

**Issuer:** Falcon Energy Group Limited

**Security:** Falcon Energy Group Limited

**Meeting details:**

Date: 29 December 2017

Time: 9.30 a.m.

Venue: TRN Centre, 10 Anson Road #19-14, International Plaza, Singapore 079903

**Company Description**

Falcon Energy Group Limited, an investment holding company, provides services to oil companies and contractors worldwide. The company operates through four segments: Marine, Oilfield and Drilling Services, Oilfield Projects, and Resources. The Marine segment owns and operates a fleet of vessels, including accommodation work barges, multi-functional support vessels, seismic vessels, anchor handling tug and offshore supply vessels, and harbour tugs vessels. This segment offers platform supply and engineering services, such as offshore hook-up and commissioning, offshore conductor piling, hydraulic work-over/coiled tubing/well stimulation, and pipe trenching services for the production phase of oil and gas projects. The Oilfield and Drilling Services segment provides agency, logistics, procurement, and general support and drilling services to oil companies, oil and gas contractors, and shipyards; engineering and consultancy services for the construction of oil rigs and offshore support vessels; and sources spare parts and machineries. It also trades in oil; and owns and operates oil rigs. The Oilfield Projects segment undertakes various projects for oil companies. This segment also offers shipping and transportation services; sells demulsifiers; and provides international trade, logistics, and oilfield services of engineering, technical, and consultation, as well as shipping agency services for offshore oilfield explorations, construction, and marine transportation. The Resources segment engages in coal mining and trading activities. It owns interests in three coal concessions in East Kalimantan, Indonesia. The company also offers project management, and marketing and business development services; imports, exports, and trades in oil and gas field equipment and marine equipment related accessories; and operates as a bareboat charterer and ship manager. Falcon Energy Group Limited was incorporated in 2004 and is based in Singapore.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=5FL](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5FL))

**Q1.** The Independent Auditor of the company has included in their Independent Auditor's Report the basis for the Qualified Opinion and Material Uncertainties. As disclosed in Note 7(a) to the financial statements (page 98 of the annual report), the group has an outstanding trade receivable balance from a debtor amounting to US\$62,884,000 before allowance of US\$22,884,000.

The Independent Auditor has also added that:

*We were not provided with sufficient appropriate audit evidence as to the basis of the allowance for doubtful debts. As there were no other practicable alternative audit procedures that we could perform, we were not able to conclude on the validity of the trade receivable from the debtor and whether the allowance for doubtful debt is adequate and not excessive. Consequently, we were unable to determine whether any adjustments might be necessary in respect of the trade receivable in the accompanying financial statements for the financial year ended June 30, 2017.*

- a) **Can management elaborate further and justify why it is of the view that "the allowance amount is adequate and not excessive based on their best estimates"?**
- b) **Can management also provide an update to the discussion with the third party to recover the outstanding amounts?**

In the Directors' Statement (pages 38-43), the directors have stated that, in their opinion, *"the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company as set out on pages 50 to 149 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at June 30, 2017 and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended June 30, 2017"*.

- c) **Given that the Independent Auditors have included a Qualified Opinion related to the doubtful debt, can the directors elaborate further and justify how they have arrived at their opinion that the consolidated financial statements give a true and fair view of the financial position of the group and of the company as at 30 June 2017?**

**Q2.** In addition, the Independent Auditors have highlighted material uncertainties related to going concern and drew attention to Note 1 to the financial statements which indicates that as at June 30, 2017, the *"Group reported a net current liabilities position of US\$116,121,000 and incurred loss before tax of US\$173,788,000. The Company reported a net capital deficiency of US\$100,498,000"*.

In the Directors' Statement (pages 38-43), the directors have stated that, as at the date of the Directors' Statement, there are reasonable grounds to believe that the Company will be able to pay its debts when they fall due based on:

- I. *the continuous financial support from key shareholders; and*
- II. *on the basis of the successful negotiation and completion of matters as described in Note 1 of the financial statements*

- a) **Can the board help shareholders understand the level and the form of financial support provided by the "key shareholders"?**

The directors and management have stated that they believe that *"there is reasonable likelihood that a Debt Restructuring can be successfully achieved"* (page 58).

- b) **Can management provide any tentative timeline for the debt restructuring?**
- c) **What is the basis for the directors' belief that the debt restructuring can be successfully achieved?**
- d) **How are the directors actively assisting the group in the debt restructuring discussion? What is the role played by the independent directors?**

**Q3.** Mr. Lim Kuan Meng was appointed a director of the company on 8 March 2015. On 1 November 2017, the company announced the cessation of Mr. Lim Kuan Meng as an independent director. The reason for Mr. Lim's cessation was "to pursue other interests".

Following the cessation of Mr. Lim who was the chairman of the nominating committee (NC) and member of the audit (AC) and remuneration committees (RC), all three board committees have just two members each.

- a) **While the company has stated that it will "endeavor to appoint a suitably qualified candidate" to the board committees, can the company let shareholders know the progress made in identifying a new independent director?**
- b) **What is the company's search and nomination process for new directors, especially independent directors?**