

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

**RESPONSE TO SGX QUERIES ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR
ENDED 31 MARCH 2022**

Hiap Seng Engineering Ltd (Judicial Managers Appointed) (the “**Company**”) refers to the queries raised by the Singapore Exchange Regulation (the “**SGX**”) on 12 April 2023 in relation to the Company’s Annual Report for the financial year ended 31 March 2022 (“**Annual Report**”).

1. Listing Rule 710 states that “An issuer must describe in its annual report its corporate governance practices with specific reference to the principles and the provisions of the Code. An issuer must comply with the principles of the Code. Where an issuer's practices vary from any provisions of the Code, it must explicitly state, in its annual report, the provision from which it has varied, explain the reason for variation, and explain how the practices it had adopted are consistent with the intent of the relevant principle.”

It is noted on page 4 of the Chairman’s statement that no Corporate Governance report would be furnished with the Annual Report as the Judicial Managers (the “JMs”) were managing the Group affairs for FY2022. In this regard, please explain how the Company has complied with Listing Rule 710.

While JMs have been appointed over the Company and the powers of the Company Directors have been diminished, there are certain listing rules and provisions of the Code of Corporate Governance 2018 below, which will still be applicable.

Company’s Response:

Following the Judicial Management Order (“**JMO**”) on 15 September 2020, the Judicial Managers were appointed to manage the affairs and business of the Company. Under the Insolvency, Restructuring and Dissolution Act 2018 (“**IRDA**”) Section 99, all powers conferred and duties imposed on the Directors of the Company by IRDA or the Companies Act, or by the constitution of the Company, must be exercised and performed by the Judicial Manager and not by the Directors.

The Company has complied with the principles of the Code, except for the following principles which are not applicable during the JMO period given there are no board meetings, and all powers conferred and duties imposed on the Directors have been exercised and performed by the Judicial Managers:

- Director Orientation and Training
- Board Processes
- Attendance Report of Directors
- Board Composition and Guidance
- Chairman and Chief Executive Officer
- Board Membership

2. Provision 9.2 of the Code of Corporate Governance 2018 (the “Code”) states that:

“The Board requires and discloses in the company’s annual report that it has received assurance from:

- (a) the CEO and the Chief Financial Officer (“CFO”) that the financial records have been properly maintained and the financial statements give a true and fair view of the company’s operations and finances; and
- (b) the CEO and other key management personnel who are responsible, regarding the adequacy and effectiveness of the company’s risk management and internal control systems.”

It is noted that the Company disclosed on page 10 of its 2022 Annual Report that it is in the Board’s opinion that “the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 18 to 83 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 31 March 2022 and the financial performance, changes in equity and cash flows of the Group for the financial year covered by the consolidated financial statements”.

Please disclose whether the Board has received assurance from the Judicial Managers that the financial records have been properly maintained and the financial statements give a true and fair view of the company’s operations and finances.

Please also disclose whether the Board has received assurance from the Judicial Managers and other key management personnel who are responsible, regarding the adequacy and effectiveness of the company’s risk management and internal control systems.

Company’s Response:

No assurance was provided to Board for FY2022 as the Company was under judicial management.

As disclosed in the FY2022 Annual Report, the Judicial Managers have reviewed the balance sheet of the Company and the consolidated financial statements of the Group for the financial year ended 31 March 2022, as well as the Independent Auditor’s Report thereon, for the submission to the Board of Directors. The Board has passed the Directors’ resolution to receive and adopt the Audited Financial Statements of the Company for the financial year ended 31 March 2022 together with the Directors’ Statement and the Auditors’ Report on 16 December 2022.

The Judicial Managers have taken over and are actively involved in the day to day affairs and business of the Company. Accordingly, the Judicial Managers has assessed the Company’s current risk management and internal control systems, and have continued the systems set in place in view of its adequacy and effectiveness.

3. It is noted on page 12 and 13 of the 2022 Annual Report that the Company is independently audited by PricewaterhouseCoopers LLP.

