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**Issuer:** Hai Leck Holdings Limited

**Security:** Hai Leck Holdings Limited

**Meeting details:**

Date: 19 October 2018

Time: 10.00 a.m.

Venue: 47 Tuas View Circuit, Singapore 637357

**Company Description**

Hai Leck Holdings Limited, an investment holding company, provides engineering, procurement, and construction project services and maintenance services to the oil and gas, petrochemical, pharmaceutical, and utilities industries in Singapore. The company operates through three segments: Project Services, Maintenance Services, and Contact Centre Services. It offers mechanical engineering services in structural steel, and piping fabrication and installation, as well as in plant equipment installation, maintenance, modifications, and repairs to oil refinery, petrochemical, chemical, and power plants. The company also provides scaffolding services that are related to erection of scaffolds used to support workmen in the construction or repair of buildings and other large structures; corrosion prevention services using high pressure blasting equipment and cleaning processes to remove surface contaminants before the application of a coat of paint onto clean surfaces of metal structures; thermal protection and insulation services; and refractory and passive fireproofing services, as well as general civil engineering services. In addition, it offers maintenance services on routine and turnaround basis; and call center, telecommunication, and information technology services, as well as asset management, and business and management consultancy services. Further, the company is involved in trading and contracting for thermal insulations, refractories, and fire-protection for steel structures. Hai Leck Holdings Limited was founded in 1975 and is headquartered in Singapore.

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

1. As mentioned in the chairman's statement (page 3 of the annual report), the group's performance was bolstered by new projects valued at approximately \$28 million principally awarded by an existing customer. Despite that, the group's project revenue dropped by a third to \$37.1 million and the segment profit of \$282,000 in FY2017 turned into a segment loss of \$(1.51) million in FY2018. A summary of the group's revenue, profit and segment results is shown below:

	FY2012	FY2013	FY2014 (restated)	FY2015	FY2016	FY2017	FY2018
Revenue (S\$' M)	88.3	143.1	130.8	119.4	104.1	109.3	87.7
Net profit (S\$' M)	3.9	14.0	17.4	10.8	12.8	7.9	1.4
Project revenue (S\$' M)	46.6	91.7	86.9	25.6	39.9	58.6	37.2
Segment profit/(loss) (S\$' M)	2.2	11.3	11.4	0.9	3.1	0.3	(1.5)
Maintenance revenue (S\$' M)	38.4	46.0	42.2	81.1	52.3	41.5	41.7
Segment profit/(loss) (S\$' M)	2.9	3.9	10.3	14.5	8.4	6.5	0.5

(Source: Company annual report)

- (i) **Can management provide shareholders with better visibility on the opportunities they see in the oil and gas industry in the next 1-2 years?**
- (ii) **In the past few years, as customers cut back and delay on big ticket EPC projects, how has the company adapted to the more competitive environment to secure more projects?**
- (iii) **What is the utilisation of the group's workforce and fabrication facilities?**
- (iv) **Can management elaborate further on the specific reason(s) for the segment loss of \$(1.51) million for the Project Services segment in FY2018?**

As noted in the Corporate Profile, the group has has presence in Singapore, Malaysia and Thailand.

- (v) **Can management elaborate further on the group's operations in Malaysia? What are the growth prospects of the Malaysian operations?**

- (vi)** In addition, the group's joint venture in Thailand also reported significantly lower revenue and the JV has reported a loss in the financial year as well. **Can management help shareholders understand who is in charge of the day-to-day running of the JV? What are the specific reasons for the loss? What is the split of revenue of the JV by project services and by maintenance services?**

2. At the company's annual general meeting scheduled to be held on 19 October 2018, the company is seeking shareholders' approval for the payment of additional directors' fees of S\$20,625 for the financial year ended 30 June 2018.

Shareholders had approved the directors' fees of \$200,000 at the AGM held on 26 October 2017.

- (i)** As no explanation notes were given in the Notice of annual general meeting, could the company explain in greater detail why it is seeking additional directors' fees?

