

HIAP SENG ENGINEERING LTD

(Company Registration No. 197100300Z)

UNAUDITED SECOND QUARTER AND FIRST HALF FY2020 FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT

1(a). A statement of comprehensive income (for the group) together with a comparative statement for the second quarter and the first half year ended 30 September 2019

	Group			Group		
	2QFY20	2QFY19	Increase/ (Decrease)	1HFY20	1HFY19	Increase/ (Decrease)
	S\$'000	S\$'000	%	S\$'000	S\$'000	%
Turnover	36,202	26,771	35.2%	79,571	62,444	27.4%
Cost of sales	(41,579)	(43,998)	-5.5%	(82,485)	(77,109)	7.0%
Gross loss	(5,377)	(17,227)	-68.8%	(2,914)	(14,665)	-80.1%
Gross loss margin	-14.9%	-64.3%		-3.7%	-23.5%	
Other income	1	-	NA	1	1	0.0%
Administrative costs	(4,634)	(5,083)	-8.8%	(8,742)	(9,630)	-9.2%
Other gain/(loss)- net	611	(324)	NA	787	397	98.2%
Loss from operations	(9,399)	(22,634)	-58.5%	(10,868)	(23,897)	-54.5%
Finance costs	(187)	(170)	10.0%	(400)	(384)	4.2%
Share of loss of associated companies	-	-	NA	(14)	-	NA
Loss before tax	(9,586)	(22,804)	-58.0%	(11,282)	(24,281)	-53.5%
Income tax expense	(4)	(86)	-95.3%	(5)	(84)	-94.0%
Net loss after tax	(9,590)	(22,890)	-58.1%	(11,287)	(24,365)	-53.7%
Items that may be reclassified subsequently to P&L						
Currency translation differences arising from consolidation	(252)	(952)	-73.5%	527	(1,052)	NA
Items that will not be reclassified subsequently to P&L						
Currency translation differences arising from consolidation	13	18	-27.8%	16	1	NA
Total comprehensive loss for the period	(9,829)	(23,824)	-58.7%	(10,744)	(25,416)	-57.7%
Loss attributable to:						
Owner of the parent	(8,505)	(22,302)	-61.9%	(10,610)	(23,699)	-55.2%
Non-controlling interests	(1,085)	(588)	84.5%	(677)	(666)	1.7%
	(9,590)	(22,890)	-58.1%	(11,287)	(24,365)	-53.7%
Total comprehensive loss attributable to:						
Owner of the parent	(8,757)	(23,254)	-62.3%	(10,083)	(24,751)	-59.3%
Non-controlling interests	(1,072)	(570)	88.1%	(661)	(665)	-0.6%
	(9,829)	(23,824)	-58.7%	(10,744)	(25,416)	-57.7%

NM: Denotes not meaningful

Profit from operations included the following:

	Group		Group	
	2QFY20 S\$'000	2QFY19 S\$'000	1HFY20 S\$'000	1HFY19 S\$'000
(a) Other income				
Interest income	1	-	1	1
(b) Other gains/(losses)- net				
Net gain/(loss) on disposal of property, plant and equipment	-	(39)	22	(33)
Currency exchange gain-net	583	(301)	781	400
(d) Depreciation of property, plant and equipment	(1,212)	(1,205)	(2,203)	(2,326)

