business in Singapore using the discounted future cash flows method.

(i) Can management elaborate further on the key assumptions used in the estimation of the recoverable amount?

Management has stated that it has considered the impact of COVID-19 on the Group's business and its operations. However, it has cautioned that if the pandemic leads to worsening business conditions, the recoverable amounts may be negatively affected.

(ii) What adjustments did management make on the key assumptions as a result of COVID-19?

(iii) Can the company disclose the range in the key assumptions and the sensitivity analysis of the impact on the carrying value of its PPE?

Q3. In the corporate governance report, the board has stated that it is committed to achieving high standards of corporate governance within the group and to put in place effective self-regulatory corporate practices to ensure greater transparency, protecting the interests of its shareholders as well as strengthening investors' confidence in its management and financial reporting.

The current board consist of six members comprising three executive directors and three independent non-executive directors as follows:

- Mr Ong Teck Meng (executive chairman and chief executive officer)
- Mr Ong Lim San (executive director)
- Mr Ong Boon Tat Alvin (executive director)
- Mr Tito Shane Isaac (lead independent director)
- Mr Tay Seo Long (independent director)
- Mr Choy Bing Choong (independent director)

In addition, the company has noted the following variations from the Code of Corporate Governance 2018 issued by the Monetary Authority of Singapore:

- Provision 2.2 requiring independent directors to make up a majority of the board where the chairman is not independent
- Provision 2.3 providing for non-executive directors to make up a majority of the board
- Provision 3.1 stating that chairman and the chief executive officer ("CEO") are separate persons to ensure an appropriate balance of power, increased accountability, and greater capacity of the board for independent decision making

The reasons for the deviations can be found on pages 16-18 of the annual report.

- (i) **Has the board, especially the nominating committee (NC), evaluated how it might be able to achieve a higher degree of independent decision making, foster more robust discussions and to guard against group-think by meeting Provisions 2.2, 2.3 and 3.1?**

In particular, in the Corporate Governance report, it was stated that the dual roles held by the founder and CEO and also chairman of the board is balanced by the presence of the other executive directors. It is observed that the other executive directors are Mr Ong Lim San (brother of the executive chairman and CEO) and Mr Ong Boon Tat Alvin (son of the executive chairman and CEO). In fact, Mr Ong Boon Tat Alvin assists the CEO in the day-to-day management of the group, as well as managing the group's strategic planning functions.

- (ii) **Would the board, especially the NC, help shareholders understand if it had considered and deliberated how the group could better meet the intent of the Principle 3 which calls for a clear division of responsibilities between the leadership of the board and management?**

- (iii) **Can the NC also elaborate further on the succession plans for directors?** In the NC's terms of reference, it is responsible for the review of the succession plans, including the appointment and/or replacement of the chairman, the CEO and key management personnel.

[^]Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

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

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on [SIAS website](http://www.sias.org.sg)

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[^] Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (<https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings>)