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GST Reg No: M90367530Y

Issuer: Hiap Seng Engineering Ltd

Security: Hiap Seng Engineering Ltd

Meeting details:

Date: 27 July 2018

Time: 10.00 a.m.

Venue: Conference Room, 28 Tuas Crescent, Singapore 638719

Company Description

Hiap Seng Engineering Ltd provides building construction, engineering, procurement, construction, and plant maintenance services for oil and gas, and energy sectors in Singapore, Malaysia, Thailand, the People's Republic of China, Vietnam, and internationally. The company operates in two segments, Plant Construction and Maintenance, and Compression and Process Equipment Fabrication. It offers engineering, procurement, and construction services, including process and metering skids, modular compression, process equipment installation, pressure vessels, process piping, and tanks and terminals services for the oil and gas, petrochemical and chemical, power and utilities, and pharmaceutical industries. The company also provides routine daily maintenance, total integrated plant maintenance, and turnaround maintenance services in the refineries, petrochemical/chemical complexes, pharmaceutical, and power/utilities plants; and process and industrial plant engineering, and consultancy services. 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)

1. Would the board/management provide shareholders with better clarity on the following operational and financial matters? Specifically:

- (i) **Automation:** The chairman has disclosed that the group will be making investments in automating processes and machinery to reduce reliance on foreign workers and improve its productivity and quality of work. What is the expected capital investment? **Can management quantify the targeted costs savings and the increase in productivity?**
- (ii) **Gearing:** As the company reports its third loss in the last financial year, the group's total equity has dipped to \$42.8 million. Coupled with a net debt of \$8.4 million (from a net cash position in the last financial year), the gearing ratio as at 31 March 2018 jumped to 17%. The group has been in a net cash position for three years prior to FY2018. **Has the board set a maximum gearing? With equity of \$42.8 million and a cash level of \$6.7 million as at 31 March 2018, would the company be looking to raise equity to strengthen its financial position?**
- (iii) **ProEn:** **Has the group completed the integration of ProEn Scaffold into the group's operations since the acquisition? What are the expected synergies and how much of these synergies have been realised? When will ProEn be expected to turnaround and break even?**
- (iv) **Thailand:** Despite an increase in the revenue generated from Thailand, the group's losses widen in 2018. An impairment of \$4.44 million attributable to the goodwill of the Thailand cash generating unit was recognised. **Can management help shareholders understand the specific challenges in Thailand?**
- (v) **Strategic review:** **Given that the group's total equity has decreased to \$42.8 million, and the group reported a loss before tax of \$(19.1) million, does the board consider it opportune to carry out a strategic review of the group's operations, including a review of its business model, key markets and the group's competitive strengths (including its management team)?** This is especially critical as revenue generated from the core market of Singapore dropped by more than 40% in 2018.

2. On 25 August 2017, the company announced the appointment of Dr. John Chen Seow Phun ("Dr. John Chen") as the Lead independent director of the company with effect from 28 August 2017.

The profile of Dr. John Chen is shown below (reproduced from page 84)



Director	Position	Date of Initial Appointment	Date of Last Re-Election	Membership of Board Committee	Directorship/ Chairmanship both present and those held over the preceding three years in other listed company
Dr John Chen Seow Phun	Lead Independent Director	18 September 2002	28 July 2017	Chairman of Audit Committee Member of Remuneration Committee	<u>Present</u> 1. OKP Holdings Limited 2. Hanwell Holdings Ltd 3. Matex International Limited 4. Tat Seng Packaging Group Ltd 5. HLH Group Limited 6. Fu Yu Corporation Limited 7. Pavillon Holdings Ltd <u>Past three years</u> NIL

(Source: Company annual report)

- (i) Can the board elaborate on the roles and responsibilities of the “Lead independent director”?**
- (ii) Can the board help shareholders understand how Dr. John Chen was picked as the Lead independent director?**

As disclosed, Dr. John Chen is the Executive Chairman of Pavillon Holdings Ltd, and the Chairman of SAC Capital Pte Ltd (page 94). In addition, Dr. John Chen is also the chairman of Matex International Limited and Fu Yu Corporation Limited; Deputy Chairman of Hanwell Holdings Ltd and Tat Seng Packaging Group Ltd; and a Director of OKP Holdings Limited and Hong Lai Huat Group Limited.

- (iii) Can Dr. Chen help shareholders understand his commitment to the company as the lead independent director?**
- (iv) With so many appointments on listed companies, including executive chairman, how is Dr. Chen able to devote sufficient time, energy and attention to matters of the company, especially as he is now appointed as lead independent director?**
- (v) Would Dr. Chen be considering a review his portfolio and responsibilities with his appointment as the lead independent director of the company?**

3. Also in the Corporate Governance Report, the company has disclose that to enhance greater transparency and good corporate governance, the Company with the recommendation of NC has engaged RHTLaw Taylor Wessing LLP, an independent professional consultant to conduct rigorous review of self-assessment, evaluation on the independence of Dr John Chen Seow Phun, Mr Koh Kim Wah, Mr M. Rajaram.

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.

As such, Guideline 2.4 of the 2012 Code of Corporate Governance recommends that the independence of any director who has served on the board beyond nine years from the date of his first appointment should be subject to particularly rigorous review.

- (i) Would the company disclose how it had shortlisted and selected the independent professional consultant?**
- (ii) What were the fees paid to the consultant?**
- (iii) Is the company going to continue with the practice of engaging an independent professional consultant to conduct the rigorous review of self-assessment and evaluation on the independence of the long tenured director so long as they remain on the board?**
- (iv) Notwithstanding that NC agreed and confirmed that all three directors are considered independent, what are the board's near-term plans to refresh the board membership progressively and in an orderly manner, to avoid losing institutional memory?**

A copy of the questions for the Annual Report for the financial year ended 31 March 2017 could be found here:

https://sias.org.sg/index.php?option=com_qaannualreports&view=qareports&filter_company=241

The company's response could be found here: -----