1(b)(i). A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year

	Group		Company	
	30-Sept-2019 S\$'000	31-Mar-2019 S\$'000	30-Sept-2019 S\$'000	31-Mar-2019 S\$'000
ASSETS				
Current assets				
Cash and cash equivalents	3,365	8,098	1,734	6,512
Trade and other receivables	23,889	25,435	31,339	29,085
Contract assets	12,829	22,285	4,426	17,813
Other current assets	6,524	6,281	888	1,762
	46,607	62,099	38,387	55,172
Non-current assets				
Club memberships	270	270	270	270
Investments in associated companies	283	297	-	-
Investments in subsidiaries	-	-	4,831	5,018
Property, plant and equipment	25,392	26,447	7,590	8,497
Financial assets, at FVOCI	1,307	1,307	1,307	1,307
Deferred income tax assets	57	57	-	-
	27,309	28,378	13,998	15,092
Total assets	73,916	90,477	52,385	70,264
LIABILITIES				
Current liabilities				
Trade and other payables	34,243	36,153	30,788	35,201
Provision for onerous contracts	336	5,852	336	5,852
Contract liabilities	9,928	10,590	1,824	3,414
Current income tax liabilities	22	7	-	-
Borrowings	32,193	29,950	22,803	21,125
	76,722	82,552	55,751	65,592
Non-current liabilities				
Borrowings	311	284	-	-
Deferred income tax liabilities	919	933	478	478
	1,230	1,217	478	478
Total liabilities	77,952	83,769	56,229	66,070
NET (LIABILITIES)/ASSETS	(4,036)	6,708	(3,844)	4,194
EQUITY				
Capital and reserves attributable to the Company's equity holders				
Share capital	36,178	36,178	36,178	36,178
Other reserves	718	191	(1,175)	(1,175)
Accumulated losses	(39,714)	(29,104)	(38,847)	(30,809)
Total	(2,818)	7,265	(3,844)	4,194
Non-controlling interests	(1,218)	(557)	-	-
Total equity	(4,036)	6,708	(3,844)	4,194

1(b)(ii). Aggregate amount group's borrowings and debt securities

	30-Sept-2019		31-Mar-2019	
	Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
Amount repayable in one year or less, or on demand	32,193	-	29,950	-
Amount repayable after one year	311	-	284	-

Details of any collaterals;

The Group's borrowings are secured against certain properties, machineries and fixed deposits of the Group.

1(c). A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year

	Group		Group	
	2Q FY 20 S\$'000	2Q FY 19 S\$'000	1H FY 20 S\$'000	1H FY 19 S\$'000
Cash flows from operating activities:				
Total loss	(9,590)	(22,890)	(11,287)	(24,365)
Adjustments for :				
Depreciation of property, plant and equipment	1,212	2,611	2,203	2,326
Net loss/(gain) on disposal of property, plant and equipment	-	39	(22)	33
Fixed assets written off	-	2	-	2
Share of loss of associated companies	-	-	14	-
Allowance made for impairment of trade and other receivables	-	-	74	-
Foreign exchange adjustments	(523)	(1,162)	46	(271)
Income tax expense	4	86	5	84
Interest expense	187	170	400	384
Interest income	(1)	-	(1)	(1)
Operating cash flow before working capital changes	(8,711)	(21,144)	(8,568)	(21,808)
Changes in working capital				
Contract assets	9,741	(568)	9,455	45,123
Trade and other receivables	(4,128)	13,905	1,471	(37,964)
Other current assets	483	774	(243)	406
Contract liabilities	780	5,710	(662)	2,911
Trade and other payables	(3,867)	2,740	(7,465)	4,581
Cash (used in)/ generated from operations	(5,702)	1,417	(6,012)	(6,751)
Income taxes paid	(2)	(106)	(3)	(101)
Net cash (outflow)/ inflow from operating activities	(5,704)	1,311	(6,015)	(6,852)
Cash flows from investing activities				
Proceeds from disposal of property, plant and equipment	-	136	23	144
Purchases of property, plant and equipment	(202)	(1,385)	(391)	(6,076)
Interest income received	1	-	1	1
Net cash outflow from investing activities	(201)	(1,249)	(367)	(5,931)
Cash flows from financing activities				
Repayments of lease liabilities	(63)	(57)	(105)	(114)
Proceeds from trust receipts creditors	5,322	1,771	9,390	4,959
Repayments of trust receipts creditors	(2,855)	(4,155)	(6,776)	(6,451)
Proceeds from bank borrowings	1,500	4,200	10,013	9,200

Repayment of bank borrowings	(1,375)	(5,600)	(10,763)	(6,700)
Proceeds from AR invoice financing	10,461	6,768	18,542	13,619
Repayments of AR invoice financing	(8,542)	(6,850)	(18,542)	(6,850)
Interest paid	(164)	(170)	(377)	(384)
Net cash inflow/(outflow) from financing activities	4,284	(4,093)	1,382	7,279
Net decrease in cash and cash equivalents held	(1,621)	(4,031)	(5,000)	(5,504)
Effect of exchange rate change on cash and cash equivalents	65	11	92	162
Cash and cash equivalents at beginning of the financial period	4,277	5,361	7,629	6,683
Cash and cash equivalents at end of the financial period	2,721	1,341	2,721	1,341
Cash and cash equivalents represented by:				
Bank and cash balances	3,365	2,082	3,365	2,082
Fixed deposits with financial institutions	-	-	-	-
Less: Bank overdrafts	(644)	(741)	(644)	(741)
Less: Restricted bank deposits	-	-	-	-
	2,721	1,341	2,721	1,341

