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MUN SIONG ENGINEERING LIMITED

LEAPING TOWARDS A SUSTAINABLE FUTURE WITH RESILIENCE



ANNUAL REPORT 2022

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VISION

We will become the preferred and most trusted turnkey solution provider to customers, colleagues, investors, business partners, and the communities where we work and live.

MISSION

We dedicate ourselves to be the preferred service provider that thrives on cutting edge Technology, Safety, Quality and Competitive Solutions to achieve customer satisfaction.

CORE VALUES

Safety

Quality

Customer Focus

Leadership

Teamwork

CORPORATE PROFILE

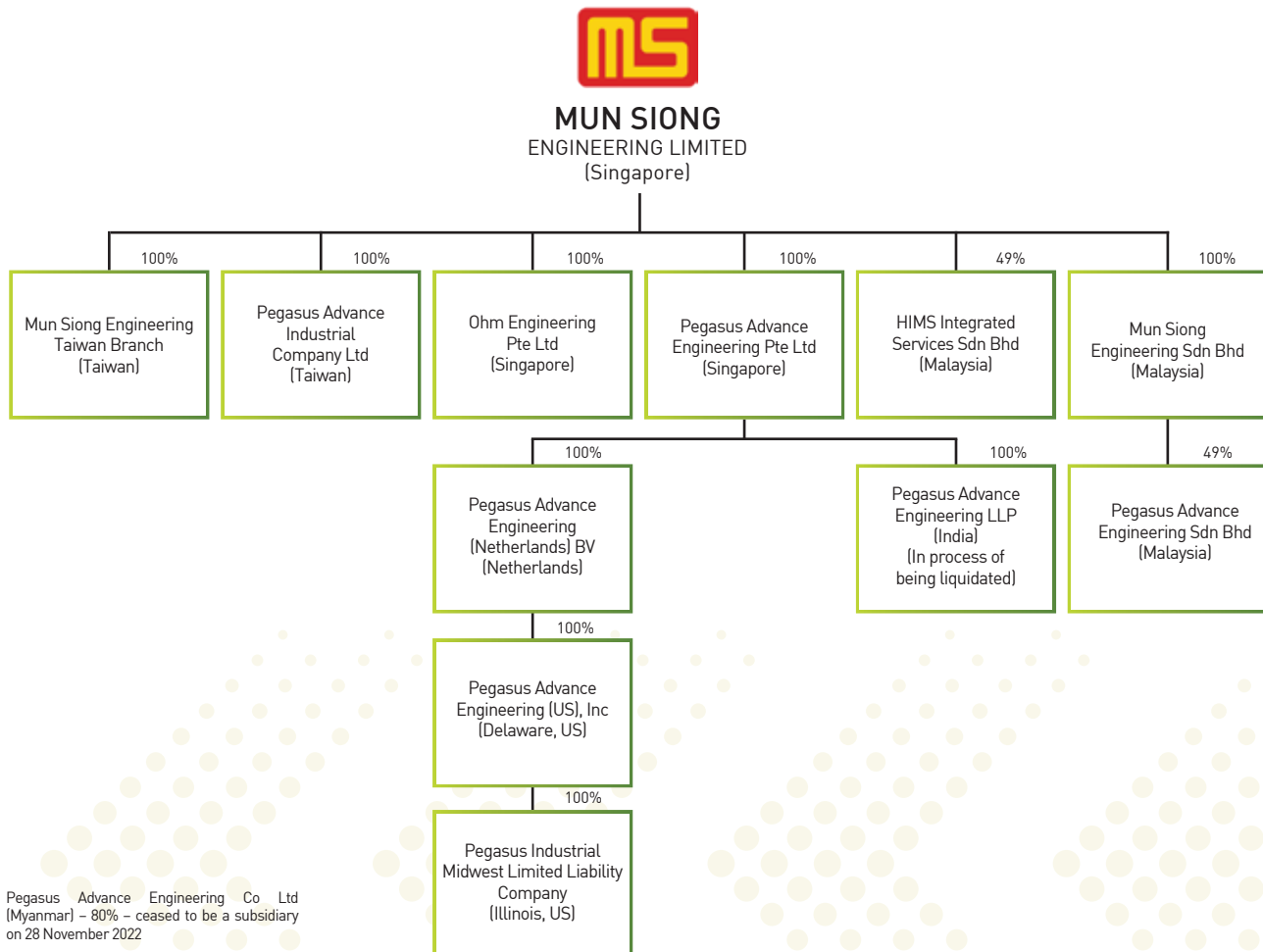
Mun Siong Engineering Limited (“**Mun Siong**”) is an established integrated Turnkey Mechanical Engineering, Plant Maintenance and complete Electrical and Instrumentation (“**E&I**”) service provider, experienced in combining multi-layer technical competencies with an unyielding dedication to safety, efficiency, quality and environmental responsibility. Established in 1969, Mun Siong is an organisation committed to optimising Engineering Design, Fabrication, Installation and Maintenance providing a plant based packaged process solution, with a particular emphasis on competence, professional delivery and value creation through streamlining client centric operations.



