



Securities Investors Association (Singapore)

7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111

Tel: (65) 6227 2683 Fax: (65) 6220 6614

Email: admin@sias.org.sg www.sias.org.sg

UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: Hiap Seng Engineering Ltd

Stock code: 510

Meeting details:

Date: 2 December 2022

Time: 2.00 p.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. As noted in the chairman's statement, the group is undergoing a restructuring and it has decided to focus on its Singapore operations and disposed its interest in the UAE subsidiary. Assets in Thailand were also sold and the Thai subsidiary was placed under voluntary liquidation.

The group will focus on opportunities in the plant construction and maintenance including mechanical, civil and electrical & instrumentation for oil-and-gas, petrochemical, pharmaceutical and energy sectors. It has decided to scale down the EPC services and projects for process plants and facilities including storage terminals and for process equipment, gas compressors and FPSO topsides. The group will continue to perform plant maintenance works for oil-and-gas and petrochemical majors.

Further, in the chairman's statement, it was disclosed that the group will still require "some time to recover, which entails increasing the group's manpower, reestablishing business partnerships and gaining a firmer foothold within the industry.

- (i) **What is the current size of its work force?**
- (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?**
- (iii) **How much capital is needed for the investment into automation and machinery? How will the group be funding this investment?**

On 9 November 2022, the company released its unaudited interim financial statements for the six months ended 30 September 2021.

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

Trading of the company's shares was voluntarily suspended about three years ago on 28 November 2019.

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

Q2. On 7 January 2022, the company announced a conditional subscription agreement in which certain subscribers would subscribe for new shares in a new listed entity for a principal amount of \$8 million along with unlisted share options.

The longstop date was extended to 31 May 2023 on 15 August 2022.

- (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?**
- (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.
- (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?**
- (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?**

Q3. At the annual general meeting scheduled to be held on 2 December 2022, the company is proposing to re-elect Dr John Chen Seow Phun as a director retiring pursuant to Article 91 of the company's constitution.

Dr John Chen Seow Phun was appointed as an independent director on 18 September 2002. Accordingly, the director has served on the board for more than 20 years. When the director was appointed, shareholders' equity was \$42.6 million as at 31 March **2003**. The company is now under judicial management and the group is a net liability position of \$(21.7) million as at 31 March 2021.

- (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.

Trading of the company's shares has been suspended since 28 November 2019 and the company was placed under judicial management since 2020. The company has stated the following (page 25):

On 15 September 2020, the Company and its subsidiary, HS Compression Pte Ltd (In Compulsory Liquidation) ("HSCP"), were placed under Judicial Management. During this period, all powers conferred and duties imposed on the Directors of the Company by the Insolvency, Restructuring and Dissolution Act 2018 or the Companies Act 1967 or by the constitution of the Company, must be exercised and performed by the Judicial Managers and not by the Directors.

- (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?**

In addition, even as the company is under judicial management, the company stated the following, regarding the proposed two-tier votes on the continued appointment of the independent directors:

The board seeks to strike an appropriate balance between tenure of service, continuity of experience and refreshment of the board. Such refreshment process of the board will take some time and cannot happen overnight in order to maintain stability to the board. Furthermore, the company benefits from such director who has, over time, gained valuable insights into the group, its market and the industry.

- (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?**

Furthermore, on 30 November 2021, Mr Tan Boon Gin, chief executive of Singapore Exchange Regulation (SGX RegCo), gave guidance that companies are expected to use the two-tier rule sparingly to promote renewal and succession planning¹. On 13 September 2022, SGX RegCo further announced that it will consult on hard-coding the 9-year limit for independent directors².

- (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?**

[^]On 1 October 2020, the Accounting and Corporate Regulatory Authority (“ACRA”), the Monetary Authority of Singapore (“MAS”) and Singapore Exchange Regulation (“SGX RegCo”) published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings (“Meetings Order”) would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

¹ <https://www.businesstimes.com.sg/companies-markets/answer-my-question-before-i-vote-sgx-regco-sets-new-timelines-for-companies-to>

² <https://www.sgxgroup.com/media-centre/20220913-sgx-regco-require-9-year-cap-id-tenure-disclosure-directors-and-ceo>

[^] Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (<https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation>)

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

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