

Issuer: Hiap Seng Engineering Ltd
Security: Hiap Seng Engineering Ltd

Meeting details:

Date: 28 July 2017

Time: 10.00 a.m.

Venue: Conference Room, 28 Tuas Crescent, Singapore 638719

Company Description

Hiap Seng Engineering Ltd, an investment holding company, provides mechanical engineering, plant fabrication and installation, and plant maintenance services primarily for the petroleum and petrochemical industry. The company operates in two segments, Plant Construction and Maintenance, and Compression and Process Equipment Fabrication. It offers engineering, procurement, and construction services to process and metering skids, modular compression, process equipment installation, pressure vessels, process piping, and tanks and terminals. The company also provides plant maintenance services that include mechanical, E&I and civil/buildings, refractory works, insulation works, blasting/painting works, and scaffolding services, as well as other services. It has operations in Singapore, Malaysia, Thailand, the People's Republic of China, Vietnam, Africa, and other countries. The company was formerly known as Hiap Seng Engineering & Construction Pte Ltd. and changed its name to Hiap Seng Engineering Ltd in June 1999. Hiap Seng Engineering Ltd was founded in 1950 and is headquartered in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=510)

Q1. As noted in the Chairman’s Statement (pages 2 & 3 of the annual report), the operating environment in the oil-and-gas and petrochemical industries remained challenging in FY2017 and the group reported a revenue of \$158.5 million for the financial year, a 5.6% dip from \$167.9 million in FY2016.

In particular, in the compression and process equipment fabrication segment, revenue decreased by two-thirds from S\$24.3 million in FY2016 to S\$8.2 million in FY2017 “due to the slowdown in business activities in the segment amid prolonged downturn in the offshore sector”. The group’s subsidiary, HS Compression & Process Pte Ltd, has seen its losses increase from \$(1.6) million in FY2015, to \$(4.5) million in FY2016 and to \$(5.8) million in FY2017.

a) Other than cutting operating costs to streamline its operations (as mentioned in the Chairman’s Statement), what are management’s pro-active plans to increase the revenue and margins?

It was also mentioned that the group is “exploring other regional business opportunities and expects the percentage revenue contribution from Singapore to decline in the long term”.

It is noted that, during the financial year, the company has incorporated a new wholly owned subsidiary in the UAE, Hiap Seng Engineering Limited FZE, with the principal activities of “Provision of engineering services and plant Maintenance” (page 71).

b) Can the company share its overseas expansion plans? What are the strategic markets that the company is exploring?

c) In terms of diversifying the sources of revenue, what would be the targeted long-term contribution of Singapore (versus other foreign markets)?

Q2. Resolution 3 in the Notice of Annual General Meeting is to re-elect Dr John Chen Seow Phun as a director retiring pursuant to Article 91 of the Company’s Articles of Association. Dr Chen was first appointed to the board on 18 September 2002 and thus has been a director of the company for nearly 15 years.

In the Corporate Governance Report (page 77), Dr Chen’s is shown to be holding 7 directorships in other listed companies. The 7 other companies (not including Hiap Seng) are:

- OKP Holdings Limited
- Hanwell Holdings Ltd
- Matex International Limited
- Tat Seng Packaging Group Ltd
- HLH Group Limited
- Fu Yu Corporation Limited
- Pavillon Holdings Ltd

a) Even though the company has not prescribed a maximum limit on the number of listed company representations, can Dr Chen help shareholders understand how he has been able to commit sufficient time, resources and energy to the company? Dr Chen is also the Chairman of the company’s audit committee and a member of the remuneration committee. He also sits on many of the board committees on other listed companies, and is the Deputy Chairman for some other listed companies too.

Q3. As disclosed in the Corporate Governance Report (page 78), Dr John Chen Seow Phun, Mr Koh Kim Wah and Mr M. Rajaram have served on the Board for more than nine years. Dr Chen, Mr Koh and Mr Rajaram were first appointed to the board on 18 September 2002, 28 July 2005 and 28 July 2005 respectively.

The Nominating Committee (comprises Mr M. Rajaram (as chairman), Mr Tan Ah Lam and Mr Koh Kim Wah) has the function of conducting the review of the independence of any director who had served on the board beyond nine years from the date of his appointment.

Notwithstanding that the nominating committee has “confirmed that Dr John Chen Seow Phun, Mr Koh Kim Wah and Mr M. Rajaram remained independent in their judgment and can continue to discharge their duties objectively”, Guideline 2.4 of the Code of Corporate Governance 2012 calls for the board to “also take into account the need for progressive refreshing of the Board”.

- a) **Can the board provide more detail on its plans to ensure the progressive refreshing of the board?**
- b) **Please also disclose the company’s search and nomination process for new independent directors.**