Reconciliation of liabilities arising from financing activities

	1-Apr-19	Proceeds from borrowings	Principal and interest payments	Non-cash changes		30-Sept-19
	S\$'000	S\$'000	S\$'000	Interest expenses S\$'000	Foreign exchange movement S\$'000	S\$'000
Bank borrowings	16,125	10,013	(10,923)	160	-	15,375
Bank Financing (Trust Receipts)	3,194	9,390	(6,867)	91	197	6,005
Finance lease liability (Hire Purchase)	446	118	(105)	13	8	480
AR Invoice Financing	10,000	18,542	(18,662)	120	-	10,000

	1-Apr-18	Proceeds from borrowings	Principal and interest payments	Non-cash changes		30-Sept-18
	S\$'000	S\$'000	S\$'000	Interest expenses S\$'000	Foreign exchange movement S\$'000	S\$'000
Bank borrowings	12,500	9,200	(6,700)	-	-	15,000
Bank Financing (Trust Receipts)	3,429	4,959	(6,451)	-	1	1,938
Finance lease liability (Hire Purchase)	654	-	(114)	-	1	541
AR Invoice Financing	-	13,619	(6,850)	-	-	6,769

1(d)(i). A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalization issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year

Group	Share Capital	Other Reserves	(Accumulated loss) / Retained Earnings	Total	Non-controlling interests	Total Equity
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
1QFY2020						
As at 1 Apr 2019	36,178	191	(29,104)	7,265	(557)	6,708

Total comprehensive income/(loss) for the period	-	779	(2,105)	(1,326)	411	(915)
As at 30 Jun 2019	36,178	970	(31,209)	5,939	(146)	5,793
2QFY2020						
Total comprehensive loss for the period	-	(252)	(8,505)	(8,757)	(1,072)	(9,829)
As at 30 Sept 2019	36,178	718	(39,714)	(2,818)	(1,218)	(4,036)
1QFY2019						
As at 1 Apr 2018	36,178	2,233	8,346	46,757	(182)	46,575
Total comprehensive loss for the period	-	(100)	(1,397)	(1,497)	(95)	(1,592)
As at 30 Jun 2018	36,178	2,133	6,949	45,260	(277)	44,983
2QFY2019						
Total comprehensive loss for the period	-	(952)	(22,302)	(23,254)	(570)	(23,824)
As at 30 Sept 2018	36,178	1,181	(15,353)	22,006	(847)	21,159

Company	Share Capital S\$'000	Other Reserves S\$'000	Accumulated loss S\$'000	Total Equity S\$'000
1QFY2020				
As at 1 Apr 2019	36,178	(1,175)	(30,809)	4,194
Total comprehensive loss for the period	-	-	(2,387)	(2,387)
As at 30 Jun 2019	36,178	(1,175)	(33,196)	1,807
2QFY2020				
Total comprehensive loss for the period	-	-	(5,651)	(5,651)
As at 30 Sept 2019	36,178	(1,175)	(38,847)	(3,844)
1QFY2019				
As at 1 Apr 2018	36,178	-	12,014	48,192
Total comprehensive loss for the period	-	-	(330)	(330)
As at 30 Jun 2018	36,178	-	11,684	47,862
2QFY2019				
Total comprehensive loss for the period	-	-	(18,276)	(18,276)
As at 30 Sept 2018	36,178	-	(6,592)	29,586

1(d)(ii). Details of any changes in the company's share capital arising rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversions of other issues of equity securities, issue of shares for the cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year

Not applicable.

- 1(d)(iii). To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediate preceding year.**

	FY 2020	FY 2019
Issued & fully paid share capital		
Number of shares as at 30 September and 1 April	303,750,000	303,750,000

- 1(d)(iv). A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.**

Not applicable.

- 2. Whether the figures have been audited or reviewed, and in accordance with which auditing standard or practice**

These figures have not been audited or reviewed.

- 3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter)**

Not applicable.