CORPORATE ROADMAP



CORPORATE STRUCTURE

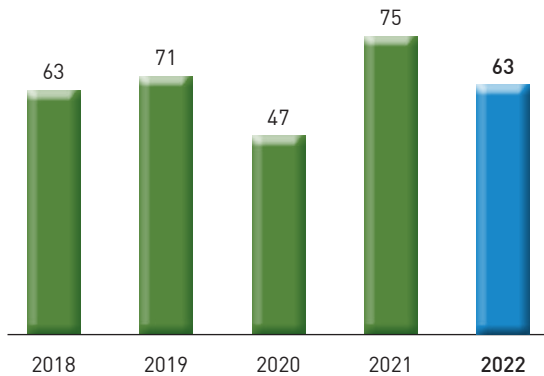


OUR INTEGRATED SERVICES

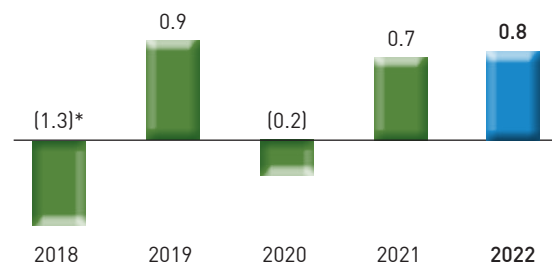
- Fabrication and Erection of Steel Structures; Fixed Equipment and Piping work
- Plant Shut-down / Turnaround Management
- Construction & Maintenance of Storage Tanks
- Exchanger Re-tubing
- Tube Shooting Services for Heat Exchangers (Conco Systems)
- On-site Flange Re-facing
- Ultra-high Pressure Abrasives Water-jet Cutting Services
- Mechanical De-coking of Heaters
- Anti-Corrosion and Anti-Wear Coatings (Curran International and Oxifree)
- Supply and Repair of Mechanical Seals and Systems (STB GmbH)
- Removal, Servicing, Repairing, Overhauling and Installation of Equipment
- Dynamic Balancing of Rotors and Impellers
- Condition Monitoring
- Fabrication and Assembly of Equipment Packages
- Scaffolding Insulation and Painting Services
- Trenchless Pressure Pipeline Rehabilitation (Primus Line)
- Servicing of Pumps (Waterous)
- Transformers, Switchgears and Control Panel Installation and Maintenance
- Electrical and Instrumentation Installation and Maintenance
- Calibration and Testing of Instruments
- Loop Check, Testing and Pre-Commissioning
- Excavation and Cable Laying
- Design and Fabrication of Instrumentation and Control Systems
- Installation of Distribution Control System & PLC Solutions

GROUP FINANCIAL HIGHLIGHTS

GROUP REVENUE S\$ (M)

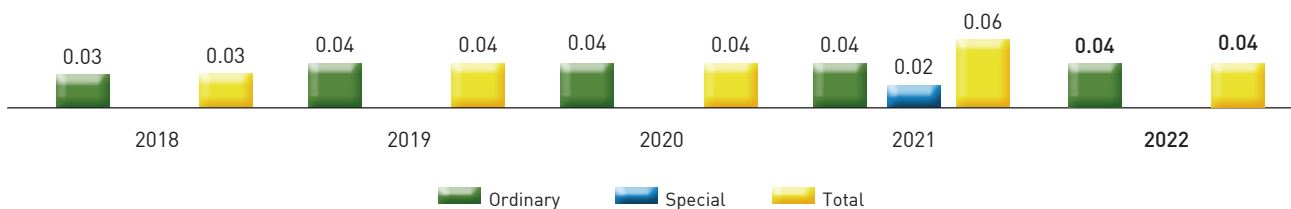


GROUP PROFIT / (LOSS) BEFORE TAX S\$ (M)

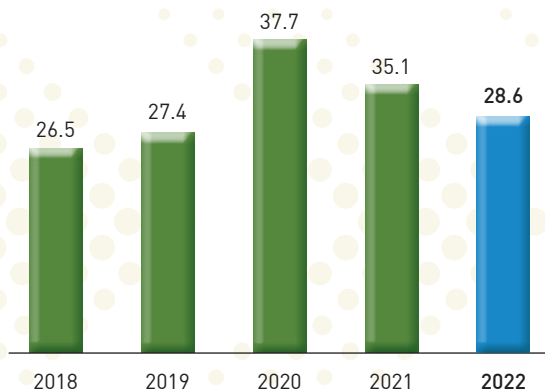


* exclude impairments and one off losses/expenses

DIVIDEND RATE PER SHARE (CENTS)



GROUP CASH AND CASH EQUIVALENTS S\$ (M)



FINANCIAL CALENDAR FOR 2023/2024

| | |
|------------------------------|--|
| 28 February 2023 | Announcement of FY2022 Results |
| 21 April 2023 | AGM for FY2022 |
| 3 August 2023 (tentative) | Announcement of half yearly results 2023 |
| 22 February 2024 (tentative) | Announcement of FY2023 Results |

EXECUTIVE CHAIRLADY AND DEPUTY CHAIRMAN MESSAGE



Madam Cheng Woei Fen and Mr Quek Kian Hui

Dear shareholders, business partners and colleagues,

Looking back, it was an eventful FY2022 for the Group.

The amount due from Highbase Strategic Sdn Bhd ("Highbase"), that comprised of trade debtor and contract assets, we had fully recovered the portion classified as trade debtor. Payments were also received from PRefChem (the plants and facilities owner) for a portion of the contract assets. The remaining value of the contract assets are pending instructions for billing.

We have also achieved a less than ideal closure, on the actions that our business partner (CPC Corporation) took against our Taiwan Branch Office. We have also completed our expansion plans to enter the US market which we have been planning for many years.

As we emerged out of COVID-19 in 2022, we are faced with the Russia-Ukraine conflict, high inflation as well as high interest rates and supply chain issues. One important takeaway lesson for us, we must remain focused on what we set out to do and proceed with it cautiously, but mindful of global macro events. These are events we cannot control but we have learned to adapt to it. We must focus on our Group's core competencies and expanding some of these (repairs, coating and cleaning of heat exchangers and piping works) to both existing and new markets which we set out to do in FY2022.