Similarly, resolution 6 in the Notice of annual general meeting seeks shareholders' approval for the payment of directors' fees amounting to \$245,000. This is an increase from the \$200,000 level that has been paid out to directors in the past years.

- (ii)** While the level of directors' fees does not appear to be excessive, would the board provide better clarity on reason for the increase in director fees? Would the increase of \$45,000 (and the additional fees mentioned above) be related to the re-designation of the Deputy chief executive officer/executive director to non-executive director?

Separately, as shown in Note 31 (page 84 – Related party information: Sales and purchase of services), the provision of consultancy services by a director amounted to \$109,000 in FY2018, up from \$36,000 in FY2017.

Under section 7 of the Corporate Governance Report (page 34), it was disclosed that Ms Cheng Li Chen received \$109,000 which was reported as an interested person transaction as defined in Chapter 9 of the Listing Manual of the SGX-ST).

- (iii)** Would the board/audit committee help shareholders understand the scope of the consultancy services provided? What was the reason for the substantial increase in the consultancy fees?

3. The board comprises seven directors of whom two are executive directors (including the chairman), two non-executive non-independent directors and three independent directors.

As stated in the Corporate Governance Report, the chairman, the chief executive officer and the two non-executive non-independent directors are immediate family members.

The nominating committee (NC) has disclosed that the composition of the board does not meet the recommendation of the code that independent directors make up half of the board if the chairman of the board is not an independent director. It further stated that:

*The NC will continue to assess annually on the need to change the board composition so that the number of independent directors will make up at least half of the Board.*

- (i) While the NC has assessed that there is no need to have independent directors make up at least half of the board as recommended by the 2012 Code of Corporate Governance (Code), has the NC evaluated and determined the additional value that a board with a stronger independence element can create?**
- (ii) Would the NC reconsider the deviation from the Code and evaluate how it could reconstitute the board such that independent directors make up at least half of the board?**

All three independent directors, namely Mr Tan Sim Cheng, Dr Low Seow Chay and Mr Chee Teck Kwong Patrick, were appointed on 5 June 2008. As recommended by the Code, 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.

- (iii) Can the board help shareholder recall if it has appointed any independent directors to its board since its listing in August 2008?**
- (iv) What is the search and nominating process for directors, especially independent directors?**

On page 21, it was disclosed that, inter alia, the amount of experience and wealth of knowledge that a director brings to the company was used in the determination of a director's independence.

Further, in considering whether an Independent Director who has served on the Board for more than nine (9) years is still independent, the Board has taken into consideration the following factors:

- (i) **The considerable amount of experience and wealth of knowledge that the Independent Director brings to the Company;**

(Source: Company annual report; emphasis added)

- (v) Would the board help shareholders understand how is the amount of experience and knowledge of a director an important factor in his/her independence? What is the correlation between knowledge/experience and independence?**
- (vi) Given that all three members of the NC are each subject to the particularly rigorous review of his own independence, how effective was the NC in the discharging its duties?**



In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance (“2018 Code”). As a consequence of the revised 2018 Code, the Singapore Exchange will be making amendments to its Listing Rules. The Listing Rule changes will come into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022.

**(vii) As all three independent directors have been appointed to the board for more than 9 years, what are the company’s plans to refresh the board membership progressively and in an orderly manner, to avoid losing institutional memory?**

**Additional comment:**

In the Corporate Governance Report, the company affirmed the importance of actively engaging with stakeholders to promote effective and fair communication (page 32). In the review of the annual report, it is noted that there is limited information to help shareholders to get a balanced and understandable assessment of the company’s performance, position and prospects. For example, as pointed out in the questions above, little was said about the group’s operations in Malaysia and Thailand. There is hardly any information presented to shareholders on the contact centre services segment which was the major profit contributor in the year. **Would the directors consider a review of the annual report and improve the quality of future annual reports?**

A copy of the questions for the Annual Report for the financial year ended 30 June 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Hai%20Leck%20Holdings%20Ltd>

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