

**HIAP SENG ENGINEERING LTD.
(JUDICIAL MANAGERS APPOINTED)**
(Company Registration No. 197100300Z)
(Incorporated in the Republic of Singapore)

**RESPONSE TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION
(SINGAPORE) IN RELATION TO THE ANNUAL GENERAL MEETING TO BE HELD ON
2 DECEMBER 2022**

Hiap Seng Engineering Ltd (Judicial Managers Appointed) (the “**Company**” and together with its subsidiaries, the “**Group**”) refers to the notice of Annual General Meeting (“AGM”) released by the Company on 17 November 2022 in relation to the Company’s AGM to be held by electronic means on 2 December 2022 at 2.00 p.m.

The Company would like to provide responses to questions from the Securities Investors Association (Singapore) (“SIAS”) ahead of the AGM as follow. The Company did not receive any questions from shareholders as at the deadline stated in the notice of AGM.

Question 1

- (i) **What is the current size of the Group work force?**

Company’s Response:

The Group currently has around 400 employees

- (ii) **Have the Group’s major customers scaled back their scope of work with the Group? If so, how will the Group be winning back the jobs and contracts?**

Company’s Response:

Some of the Group’s customers has scaled back or limited the amount of work awarded to the Group due to its status under Judicial Management Order (JMO). Nevertheless, the Group has continued to deliver quality service to customers’ satisfaction. As a result, the Group has successfully renewed or extended contracts with major customers during JMO. The Group will continue its focus on providing quality service, and building on its reputation as a preferred main contractor. By doing so, the Group is also optimistic that upon completion of the restructuring exercise, new or existing customers will have greater confidence in awarding jobs and contracts in lieu of the Group’s improved financial status.

- (iii) **How much capital is needed for the investment into automation and machinery? How will the Group be funding this investment?**

Company’s Response:

The Group is currently focusing on completing the restructuring exercise and this will be further evaluated upon completion of the Proposed Transaction.

- (iv) **When will the Company be releasing its updated financial statements? What is causing the delay?**

Company’s Response:

The Group has released its FY2021 annual report on 17 November 2022. There was a delay as the auditors of the Group requested for more time to finalise the audit for FY2020 and FY2021.

As at the date of this announcement, the unaudited financial results for the full year ended 31 March 2022 and the half year ended 30 September 2022 have been released on 27 November 2022.

- (v) **When will the Company be ready to submit a resumption proposal to the SGX-ST? What are the outstanding milestones?**

Company's Response:

The Company is planning to submit the resumption proposal to the SGX-ST by mid December 2022.

Question 2

- (i) **Can the Company help shareholders better understand if the \$8 million in capital injection (prior to the exercise of the options) would be sufficient to fund the Group's operations and growth?**

Company's Response:

The proceeds from the Proposed Subscription will be utilised for the partial settlement in cash of the principal amounts and interests under the loans owing to the secured principal lender, UOB. With the completion of the Proposed Transaction, Scheme of Arrangement and execution of restructuring deed, the Directors/JMs and the management believe that the Group is able to generate sufficient cash flows from its operating activities to meet its liabilities. In addition, the Group also plan to undertake a rights issue exercise to raise up to \$3.3 million upon completion of the Proposed Transaction. In this respect, the Group believes that its liabilities and working capital needs can be met as and when they fall due in the next 12 months.

- (ii) **How was the subscription price of S\$0.00543 per subscription share determined? It is envisaged that the new subscribers will acquire 47.1% of the enlarged share capital after the subscription of \$8 million.**

Company's Response:

This will be disclosed in the Circular in relation to the Proposed Transaction, which will be submitted along with the resumption proposal to SGX for consultation. Once the Circular is approved and finalised, it will be circulated to shareholders.

- (iii) **Separately, who is leading the debt restructuring with the Company's principal banker (UOB) and the other unsecured creditors? What progress has been made?**

Company's Response:

As announced on SGX-ST, the Company entered into a restructuring deed with UOB and the Subscribers on 18 August 2022. The Scheme of Arrangement proposed with the unsecured creditors was approved by the creditors and duly sanctioned by the High Court of Singapore on 29 August 2022.

- (iv) **When will the Company be announcing the details of the proposed rights issue? How does the Company/board ensure that long-standing shareholders of the Company do not suffer undue dilution?**

Company's Response:

The Group plans to undertake a rights issue exercise to raise up to \$3.3 million upon completion of the Proposed Transaction. Further details will be provided once this exercise is undertaken.

Question 3

- (i) **Can the long-tenured director help shareholders better understand his contributions to the Company and his effectiveness as a director in creating long-term, sustainable value for shareholders? As noted above, the director was appointed to the board in September 2002 and from March 2003 to March 2021, the Group has lost \$64.3 million in shareholders' equity.**

Company's Response:

The Company's financial difficulties arose due to the declining crude oil prices which were on a downwards trend for various reasons, including a range of geo-political and economic conditions. This affected the Company's business as it is dependent on the economic sentiments surrounding crude oil prices.

The Company observed an increasing frequency in work stoppages, spending cuts at the energy companies, cancellation of projects in the oil and gas industry and the extension, or even suspension, of construction timelines. The Company had also observed a generally increasing reluctance of lenders in the Singapore market to provide financing to the oil and gas industry. In April 2019, the Company began to observe a shortening of its invoice financing facility due to the drop in new invoices, as well as restrictions in the grant of new facilities.

Against this backdrop, the Company observed a significant shrinkage in the number of plant construction projects, lower bids and thinner margins, as well as a weakened cashflow and weakened credit terms from supplier and counterparts. This, in turn, affected the cashflow position of the Company and its subsidiaries.

- (ii) **Why is the Company seeking the re-election of the directors, including the continued appointment of Dr John Chen Seow Phun, Mr Koh Kim Wah and Mr M. Rajaram as independent directors, when the Company is under judicial management and that the directors' powers and duties have been transferred to the judicial managers?**

Company's Response:

Even though the Company is under judicial management, these current directors remain as officers of the Company and the Judicial Managers also consult them from time to time on financial and operational matters.

- (iii) **Can the board/nominating committee elaborate on efforts by the Company in board renewal given that the Code of Corporate Governance was updated more than 4 years ago in 2018 by the Monetary Authority of Singapore and that the MAS had already provided a transition period for companies to meet the provisions of the Code?**
- (iv) **Notwithstanding that the Company is under judicial management, would the continued appointment of the long-tenured directors impede/delay the progressive renewal of the board?**
- (v) **Given the current net liability position of the Group, would it be beneficial for the Company, and especially for minority shareholders, to refresh and reconstitute the board with new directors who have a proven track record of creating long-term sustainable value for shareholders and/or turning around companies in the oil & gas/engineering industry?**

Company's Response to Question 3 (iii), (iv) and (v):

A condition precedent of the Proposed Transaction is the nomination by the Subscribers of such number of directors to form the Board of the Company. This will be disclosed in the Circular in relation to the Proposed Transaction, which will be submitted along with the

resumption proposal to SGX for consultation. Further details will be provided once the Circular is approved and finalised which will be circulated to the shareholders.

Oon Su Sun and Lin Yueh Hung
Joint and Several Judicial Managers
28 November 2022

The affairs, business and property of the Company are being managed by the Judicial Managers appointed by the High Court of Singapore. The Judicial Managers contract and only act as agents of the Company and disclaim all personal liability of any nature whatsoever for all matters arising out of, in connection with and in respect of the Judicial Management of the Company herein.