The capital commitments we made in FY2022, totaling \$24.5 million (as at 31 December 2022; excluding shareholders loan to the US investment) is indeed a huge capital outlay. We have assessed and taken into account of various risk factors before making the commitments. We

see these commitments as foundation stones (investments in operating assets) for us to reap future rewards in the future. It may be painful in the near term, but the Group has always shown resilience and has managed to overcome challenges.

When choosing our properties (purchase or lease of properties) as a premise for our operations, close proximity to our business partners have always been a key consideration, to reduce transportation time and logistical concerns in transporting equipment or manpower in and out of the plant for cleaning and repairs. Besides reducing the risks exposed during transportation, less transportation time also means lesser carbon footprint, which is one of the Group's sustainability goals.

First Foundation Stone – Our Singapore Property – 26 Gul Way Singapore

Singapore operations will continue to be the base in which the Group anchors its overseas expansion on. The shareholders, on 10 November 2022, had approved the purchase of this property. The purchase transaction was completed on 28 February 2023. Since then, we have commenced renovation works on this property and we will use our own internal resources (direct workforce) to perform some of the renovation works. To avoid disruptions in providing our services to our business partners, we will plan our relocation in stages. We aim to completely move into this premise before 30 June 2023. This will allow us to commence the reinstatement of 35 Tuas Road before it is returned timely to Jurong Town Corporation (the lessor) in mid-August 2023.

EXECUTIVE CHAIRLADY AND DEPUTY CHAIRMAN MESSAGE

The land area on this new property is substantially smaller, by 65%, as compared to 35 Tuas Road. We have decided to shift certain existing activities (including fabrication works) to the Malaysia Property and this will happen in the second half of 2023. Existing work processes need to be redefined and streamlined in view of a smaller work area. We believe this is achievable. Our employees have shown their adaptability to redefine their work processes. To meet the dependency ratio requirements, it is inevitable that certain support functions have to be relocated to Malaysia.

Second Foundation Stone – Our Malaysia Property – Tanjung Surat, Johor, Malaysia



The construction of a fabrication facility on this Malaysia property is approximately 57% (as at 31 December 2022) completed and is on schedule to be completed by 31 December 2023. Upon completion, this fabrication facility will serve both the Singapore and Malaysia operations. Our long-term vision is that this fabrication facility may also fabricate for the US operations.

We will be deploying some of our employees in the Singapore operations to assist in the setup of this fabrication facility. Gradually, services such as cleaning, repairs and hydro jetting will be provided at this facility, similar to the US operations which are currently being set up.

Third Foundation Stone – Our US Property – Bourbonnais, Kankakee County, State of Illinois, USA



A few years ago, when we announced to shareholders our intention to enter the US market via a joint venture with a local partner (transaction aborted in October 2019), many shareholders raised their concerns to us. One concern was the Group had limited overseas experiences in running overseas operations. Since 2019, the Group has gained overseas experiences in running its Malaysia and Taiwan operations. It has also executed three successful Turnaround projects in Taiwan for the years 2019 to 2022.

Capitalising on the Group relevant experience and expertise, we have extended the Group's core services into the US by purchasing a freehold property and setting up facilities to undertake fabrication, repair, coating and cleaning services. These are some of the Group's core competencies.

The Board of Directors believes in proactive engagement with shareholders and will seek their views and feedback. The Board of Directors decided to hold a physical meeting to interact physically with the shareholders on this US investment. At the shareholders meeting on 5 August 2022, we were overwhelmed with positive support from shareholders who attended this meeting (99.95% voted in support) and obtained approval for the investment of up to USD7.5 million (including shareholder loan) for the US investment.

EXECUTIVE CHAIRLADY AND DEPUTY CHAIRMAN MESSAGE

The majority of our equipment has been set up and commissioned. Our US employees are also undergoing training to ensure that the importance of safety and good quality service are inculcated. The US operation is also currently being pre-qualified by our customers.

We are pleased to announce that we received our maiden cleaning orders on 23 March 2023 and have executed and delivered to our customer according to their schedule.

Commitments for the above three properties

The Group has made the above three substantial capital commitments in the last 12 months. In total, these commitments amount to \$24.5 million in which \$9.5 million have been disbursed as at 31 December 2022. These commitments have been substantially funded by internal resources.

Fourth Foundation Stone – Taiwan Operations – Leased Property, Kaohsiung

FY2022 was indeed a distraction for the Taiwan operations. We are not able to participate or bid for any project works because of ongoing actions (monetary penalties and 3 years suspension) taken by CPC Corporation on the Taiwan Branch office. From our perspective, the Group has achieved closure on the actions taken by CPC Corporation on the Taiwan Branch towards the end of December 2022. The Audit Committee brought forward the internal review of the Taiwan operations to 2022 and had tasked the Internal Auditors to conduct a review of the internal controls. Their recommendations will be implemented in the newly incorporated, wholly owned subsidiary – Pegasus Advance Industrial Company Limited (“PAI”) and the Taiwan Branch Office.

PAI together with a Singapore company, have been qualified to bid for an upcoming Turnaround project 2023 in Kaohsiung. Our business partner’s willingness to allow PAI to bid is an acknowledgement of our successful past efforts in executing three turnaround projects and our ability to provide more value-added services. PAI have entered into a 3-year rental agreement for a workshop in Kaohsiung with a gross floor area of 45,000 square feet. This facility will focus on fabrication and hydro jetting services.