Please disclose as required under Listing Rule 715 or 716, in particular, whether the Company has appointed different auditors for its subsidiaries & associated companies and if so, whether the Judicial Managers are satisfied that such appointment would not compromise the standard and effectiveness of the audit of the Group.

Company's Response:

In FY2022, the Group had appointed different auditors for its overseas subsidiaries or associated companies as well as Singapore incorporated associated companies. The Judicial Managers are satisfied that the appointments would not compromise the standard and effectiveness of the audit of the Group. In appointing the audit firms for the Group, the Judicial Managers are satisfied that the Company has complied with the Listing Rules 715 and 716 of the Listing Manual.

4. **Please provide the information as required under Listing Rule 907** which states that:-

“An issuer must disclose the aggregate value of interested person transactions entered into during the financial year under review in its annual report. The name of the interested person, nature of relationship and the corresponding aggregate value of the interested person transactions entered into with the same interested person must be presented in the following format:—

Name of interested person	Nature of relationship	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
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Company's Response:

The Company has established procedures to ensure that all transactions with interested persons are reported in a timely manner to the Judicial Managers and that the transactions are carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders.

There were no interested person transactions entered into during FY2022.

5. Listing Rule 1207(6)(b) states:- “The annual report must contain enough information for a proper understanding of the performance and financial conditions of the issuer and its principal subsidiaries, including at least the following:— ... (6)(b) Confirmation by the audit committee that it has undertaken a review of all non-audit services provided by the auditors and they would not, in the audit committee's opinion, affect the independence of the auditors.”

Please disclose the aggregate amount of fees paid to the independent auditors, broken down into audit and non-audit services. If there are no audit or non-audit fees paid, please disclose an appropriate negative statement.

Should there have been non-audit services provided, please also provide the confirmation by the Judicial Managers as to whether they have undertaken a review of all non-audit services provided by the auditors and that such non-audit services would not affect the independence of the Auditors.

Company's Response:

The Judicial Managers having reviewed the independence and objectivity of the external auditors, is satisfied with the independence and objectivity of the external auditors. The audit fee and non-audit fee paid to the external auditor, Messrs PricewaterhouseCoopers LLP for FY2021 and FY2022 are as follows:

	Audit fee (S\$)	Non-audit fee (S\$)
FY2021	341,000	nil
FY2022	308,000	nil

6. Listing Rule 1207(10) states:- "The board must comment on the adequacy and effectiveness of the issuer's internal controls (including financial, operational, compliance and information technology controls) and risk management systems. A statement on whether the audit committee concurs with the board's comment must also be provided. Where material weaknesses are identified by the board or audit committee, they must be disclosed together with the steps taken to address them."

Please disclose the commentary by the Judicial Managers, regarding the adequacy and effectiveness of the Company's internal controls, and the bases of such comments. Where there have been material weaknesses identified by the Judicial Managers, please disclose the weaknesses together with the steps taken to address them.

Company's Response:

As disclosed in the FY2021 Annual Report, due to the financial difficulties faced by the Group, the Company did not engage any external internal auditors as the main focus was on the survivability of the Group. This situation remains unchanged in FY2022 as the Company is under judicial management.

Despite the absence of external internal auditors, the Group had appointed several staff for the purposes of monitoring and reviewing to ensure compliance with the Group's policies, internal control and risk management. The Judicial Managers regularly reviews the effectiveness of all internal controls, including operational controls. There were no material weaknesses identified by the Judicial Managers during the financial year under review.

7. Listing Rule 1207(10C) and (10D) state:-
(10C) Audit committee's comment on whether the internal audit function is independent, effective and adequately resourced.
(10D) The names, amounts and breakdown of remuneration paid to each individual director and the chief executive officer by the issuer and its subsidiaries. Such breakdown must include (in percentage terms) base or fixed salary, variable or performance-related income or bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives.

As the Company is under Judicial Management, please disclose the Judicial Managers comments on whether the internal audit function is independent, effective and adequately resourced, to comply with Listing Rule 1207(10C). Please also provide information on whether the head of the internal audit function team has the relevant experience and qualifications. Where the internal audit function is outsourced, please

provide information on the relevant experience of accounting firm and the engagement team.

