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RESPONSES TO RELEVANT QUESTIONS RECEIVED PRIOR TO THE ANNUAL GENERAL MEETING TO BE HELD ON 25 JULY 2024

The Board of Directors (the "**Board**") 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 and has received questions from the Securities Investors Association (Singapore) ("**SIAS**") prior to the upcoming Sixteenth Annual General Meeting to be held on 25 July 2024 at 3.00 p.m.

The Appendix annexed herein sets out the Company's responses to the relevant questions received from SIAS regarding the Group's annual report for the financial year ended 31 March 2024.

By order of the Board

Lim Guek Hong
Company Secretary
19 July 2024

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 Collyer Quay Centre, Singapore 049318, sponsorship@ppcf.com.sg

Appendix

QUESTION 1:

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?*

Company's response:

Projects delay in FY2024 are mostly attributed to our customers. The Company does not have any control over the timeline of the projects. These contracts do not involve any compensation clause.

(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

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?

Company's response:

The Group's current average gross profit margin ranges between 15% to 20%. For FY2021 and FY2022, the gross profit margins were much lower due to the COVID-19 pandemic. As for FY2023, the gross profit margin was above average due to certain projects with exceptional higher gross profit margin in the lifting and haulage segment.

While the utilization rate of the group's lifting and haulage fleet do have an impact on our revenue, other contributing factors to the gross profit margin variations also include the pricing and the labour cost of each segment.

(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?*

Company's response:

Management monitors the utilization of our fleet closely so as to optimize its usage to support our customers. This also includes planning for upcoming projects and tendering for new projects. However, for commercial reasons, we are unable to disclose the utilisation matrix.

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?*

Company's response:

The Board will review and evaluate the presentation made by the management on its capital expenditure requirement before its approval.

For capital expenditure relating to the lifting and haulage segment, the management will review the current market situation and its existing fleet of cranes such that it will be able to meet the demand from its customers. Expected returns may vary ranging from 5%-20% depending on the type of equipment, the requirement from customers as well as certainty on the return from the project which may depend on factors such as the length of the contract period. The return will be higher than the average equipment financing cost of about 3% to 5% per annum.

(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?*

Company's response:

The independent directors provide constructive contribution to the Board in its robust discussion and challenges to the management on issues such as its capital expenditure, business plans and corporate strategy. By ensuring success for the group, it will be in alignment with the long-term value of the shareholders.

QUESTION 2:

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?*

Company's response:

As disclosed in the annual report, the Company has three Independent Directors out of a total of six Directors, which represent 50% of the total Board membership. When considering Provision 2.2 of the 2018 Code which requires independent directors to make up a majority of the board where the chairman is not independent, the Nominating Committee ("**NC**") and the Board had made extensive deliberation and observation on this matter, opined that there is a strong sense of independence in the Board. Firstly, the Board is able to exercise objective judgment independently from Management of all key issues and strategies with thorough review and robust discussion by all Board Members with constructive challenges posed by the Independent Directors. Next, there is no individual or a small group of individuals who dominate the decisions of the Board. Hence, the NC and the Board felt that the independence of independent directors must be based on the substance of their professionalism, integrity and objectivity, and not merely based on form such as the number of independent directors making up more than half of the Board. The NC and Board has also considered factors such as the size of the Group and business costs, and is satisfied with its current board size, which is effective for debate and decision making.

The NC is of view that the intent of Principle 2 is met, as Non-Executive Independent Directors make up half of the Board and the Company also has a Lead Independent Director. In addition, all Board Committees are chaired by Independent Directors. Mr. Tito Shane Isaac is the Lead Independent Director to hear the concerns of shareholders in situation where the communication of their concerns to the Executive Chairman / CEO / Management is either inappropriate or has not produced a satisfactory outcome.

As such, the NC and the Board are of the view that not having a majority of Independent Directors would not in any way affect the Company's commitment to observing high standards of corporate governance.

As part of the roles and responsibilities of the NC, it will continue to review the board composition having regard to the requirements of the CG Code, in particular, Provisions 2.2 and 2.3, and make its recommendations to the Board when necessary.

(ii) *Similarly, what are the underlying reasons, if any, for the deviation from Provision 2.3?*

Company's response:

Save as disclosed, there is no further underlying reason.