Work Force Transformation – People

Our Group Chief Operating Officer (“COO”)

Our Group Chief Operating Officer, Sean Safavinejad, joined us on 13 March 2023. We believe that Sean, who has spent more than a decade in the US with a major multinational oil and gas corporation, will be able to guide us in providing more value-added solutions to our business partners. The COO will be taking the lead in the workforce transformation.

Executive Committee (“EXCO”)

We always believe the EXCO should be a diversified committee with balance in skills, age, gender, knowledge, and experience. As part of diversity, our female Human Resource Senior Manager joined the EXCO during the year. She will advise the EXCO on human capital issues with respect to succession planning, talent management and other human capital matters within the Group.

Workforce Transformation

The EXCO formed a transformation task force in 2021, to work out a mitigation strategy to address Singapore Government’s decision to increase the foreign workers levies (2022 to 2024) and the reduction in dependency ratio ceiling (quota to employing more foreign workers) in 2024. Both of these have a negative impact on us as well as the industry as a whole.

(1) Redefine the current work processes

Digitalisation, automation, and business intelligence tools have proven their usefulness in reducing the number of workers required for each job. Our managers, supervisors and workers have adapted to these tools with an open mindset.

As mentioned above, with a smaller work area at 26 Gul Way, all departments will have to work together to redefine the existing work process and streamline it further to maintain efficiency and productivity. We will adopt the “just in time” concept due to the limited holding area as well as the warehouse space as compared to 35 Tuas Road. The business intelligence tools we have adopted in the past will be useful in terms of planning and scheduling our purchase of materials.

We will also be taking this opportunity to review the support departments in both Singapore and Malaysia. We will redefine their roles, functions and their capabilities to take on a regional function to support the Group’s overseas operations. We will reorganize and move certain support departments or employees to Malaysia so that they can perform regional functions. Training will be provided to these affected departments and employees. However, we need to ensure it is efficient and productive while bearing in mind threats like cybersecurity. With this reorganization, we also aim to resolve the dependency ratio issue.

We are actively training our workers to multitask more in their jobs. With a more diverse skill set, this will create value for us as well as for our business partners. From the pilot program success in 2021, we have rolled out to the rest of the sites in Singapore in 2022. We will roll it out to the overseas operations in the near future.

EXECUTIVE CHAIRLADY AND DEPUTY CHAIRMAN MESSAGE

- (2) Adopt best practices to reduce carbon emission as the Group is supportive of protecting the environment.

We currently practice a hybrid work policy in which employees must be physically present in the office a few days a week to interact with their fellow colleagues – creating a bond. We can assess their well-being of working from home (balancing their work and family life). With reduced commutes between home and office, we are also doing our part to reduce carbon footprint in terms of transportation.

When we were performing market due diligence on the US market, our employees were exposed to availability of new technology process with the aim of protecting the environment. We are able to exchange ideas between our US and Asia operations and assess our business partners' demands as well as their sustainability requirements and expectations. We have successfully executed a maiden job in Singapore using ultrasonic technology process which is safe and easy to operate. It uses less water (90% lesser) than the traditional hydro jetting method. Cleaning efficiency can be achieved to near new conditions, allowing heat exchangers to have a higher heat transfer efficiency. This will allow our clients to have significant energy savings, lower pumping costs and better product processing value. Our US operation is currently setting up similar ultrasonic equipment in their facility.

One of Our Core Values – Safety

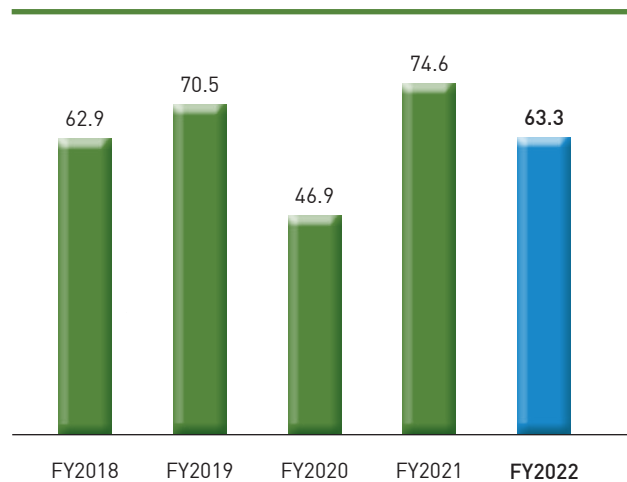
Health and Safety is one of our Group's core values and is advocated by the Board of Directors for every individual employee. More training time is devoted to health and safety during their training program and this is more so for the newly recruited employees. Annual health and safety campaigns and programs are being run, reminding everyone to be mindful of health and safety when they perform their jobs. During the daily toolbox briefings, safety reminders messages are repeatedly reinforced to our workers. Our senior management also visited the work sites to reinforce health and safety messages.

With high fatality rate arising from other company's site accidents in Singapore, there was a mandatory safety-time out of two weeks imposed by the Singapore Ministry of Manpower in September 2022. Companies are to review their operations and perform risk assessments, improvement of work safety and communicate to all workers on health and safety matters. We complied with this mandatory safety time-out. The Group has zero fatality rate in FY2022.

