



HIAP SENG ENGINEERING LTD

(Incorporated in the Republic of Singapore)
(Company Registration No. 197100300Z)

ANNOUNCEMENT

REPLY TO SGX QUERIES

In response to the SGX's queries dated 1 July 2019 in connection with the Company's announcement for the financial year ended 31 March 2019 released via SGXNet on 28 June 2019, the Board of Directors (the Board) of Hiap Seng Engineering Ltd (the Company) wishes to announce the following :

SGX's Query 1

We note that the Group is in a net current liabilities position of S\$19.97 million. Please provide the following:

- a. The Board of Directors' assessment of the Group's ability to continue operating as a going concern and the bases of the said assessment;
- b. The Board of Directors' opinion as to whether trading of the Company's shares should be suspended pursuant to Listing Rule 1303(3); and
- c. The Board of Directors' confirmation as to whether sufficient information has been disclosed to enable trading of the Company's shares to continue in an orderly manner and the bases for its views.

The Company's Responses

- a. The Company has engaged an independent consultancy firm to prepare cash-flow projections for FY2020 to FY2022 in order to perform liquidity and going concern assessment of the Group. Based on the projections, the Board is of the view that the Group is able to continue as a going concern.

In addition,

- (i) The Group is in active discussions with potential investors as well as financial advisers for additional equity funding.
 - (ii) The general outlook for the process sector of the oil-and-gas industry has shown signs of recovery as the Group has been receiving more job enquiries which the Group is pursuing for new projects. The Group therefore expects to secure more projects with better margins going forward. The Board believes that with the additional projects, the Group will generate sufficient funds for its operational needs.
- b. The Board is of the opinion that trading of the Company's shares should not be suspended pursuant to Listing Rule 1303(3) in view of the above assessment.
 - c. The Board confirms that sufficient information has been disclosed to enable trading of the Company's shares to continue in an orderly manner.

SGX's Query 2

Please elaborate on the Group's financial assets of S\$1.3 million and what they are related to.

The Company's Responses

The Group's financial assets represent an investment in Petroleum Maintenance Services Joint Company, incorporated in Vietnam, which is stated at its fair value of S\$1.3 million as at 31 March 2019.

SGX's Query 3

Please provide a detailed breakdown for the Group's Trade & Other Receivables, an aging schedule and the Board's assessment on the recoverability of the Group's trade receivables and the bases for such an assessment.

The Company's Responses

The detailed breakdown for the Group's Trade & Other Receivables is as follows:

	S\$'000
Trade Receivables	25,334
Other Receivables	<u>348</u>
Total	<u>25,682</u>

Aging analysis of Trade Receivables:

	S\$'000
Less than 60 days	21,241
61 - 90 days	1,548
91 - 120 days	66
121 - 180 days	37
Over 180 days	<u>2,442</u>
Total	<u>25,334</u>

The Board has reviewed the aging analysis, credit worthiness of all of our debtors and their ability to pay us and is confident that the recoverability of the Trade Receivables is not an issue.

SGX's Query 4

Please provide a detailed breakdown for the Group's Trade & Other Payables and provide an explanation for the material variances in each of the line items included in the breakdown of "Trade and other payables".

The Company's Responses

The detailed breakdown for the Group's Trade & Other Payables is as follows:

	31/3/2019	31/3/2018	Variance
	S\$'000	S\$'000	S\$'000
Trade Payables	33,083	20,302	12,781
Other Payables	<u>2,797</u>	<u>4,783</u>	<u>(1,986)</u>
Total	<u>35,880</u>	<u>25,085</u>	<u>10,795</u>

The increase in Trade Payables of S\$12,781k is due to the increase in the number of projects during FY2019 resulting in increased costs of sales.

SGX's Query 5

Please elaborate on what onerous contracts the Group has entered into, what they are related to, how the provision of S\$5.8 million arose, and the bases behind the estimated amount.

The Company's Responses

The provision of S\$5.8 million refers to provision for foreseeable losses in respect of the Group's 3 loss making projects.

SGX's Query 6

Please provide an explanation on why the Contract Assets of the Group fell by 41.7%, as well as why there was an increase of 373.4% in Contract Liabilities of the Group.

The Company's Responses

As set out in paragraph 5 of the Company's Full Year Announcement for the FY2019 made on 28 June 2019, the Group has adopted SFRS(I) on 1 April 2018. As a result, the Group has recognized Contract Assets and Contract Liabilities in its financial statement for FY 2019 and the comparative for FY 2018. As mentioned in paragraph 8 of the Announcement, Contract Assets arose from revenue recognized but yet to be billed to customers whereas Contract Liabilities arose from billings to customers for which revenue has yet to be recognized.

The variances in Contract Assets and Contract Liabilities are due to timing of billings to customers and the recognition of the related revenue.

SGX's Query7

As at 31 March 2019, the Group has secured borrowings of S\$29.95 million payable in one year or less, or on demand. Please elaborate on how the Company intends to repay these borrowings.

The Company's Responses

The bank borrowings of S\$29.95 million as at 31 March 2019, included in current liabilities, are mainly borrowings used to finance working capital of the Group. The repayments of such borrowings are from receipts from customers. Subsequent to 31 March 2019, the Company's banking facilities have been renewed.

SGX's Query 8

We note that the Group's gross loss for FY2019 was mainly due to cost overrun. Please disclose the cost overrun amount.

The Company's Responses

The cost overrun amounted to S\$15.4 million.

SGX's Query 9

The Company had disclosed that the Group's outstanding order book stands at S\$126 million. Please disclose the period by which the order book of S\$126 million is expected to be fulfilled.

The Company's Responses

The order book of S\$126 million is expected to be fulfilled by 30 June 2020.

By Order of the Board

Tan Hak Jin
Joint Company Secretary
3 July 2019