(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?*

Company's response:

As disclosed on page 18 of the annual report, the current Board Chairman plays an instrumental role in the development of the Group's business and is personally involved in the day-to-day operations of the Group. With his extensive and in-depth knowledge of the cranes industry as well as strong leadership and vision, the NC has no intention to appoint an independent chairman or re-designate an existing Independent Director to replace him. However, the NC will continue to review the board composition having regard to Provisions 2.2 and 2.3 of the CG Code, and make its recommendation to the Board for the appointment of additional independent director, where circumstances change.

For good corporate governance, Mr. Tito Shane Isaac, Lead Independent Director, has been appointed to hear the concerns of shareholders in situations where the communication of their concerns to the Executive Chairman / CEO / Management is either inappropriate or has not produced a satisfactory outcome.

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?

Company's response:

It has been more than 2 years that the NC has been on the lookout for new Independent Directors to facilitate board renewal. To-date, the NC has considered a number of candidates and subsequently nominated Mr. Yee Chia Hsing ("**Mr. Yee**"). When assessing the appointment of Mr. Yee, the NC took into consideration his qualifications, work experience and competencies. The NC has also reviewed the different financial year ends of the multiple board representations held by Mr. Yee to ensure that sufficient time and attention can be given to the affairs of the Group. The NC was of the view that Mr. Yee is suitable to be appointed as a Non-Executive Independent Director of the Company and would complement and further strengthen the core competencies of the Board.

(v) Did the NC consider that Mr. Yee Chia Hsing already holds seven other board positions?

Company's response:

As disclosed on page 95 of the annual report, Mr. Yee is presently an independent Director of four (4) listed companies and not seven (7) listed companies as stated by SIAS. The financial year end of the three listed companies is 31 December whereas the other one is 30 June. As Mr. Yee does not hold a full-time employment position, he will be able to commit the necessary time to fulfil his duties as a director.

(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%

<u>Company's response:</u>

Whilst the Executive Directors possess acute industry knowledge to take the Group forward, the Independent Directors, who are mostly professionals and experts in their own fields are able to contribute their valuable experiences and provide independent inputs and judgements during Board deliberations. Some of the Independent Directors also possess certain knowledge and experience in construction and heavy equipment industries by virtue of their previous work and having served on boards of such companies in the past. Hence, the NC believes that Management can benefit from a diverse and objective external perspective on issues raised before the Board. With a balance and mix of skills, knowledge and experience of the Board, it allows appropriate level of diversity of thoughts and background to avoid any groupthink.

<u>QUESTION 3:</u>

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.

Overview | **Valuation** | Financials | Dividends | Ownership

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

SGX Securities | REFINITIV

SGX StockFacts is a collaboration between SGX and Refinitiv. Use of this information is subject to terms and conditions.

(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?*

Company's response:

The group's main business of lifting and haulage is positioned in a capital-intensive industry. Further competitive pressure prevents pricing our services beyond certain margin levels. Nevertheless, the group's revenue has increased on a compounded average growth rate of about 9% annually for the past decade. This suggests we have improved our market share in our industries.

Our equity has grown from $75.9 million in FY 2015 to $97.5 million in FY2024, an increase of 28.5%. Profits over the past decade had been reinvested into new equipment which was reflected in our increased market share. When the business reaches a mature state, the board believes more profits will be allocated in the form of dividends as payout to all 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?*

Company's response:

The group will use the annual depreciation expense of its lifting and haulage fleet as a general guide for its replacement cost to address its fleet obsolescence. At the same time, it will also assess the market's situation and customers demand on any additional capital expenditure requirement.

Besides the capital expenditure for its lifting and haulage fleet, the group will also be looking into the redevelopment of its property at 22 Soon Lee Road Singapore 628082 as per its announcement on the 2 November 2023.

At the annual general meeting, shareholders are also asked to approve the renewal of the share buyback mandate[1].

(iii) *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?*

Company's response:

The Company has not carried out any share buybacks but will like to have the mandate approved yearly so as to have the flexibility to buyback shares when the market conditions are favourable.

As the current liquidity of the Company traded shares is not high, the board believes that a better way to reward shareholders will be in the form of dividends payout to shareholders.

(iv) *Has the board considered carrying out any off-market purchases, especially an equal access scheme?*

Company's response:

No. The reason is the same to question 3(iii) above.