Financial Performance and Position

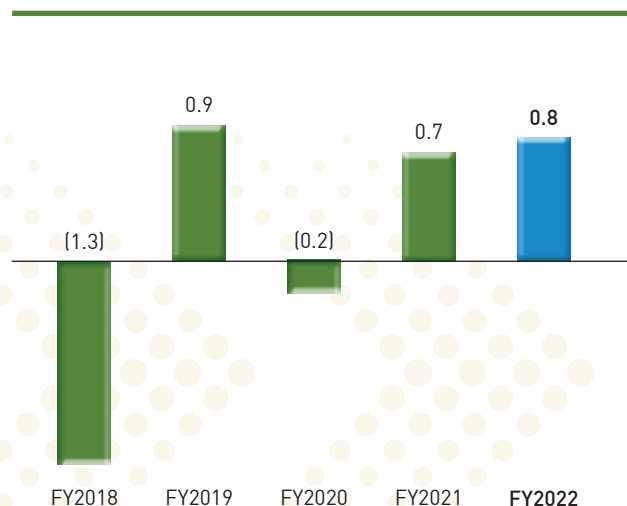
The Group achieved a revenue of \$63.3 million, a decline of \$11.4 million or 15.2% as compared to FY2021. The decline in revenue was mainly due to the absence of higher dollar value projects from our Taiwan Operations.

GROUP REVENUE S\$ (M)



Gross profit and gross profit margin in FY2022 were \$6.5 million (FY2021: \$5.6 million) and 10.3% (FY2021: 7.5%) respectively. The higher gross profit and gross profit margin were due to finalization of a CPC Kaohsiung project in 2022. This job was executed in Q42021 and completed in January 2022. Its costs were substantially recognized prior to its completion in January 2022. The final value of the project was finalized in Q42022. In addition, there was also a reduction in subcontracting costs as the Group increased its direct employed workforce to replace subcontractors which are costly and low in productivity.

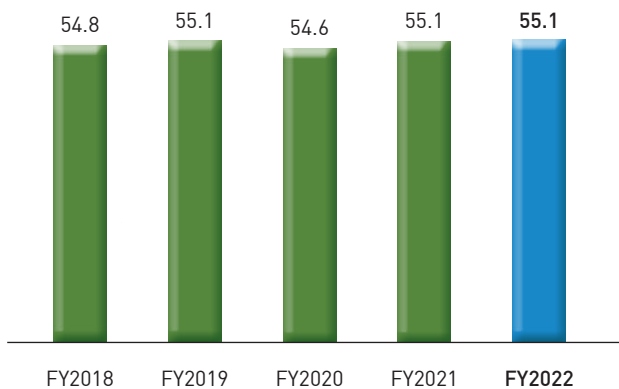
PROFIT/(LOSS) BEFORE TAX S\$ (M)



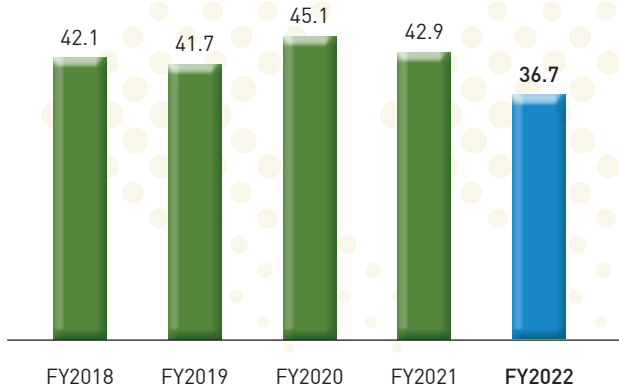
EXECUTIVE CHAIRLADY AND DEPUTY CHAIRMAN MESSAGE

The Group achieved a profit before tax of \$0.8 million as compared to a profit before tax of \$0.7 million, an improvement of 19.0%.

SHAREHOLDERS' FUND S\$ (M)



NET WORKING CAPITAL S\$ (M)



As at 31 December 2022, our Group's shareholders' funds stood at \$55.1 million with cash and cash equivalents of \$28.6 million. Net working capital (current assets less current liabilities) as at 31 December 2022 was \$36.7 million. Business operations generated positive cash flows of \$2.0 million in the current year as compared to \$1.8 million in FY2021.

As indicated in our FY2022 results announcement, the Group has made three substantial capital commitments totaling \$24.5 million. We have disbursed \$9.5 million as at 31 December 2022. These commitments have been funded by internal resources. In the event that there are shortfalls in working capital, the Group would have to utilize the existing credit facilities from financial institutions. Should this be insufficient, the Group will have to seek additional credit facilities from existing and new financial institutions. In the current rising interest rates, profitability

and consequently dividend pay-outs will be negatively impacted.

Dividends

Although we do not have a fixed dividends policy, sharing has always been part of Mun Siong's culture.

The Board of Directors has proposed a first and final tax exempt (one-tier) dividend of 0.04 cents per share, payable from profits achieved in FY2022. This dividend is subject to shareholders' approval at the forthcoming annual general meeting. The total proposed dividend of \$232,000, represents 62.5% of profit after tax for FY2022.

The Group's cash balance as at 31 December 2022 was \$28.6 million. Considering the Group's remaining commitments of \$15.0 million and existing debt of \$4.4 million as at 31 December 2022, the Board of Directors does not recommend any special dividend for FY2022.

Sustainability

The Group recognized embracing sustainable practices as a business priority. Our sustainability report will be available in April 2023. Please refer to our website at www.mun-siong.com.

Appreciation

We would like to thank our Board of Directors for their valuable contributions and guidance throughout the year. We would especially want to thank Dr Lau Teik Soon who has relentlessly offered his valuable advice, commensurate with his years of accumulated experience to us. Dr Lau Teik Soon retired from the Board in May 2022 after serving 9 years since April 2013.

Ms Elaine Beh Pur-Lin joined the Board of Directors in April 2022. When re-elected at the Annual General Meeting, she will be a non-executive independent director and subsequently appointed as Chairlady of the Nominating Committee. Ms Elaine Beh brings with her more than 30 years of legal experience in mergers and acquisitions and capital markets. Her experience will be one of great help to the Board of Directors.