- 4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied**

The accounting policies have been consistently applied by the Group, and are consistent with those used in the preparation of the financial statements for the financial year ended 31 March 2019 except as disclosed in paragraph 5 below.

- 5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change**

The Group has concurrently adopted SFRS(I) 16 Leases.

- 6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends:**

	Group		Group	
	2Q FY20	2Q FY19	1H FY20	1H FY19
Loss per share (cents) Based on number of ordinary shares on issue (cents)	(2.80)	(7.34)	(3.49)	(7.80)
On fully diluted basis (cents)	(2.80)	(7.34)	(3.49)	(7.80)
Net loss attributable to ordinary shareholders for basic earnings per share (\$'000)	(8,505)	(22,302)	(10,610)	(23,699)
Net loss attributable to ordinary shareholders for diluted earnings per share (\$'000)	(8,505)	(22,302)	(10,610)	(23,699)
Weighted average number of ordinary shares in issue applicable to basic/diluted earnings per share ('000)	303,750	303,750	303,750	303,750

Notes:

(a) The earnings per share ("EPS") is calculated by dividing the consolidated net profit attributable to equity holders of the Company over the weighted average number of ordinary shares in issue during the financial period.

7. Net asset value (for the issuer and group) per ordinary share based on total number of issued shares excluding treasury shares of the issuer at the end of the (a) current period reported on and (b) immediately preceding financial year

	Group		Company	
	30-Sept-19	31-Mar-2019	30-Sept-19	31-Mar-2019
Net asset value per ordinary share (in cents) based on issued share capital as at the end of the period reported on	(0.93)	2.39	(1.27)	1.38

The calculation of the net asset value per ordinary share issued is based on 303,750,000 shares at 30 Sept 2019 (31 March 2019: 303,750,000).

8. A review of the performance of the Group, to the extent necessary for a reasonable understanding of the Group's business. The review must discuss any significant factors that affected the turnover, costs and earnings of the Group for the current financial period reported on, including (where applicable) seasonal or cyclical factors. It must also discuss any material factors that affected the cash flow, working capital, assets or liabilities of the Group during the current financial period reported on

Second Quarter (2QFY2020) Review

The Group's revenue increased by 35.2% from S\$26.8 million for 2QFY2019 to S\$36.2 million for 2QFY2020 mainly due to higher recognition of revenue.

The Group's gross loss decreased by 68.8% from S\$17.2 million for 2QFY2019 to S\$5.4 million in 2QFY2020, mainly due to lower operating costs. The gross loss reported this quarter included provision for liquidated damages and claims amounting to about S\$4 million, which are currently under negotiations with the customer.

The Group's administrative expenses decreased by 8.8% from S\$5.1 million in 2QFY2019 to S\$4.6 million in 2QFY2020. Meanwhile, the Group recorded other gain amounting to S\$0.6 million in 2QFY2020 compared to other loss of S\$0.3 million in 2QFY2019, mainly from the increase in currency exchange gain.

As a result, the Group's net loss attributable to shareholders decreased from S\$22.3 million in 2QFY2019 to S\$8.5 million in 2QFY2020.

First Half (1HFY2020) Review

The Group's revenue increased by 27.4% from S\$62.4 million in 1HFY2019 to S\$79.6 million in 1HFY2020, mainly due to higher recognition of revenue in 1HFY2020.

The Group's gross loss decreased by 80.1% from S\$14.7 million for 1HFY2019 to S\$2.9 million, mainly due to lower operating costs. The gross loss for 1HFY2020 includes provision for liquidated damages and claims amounting to about S\$4 million, which are currently under negotiations with the customer.

The Group's administrative expenses decreased by 9.2% from S\$9.6 million in 1HFY2019 to S\$8.7 million in 1HFY2020.

As a result of the aforementioned factors, the Group's net loss attributable to shareholders decreased from S\$23.7 million in 1HFY2019 to S\$10.6 million in 1HFY2020.

Statement of Financial Position Review

The decrease of S\$1.5 million in trade and other receivables as at 30 September 2019 as compared to 31 March 2019 is mainly due to increase in collections in 1HFY2020.

The decrease of S\$1.9 million in trade and other payables as at 30 September 2019 as compared to 31 March 2019 is in line with the Group's business activities.