Company's Response:

As disclosed in the FY2021 Annual Report, due to the financial difficulties faced by the Group, the Company did not engage any external internal auditors as the main focus was on the survivability of the Group. This situation remains unchanged in FY2022 as the Company is under judicial management.

Nevertheless, since the Judicial Managers have taken over and have been actively involved in the day to day affairs and business of the Company, the Judicial Managers had assessed the Company's current internal audit function, which includes risk management and internal control systems, and have continued the systems set in place in view of its adequacy and effectiveness.

Please disclose the information required under Listing Rule 1207(10D), for FY2020 - 2022.

Company's Response:

For FY2020 and FY2021, please refer to page 93 of FY2021 Annual Report.

The following table shows a breakdown of the remuneration of Directors / CEO for FY2022:

Directors/CEO	Total Remuneration	Base Salary^(a)	Variable Payment^(b)	Other Benefits^(c)	Directors' Fees^(d)	Total
	\$'000	%	%	%	%	%
Tan Leau Kuee @ Tan Chow Kuee	185	100	-	-	-	100
Tan Ah Lam	-	-	-	-	-	-
Tan Lian Chew	-	-	-	-	-	-
Dr. John Chen Seow Phun	-	-	-	-	-	-
M. Rajaram	-	-	-	-	-	-
Koh Kim Wah	-	-	-	-	-	-

^(a) Base Salary includes fixed allowance, contractual bonus and employer's CPF contribution.

^(b) Variable Payment includes performance bonus and non-contractual bonus.

^(c) Other Benefits refer to benefit-in-kind such as club and car benefits.

^(d) Independent Directors are paid Directors' fees inclusive of attendance fees, subject to approval at the AGM.

We note that the Company did not disclose the remuneration, the employee relationship with the relevant director, the CEO or substantial shareholder. There were no explanations provided for in the 2022 annual report on how it is consistent with the intent of Principle 8 of the Code.

Please clarify how the practices the Company had adopted are consistent with the intent of Principle 8 of the Code, which requires transparency on the Company's remuneration

policies, level and mix of remuneration, the procedure for setting remuneration and the relationships between remuneration, performance and value creation.

Company's Response:

The annual remuneration of top five Key Management Personnel for FY2022 is as follows:

Key Management Personnel	Base Salary ^(a) %	Variable Payment ^(b) %	Other Benefits ^(c) %	Total %
Below S\$250,000				
Tan Yew Kun	100	-	-	100
Tan Yaw Song	100	-	-	100
Tan Hak Jin	100	-	-	100
Max Tan Phuay Hung	100	-	-	100
Tan Biby Valarie	100	-	-	100

The aggregate amount of the remuneration paid to the abovementioned key management personnel in FY2022 is \$430,512.

The aggregate amount of the remuneration paid to the Directors and top five abovementioned key management personnel in FY2022 is \$615,912.

Remuneration of employees related to directors or substantial shareholders

Apart from Messrs Tan Ah Lam and Tan Leau Kuee @Tan Chow Kuee, there are 5 other employees of the Group who are shareholders of or related to the shareholders of Tan Kuay Hoe Holdings Pte Ltd, a substantial shareholder of the Company. The aggregate remuneration of such employees (excluding remuneration for Mr Tan Leau Kuee @Tan Chow Kuee) for the financial year ended 31 March 2022 was S\$478,323.

In FY2022, the remuneration of Executive Director of the Company and all employees of the Group who are related to any of the Directors or substantial shareholders of the Company are reviewed by the Judicial Managers.

The number of employees who are immediate family members of a Director, and whose remuneration exceed S\$100,000 during the financial year in bands no wider than S\$100,000, is as follows:

Immediate family members	Relationship with director or CEO	Base Salary ^(a) %	Variable Payment ^(b) %	Other Benefits ^(c) %	Total %
S\$100,000 to S\$199,999					
Tan Yew Kun	Brother of Tan Ah Lam and Tan Leau Kuee	100	-	-	100

8. Listing Rule 1207(18) requires that:

(18A) A statement that the issuer has put in place a whistleblowing policy which sets out the procedures for a whistleblower to make a report to the issuer on misconduct or wrongdoing relating to the issuer and its officers.