We would also like to thank our leadership team for their contributions and commitment. Finally, we are very grateful to our shareholders and business partners for standing by us during the past year. We look forward to having all of your continual support and continue the journey with us for the many years to come.

Cheng Woei Fen
Executive Chairlady

Quek Kian Hui
Deputy Chairman

BOARD OF DIRECTORS' PROFILE



CHENG WOEI FEN
Executive Chairlady ("Chairlady")

Madam Cheng was first appointed to the Board on 31 October 1981 and ceased to be a director on 1 October 2006. Subsequently, Madam Cheng was reappointed to the Board on 20 April 2007 and last re-elected as a director on 23 April 2021. She spearheaded the acquisitions of the Group's subsidiaries and is responsible for the effective integration and alignment of the Group's business strategy as well as the development of the Group's businesses. In FY2021, she stepped down as Chairlady of the Executive Committee and takes on the role as an adviser to the Executive Committee. The Executive Committee is currently chaired by the Executive Deputy Chairman.

Madam Cheng holds a degree in Business Administration from the then Singapore University. She is the pioneer member of the SGX Diversity Action Committee, Council member of the Process Construction and Maintenance Productivity Committee.



QUEK KIAN HUI
Executive Deputy Chairman ("Deputy Chairman")

Mr Quek has served as an Executive Director of the Group since being appointed by the Board on 16 June 2014 and was last re-elected on 22 April 2022. He is currently the Chairman of the Executive Committee.

Prior to joining Mun Siong Engineering, Mr Quek was involved in a major project for Chiyoda Singapore (Pte) Ltd as part of the Mechanical Engineering team, executing a project for Shell. As the Executive Deputy Chairman of Mun Siong Group, Mr Quek oversees the Corporate Services of the Company, including Business Development, Contracts & Procurement, Information Technology, Warehousing and Logistics. His area of responsibilities also includes the Specialised Services Department which perform niche maintenance services internationally. In addition, Mr Quek has been able to utilise his strong engineering background to expand their range of engineering services, and he is also keenly driving the Group towards a process and data-driven system, suitable for the ever-evolving needs of the Group's business partners.

Mr Quek holds a Masters in Business Administration and a Bachelor's degree in Mechanical Engineering from Purdue University, USA.



BOARD OF DIRECTORS' PROFILE



DAVID TAN CHAO HSIUNG
Non-Executive Lead Independent Director

Mr Tan was first appointed a director on 1 October 2012 and last re-elected on 23 April 2021. He is the Chairman of the Audit Committee and is a member of both the Nominating Committee and the Remuneration Committee. He has over 20 years of senior management experience in the banking and finance industry and has held positions in both local and foreign financial institutions. Currently, he is the lead independent director in Powermatic Data Systems Ltd.

Mr Tan holds a Master of Commerce (specialising in Finance) from the University of New South Wales and a Bachelor of Economics from Macquarie University. He is also a Fellow of Certified Practising Accountant ("CPA") Australia.



MAH KAI LEONG
Non-Executive Independent Director

Mr Mah was first appointed on 4 March 2020 and last re-elected on 22 April 2022. He is the Chairman of the Remuneration Committee and a member of both the Audit Committee and the Nominating Committee.

Mr Mah has almost 40 years of operational and management experience with Singapore Refining Company ("SRC"), which is in the Petroleum and Petrochemical industry. During his earlier days with SRC, he was involved in project management and refinery operational planning. Mr Mah was later assigned to oversee Major Projects and Business Development. Before Mr Mah's retirement, he concurrently assumed the role of Deputy General Manager and Deputy CEO for more than six years at SRC. He was actively involved in the formation of Singapore Process Industry's productivity improvement blueprint. After his retirement in 2017, he was a consultant to an international EPC firm for approximately one year.

Mr Mah holds a Bachelor of Engineering (Mechanicals) from the University of Western Australia.



ELAINE BEH PUR-LIN
Non-Executive Independent Director

Ms Beh was appointed on 25 April 2022 as a director of the Company and a member of the Nominating, Audit and Remuneration Committees. She was appointed on 27 May 2022 as the Chairlady of the Nominating Committee.

Ms Beh has been a lawyer for more than 30 years, and she has substantial experience in mergers and acquisitions and capital markets transactions. She is currently a consultant with RHT Law Asia LLP. She is on the board of Abilities Beyond Limitations and Expectations and SISTIC.com Pte Ltd, and is a non-executive independent director of Audience Analytics Limited. She also serves as a committee member of the Yellow Ribbon Fund.

Ms Beh holds a Bachelor of Law (Honors) degree from National University of Singapore. She is an advocate and solicitor of the Supreme Court of Singapore and a member of the Law Society of Singapore and the Singapore Institute of Directors.

CORPORATE LEADERSHIP TEAM



CHENG WOEI FEN
Adviser to Executive Committee
(Executive Chairlady)

QUEK KIAN HUI
Chairman of Executive Committee
(Executive Deputy Chairman)



LIM POON KHENG, EUGENE
Group Finance Director

SEAN SAFAVINEJAD
Group Chief Operating Officer

SENIOR MANAGEMENT TEAM



SHAN YIJIAN
Director for
Mechanical Services &
Project Works

LIN YAN
Director for Electrical
and
Instrumentation
Services

TEO KHENG HOCK, ANDY
Director for Specialised
Services

**CHIN SIO CHIANG,
KATHLEEN**
Senior Human Resource
Manager

**NARAYANAN
PARTHASARATHY**
Director for Mechanical
Services

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Board of Directors (the “**Board**”) is committed to ensuring that the highest standards of corporate governance are practiced throughout Mun Siong Engineering Limited (the “**Company**”) and its subsidiaries (the “**Group**”), as a fundamental part of its responsibilities to protect and enhance shareholders’ value and the financial performance of the Group.