The total borrowings of S\$32.5 million as at 30 September 2019 had increased by S\$2.3 million compared to S\$30.2 million as at 31 March 2019.

As at 30 September 2019, the Group's cash and cash equivalents stood at S\$3.4 million as compared to S\$8.1 million as at 31 March 2019.

Working Capital Review

As at 30 September 2019, the Group's current liabilities including borrowings from banks of S\$32.2 million exceeded current assets by S\$30.1 million. Part of the current liabilities comprised contract liabilities of S\$9.9 million which are invoiced to customers but has yet to be recognised as revenue.

In view of the current situation, the Group is embarking on a restructuring and realignment exercise including the disposal of some of its assets. This exercise is expected to free up cash, which is needed as working capital for existing projects, as well as for repayment to existing creditors. The Group has also undergone various costs-cutting measures such as reduction of its headcount and streamlining of its operating processes to improve efficiency and effectiveness.

The Company has appointed a financial consultant to undertake a financial position review and viability assessment of the Group.

Cash Flow Statement Review

As at 30 September 2019, the Group's cash and cash equivalents stood at S\$3.4 million as compared to S\$8.1 million as at 31 March 2019. The Group reported a net decrease in cash and cash equivalents of S\$5.0 million mainly due to net cash used in operating activities of S\$6.0 million, which was partially offset by net cash generated from financing activities of S\$1.4 million.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results

Not applicable.

10. A commentary at the date of announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months

The outlook for process sector of the oil-and-gas industry is showing signs of improvement, which is likely to translate to higher capital expenditure by major customers in the near to medium term. However, the Group continues to face a challenging operating environment with intense competition. The Group has lost some new projects due to the fierce competition and its current financial position.

As at the date of this announcement, the Group's outstanding order book stands at S\$90 million, with approximately 80% to be recognised as revenue in FY2020, while the remaining amount is expected to be recognised by 30 June 2020.

The Board is evaluating and streamlining the Company's business with a view to increasing its cash flow and profitability. In terms of its business, in addition to focusing on its plant construction and maintenance segment for which the Group has a strong track record in, it intends to scale down the engineering, procurement and construction projects. The Company is relooking its manpower requirements and has undertaken a headcount reduction exercise in order to achieve further reductions in costs. The Board is also considering the disposal of some of its assets, including freehold land and buildings in Thailand, as well as leasehold properties in Singapore.

The Company has appointed a financial consultant to review the financial position and viability assessment of the Group. However, at this stage, the Board is unable to conclude if the Group can operate as a going concern.

The Board would like to also highlight that the Group has not recorded in its financial statements, unrealised surplus of approximately SGD67 million on revaluation of its properties, based on valuations carried out as at 31 March 2019.

The Group has also been in preliminary discussions with various strategic parties on possible alliances and corporate exercises. Appropriate announcement(s) will be made once further details are available.

11. If a decision regarding dividend has been made:

(a) Current financial period reported on

Any dividend declared for the current financial period reported on?
Nil.

(b) Corresponding period of the immediately preceding financial year

Any dividend declared for the corresponding period of the immediately preceding financial year?
No.

(c) Whether the dividend is before tax, net of tax or tax exempt. If before tax or net of tax, state the tax rate and the country where the dividend is derived (if the dividend is not taxable in the hands of shareholders, this must be stated)

Not applicable.

(d) Date payable

Not applicable.

(e) Books closure date

Not applicable.

12. If no dividend has been declared/recommendeded, a statement to that effect

No dividend has been recommended for the period ended 30 September 2019.
The Company wishes to reserve adequate resources for the Company's ongoing projects.

13. If the Group has obtained a general mandate from shareholders for interested person transactions ("IPTs"), the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

The Group does not have any interested person transaction and no IPT mandate has been obtained.

14. Statement by Directors Pursuant to Rule 705(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited

The Directors confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors which may render the interim unaudited financial statements of Hiap Seng Engineering Ltd for the second quarter and the first half year ended 30 September 2019 presented in this announcement to be false or misleading in any material aspects.

15. Confirmation of Undertakings from Directors and Executive Officers

The Company has procured undertakings from all its directors and executive officers under Rule 720(1) of the Listing Manual.

By order of the board

TAN HAK JIN
Joint Company Secretary
27 November 2019