(18B) An explanation of how the issuer has complied with the following:

- (a) the issuer has designated an independent function to investigate whistleblowing reports made in good faith;
- (b) the issuer ensures that the identity of the whistleblower is kept confidential;
- (c) the issuer discloses its commitment to ensure protection of the whistleblower against detrimental or unfair treatment; and
- (d) the Audit Committee is responsible for oversight and monitoring of whistleblowing.

In this regard, please disclose whether the Company has in place a whistle-blowing policy and an explanation on how the Company/JMs have complied with 1207(18).

Company's Response:

The Judicial Managers have taken over and are actively involved in the day to day affairs and business of the Company. Accordingly, the Judicial Managers had assessed the Company's whistleblowing policy, and have continued to oversee and monitor the whistleblowing policy.

9. It is noted that the cost of services rendered in FY22 declined to \$20.9m, from \$31.4m in FY21 mainly due to a reduction in wages and salaries. **Please explain how the cost of services rendered has reduced so much relative to revenue which decreased to \$27.4m in FY22. Please also explain whether such cost reductions are temporal.**

Company's Response:

The reduction in wages and salaries under cost of services is mainly due to the winding up of several key subsidiaries in FY2022, certain project cost overrun in FY2021, and further cost cutting measures undertaken by the Company. The Company had also undertaken contracts with higher profit margin during the year, as compared to FY2021.

The Company will assess the costing and budgeting as and when new contracts are undertaken.

10. It is noted that Trade and other receivables increased from \$7.2m in FY21 to \$10.3m in FY22, and only \$56k of receivables from related parties in FY22 was impaired compared to \$1.8m in FY21. Per the change in working capital for the cashflow statement, the adjustment for trade and other receivables was (3.0m) in FY22 while it was \$11.5m in FY21.

Please provide the JMs opinion on the methodology and estimates used for the impairment of Trade and other receivables.

Company's Response:

The Judicial Managers have assessed the methodology and estimates used for the impairment of Trade and other receivables as disclosed in Note 29(b)(ii) of FY2022 Annual Report, and are of the view that it is adequate.

Please explain whether there has been any changes in trade credit policies between FY21 and FY22.

Company's Response:

There were no changes in trade credit policies between FY2021 and FY2022.

Please also disclose the aging breakdown of Trade and other receivables.

Company's Response:

Please see below for the aging breakdown of Trade and other receivables for FY2022

S\$'000	Current	1-30 days	31-120 days	Past due over 120 days	Total
Trade receivables*	3,867	935	3,189	1,148	9,083
Other receivables	7	-	-	1,216	1,223

*Aging of the trade receivables was disclosed in FY2022 Annual Report Note 29(b)(ii)

11. It is noted that the Company is in a net liability position as at FY22. While borrowings decreased from \$26.9m in FY21 to \$14.2m in FY22, it is also noted that the Company only has cash of \$11.8m and recorded operating cashflow of \$7.8m.

Please explain the JMs and Board's opinion as well as its underlying bases, on whether the Company will be able to continue as a going concern.

Company's Response:

As disclosed in the FY2022 Annual Report, please refer to Note 2.1 for the basis of the ability of the Group to operate as a going concern

Cautionary Statement

Shareholders, stakeholders and potential investors of the Company are advised to read this announcement and any further announcements made by the Company and the Judicial Managers carefully. Shareholders are also advised to refrain from taking any action with respect to their securities in the Company which may be prejudicial to their interests, and to exercise caution when dealing in the securities of the Company. Shareholders, stakeholders and potential investors of the Company should consult with their financial, tax or other advisers if they have any doubt about the actions they should take.

Further announcements will be made by the Company and the Judicial Managers via SGXNET as and when there are any material developments.

Oon Su Sun and Lin Yueh Hung
Joint and Several Judicial Managers
17 April 2023

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.