The Monetary Authority of Singapore issued the revised Code of Corporate Governance 2018 on 6 August 2018 and it was further revised on 11 January 2023 (the “**2018 Code**”). The accompanying Practice Guidance was also revised on 11 January 2023. The Company has adopted the practices based on the principles and provisions of the 2018 Code and as well as the accompanying Practice Guidance.

This report describes the Group’s corporate governance practices and structures that were in place during the financial year ended 31 December 2022 with specific reference to the principles and provisions of the 2018 Code, and where applicable the Listing Manual of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”). In so far as any principles and/or provisions has not been complied with, the reason has been provided for on the deviations from the 2018 Code.

BOARD MATTERS

The Board’s Conduct of Affairs

Principle 1: The Company is headed by an effective Board which is collectively responsible and works with Management for the long-term success of the Company.

The primary function of the Board is to provide leadership to the Group, protect and enhance the long-term value and returns for its shareholders. The Board oversees the Group’s affairs and is accountable to shareholders for the management of the Group’s businesses and its performance. To fulfil this role, the Board is responsible for the following:

- Providing entrepreneurial leadership, setting strategic aim, and ensuring the necessary financial and human resources are in place for the Group to meet its objectives;
- Establishing a framework of prudent and effective controls which enables risk to be assessed and managed, including safeguarding of shareholders’ interests and the Group’s assets;
- Reviewing and approving annual budgets, major funding proposals, investment and divestment proposals;
- Constructively challenging Management and monitoring its performance;
- Identifying the key stakeholder groups and recognising that their perceptions affect the Group’s reputation;
- Setting the Group’s values (including value creation and innovations) and standards (including ethical standards), and ensuring that obligations to shareholders and others are understood and met;
- Considering sustainability issues, e.g. economic, social and governance factors, as part of its strategic formulation;
- Overseeing internal control processes, financial reporting and compliance (with legislative and regulatory requirements), including the release of financial results and announcements of material transactions; and
- Reviewing and endorsing corporate policies in keeping up with good corporate governance (including ethical standards) and business practices. The Board objectively discharges their duties and responsibilities at all times as fiduciaries in the interests of the Group.

CORPORATE GOVERNANCE REPORT

The Executive Committee (“EXCO” or “Management”) which comprises of senior management executives are responsible for the day-to-day operations and administration of the Company in accordance with the policies and objectives set by the Board. The Executive Committee is currently chaired by the Executive Deputy Chairman. Management remains accountable to the Board and provides the Board with complete, adequate and timely information prior to meetings and on an on-going basis to enable them to make informed decisions and discharge their duties and responsibilities.

The Board and the Management fully appreciate that an effective and robust board whose members engage in open and constructive debate and challenge the Management on its assumptions and proposals is fundamental to good corporate governance. The Directors of the Board have the appropriate core competencies and diversity of experience to enable them to contribute effectively. They are able to objectively raise issues and seek clarification, as and when necessary, from the Board and Management on matters pertaining to their area of responsibilities and actively help the Management in the development of strategic proposals and oversees the effective implementation by Management to achieve the objectives set. All Directors are expected to exercise due diligence and independent judgement in dealing with the business affairs of the Group and are obliged to act in good faith and to take objective decisions in the interest of the Group.

Conflict of interest between Directors and the Company

Directors have a duty to act in the best interest of the Company and should ensure that his duty is not impaired in any way. As such, Directors should refrain from placing themselves in a situation where these interests, whether professional or personal, would likely to be directly or indirectly in conflict with the interests of the Company.

In order to protect the reputation of both the Director and the Company, Directors should as far as possible also avoid situations which might reasonably appear to be conflict of interest and could result in an appearance of impropriety. A conflict of interest exists where a Director’s personal or business interest interferes, or even appears to interfere, in any way with the interests of the Company. Directors have a duty to be free from the influence of any conflicting interest when they participate in Board or Board Committees deliberations or voting.

Directors owe a duty to the Company to advance the Company’s legitimate interests when the opportunity to do so arises. Directors are prohibited from (i) taking themselves (or directing to family members, companies to which they are affiliated or to any third parties) personal business opportunities that arise through the use of the Company’s property, information or their position as director; (ii) using Company’s property, information or their position as a director for personal gain; (iii) competing with the Company for business opportunities; (iv) using the Company’s property, information or their position as a director for improper purposes; or (v) causing detriment to the Company.

In any situation that involves a conflict of interest with Company, Directors must:

- (a) Promptly disclose such interest at a meeting of the Directors or by sending a written notice to the Company Secretary(ies) containing details of the interest and the nature of the conflict. Duty to disclose to the Board is non-delegable and the responsibility falls on the Director alone; and
- (b) Recuse themselves from participating in any discussion and decision on the matter.

If in doubt as to whether a particular interest might conflict with the interests of the Company, Directors should err on the side of caution and disclose the potential conflict to the Board as long as there is even the slightest possibility of a potential conflict.

Loans from the Company to Directors or persons and companies associated with Directors are prohibited, except in the limited circumstances permitted under the Companies Act 1967.

On an annual basis, each Director is required to promptly disclose any conflict or potentially conflict of interest to the Board. In addition, each Director is also required to submit details of his/her associates for the purpose of monitoring interested person transactions. For the financial year FY2022, save for Mr David Tan Chao Hsiung who has abstained himself as mentioned on pages 19 and 30, no Director had to abstain from voting in relation to the conflict-related matters.

CORPORATE GOVERNANCE REPORT

Directors' Orientation and Training

A formal letter of appointment is furnished to every newly appointed Director upon their appointment explaining among other matters, the roles, obligations, duties and responsibilities as a member of the Board.

The Company will also conduct an orientation program for new Directors to familiarise themselves with the business activities of the Group, its strategic direction and corporate governance practices. If a Director has no prior experience as a director of a listed company, the Company endeavours to arrange for training appropriate to the level of his prior experience in areas such as accounting, legal and industry knowledge. The Company will also arrange, where needed, for the Director to attend the Listed Company Director Program conducted by the Singapore Institute of Directors.

A formal appointment letter was issued to Ms Elaine Beh Pur-Lin when she was appointed as an Independent Director on 25 April 2022. The Company had arranged for her to be briefed on the Company's business, strategies and key issues faced by the Group. These briefings were conducted by an Executive Director, the Independent Directors and Finance Director over several meetings. The Nominating Committee was of the view that there was no necessity for Ms Elaine Beh Pur-Lin to attend the Listed Company Director Program as Ms Elaine Beh Pur-Lin, at the date of her appointment, already had prior experience as Director of Catalist listed companies in Singapore.

To keep pace with new laws, regulations, changing commercial risks and accounting standards, all Directors are encouraged to attend, at the Company's expense, relevant seminars conducted by external organisations to keep themselves abreast with the ongoing developments so as to enable them to properly discharge their duties as Board members. During the financial year, Board members attended the sustainability program 2022 conducted by ISCA.

The Company's Secretary(ies) and both the Internal and External Auditors, during the Board meetings, would brief the Directors on the changes, updates and new developments issued by the relevant authorities like SGX Regco and Accounting and Corporate Regulatory Authority. The Company would also circulate relevant news releases or articles, including those that relates to the Group's businesses, to Board members.

Board Approval

The Group has adopted internal guidelines governing matters that require the Board's approval which have been clearly communicated to the Management. The matters require Board's approval includes:

- Corporate Strategy of the Group;
- Annual budgets (including capital expenditure) and business plan of the Group;
- Appointment of Directors and key executives;
- Material acquisition and disposal of assets and investments;
- Corporate/financial structuring or corporate exercise;
- Incorporation of new entities;
- Approval of projects that exceeds a certain percentage of the Group shareholders' funds;
- Issuance of shares (including preference shares), dividend payout and other returns to shareholders;
- Risk appetite and risk tolerance for the different categories of risk;
- Matters as specified by SGX-ST interest person transaction policy;
- Announcement of the Group's financial results (half year and full year), quarterly business updates and the release of the Annual Report; and

CORPORATE GOVERNANCE REPORT

- Any other matters as prescribed under the relevant legislations and regulations, as well as the provision of the Company's Constitution.

Delegation by the Board and Board Meetings and Attendance

The Board has delegated specific responsibilities to three committees, namely the Audit Committee ("AC"), Nominating Committee ("NC") and Remuneration Committee ("RC") (collectively, the "Board Committees"). Information on each of the Board Committees is set out below. All the Board Committees are actively engaged and played an important role in ensuring good corporate governance in the Company and within the Group. The terms of reference of the Board Committees are reviewed on a regular basis, along with the committee structures and membership, to ensure their continued relevance, taking into consideration the changes in the corporate governance and legal environment. The current terms of reference for the respective Board Committees, which were revised in FY2019, are aligned with the 2018 Code. Any change to the terms of reference for any Board Committee requires the specific written approval of the Board.

The Board accepts that while these Board Committees have the authority to examine particular issues and will report back to the Board with their decisions and/or recommendations, the ultimate responsibility on all matters lies with the entire Board.

The Board held six formal meetings during the year. Fixed and optional meetings are scheduled at the start of each year and optional meetings convened as scheduled only when there are matters requiring the Board's decision at the scheduled time. Ad-hoc meetings are called when there are pressing matters requiring the Board's consideration and decision in between the scheduled meetings. When a physical meeting is not possible, a timely communication with members of the Board can be achieved through electronic means such as teleconferencing, video conferencing or other similar means of communication. The Board and Board Committees also make decisions through circulating resolutions.

If a Director is unable to attend a Board or Board Committee meeting, he/she will still receive all the papers and materials for discussion at that meeting. He/she will review them and advise the Chairlady/Chairman of the Board or the Board Committee respectively of his/her views and comments on the matters to be discussed so that they can be conveyed to other members at the meeting.

The number of Board and Board Committees meetings held in the financial year and the attendance of Directors during these meetings are as follows:

| | Board | | | Audit Committee | | | Nominating Committee | | | Remuneration Committee | | |
|---------------------------------|----------|-----------------|----------|-----------------|-----------------|----------------|----------------------|-----------------|----------------|------------------------|-----------------|----------------|
| | Position | No. of meetings | | Position | No. of meetings | | Position | No. of meetings | | Position | No. of meetings | |
| | | Held | Attended | | Held | Attended | | Held | Attended | | Held | Attended |
| Executive Directors | | | | | | | | | | | | |
| Cheng Woei Fen | C | 6 | 6 | NA | 5 | 5 [#] | NA | 3 | 3 [#] | NA | 2 | 2 [#] |
| Quek Kian Hui | M | 6 | 6 | NA | 5 | 4 [#] | NA | 3 | 3 [#] | NA | 2 | 2 [#] |
| Non-Executive Directors | | | | | | | | | | | | |
| David Tan Chao Hsiung | M | 6 | 6 | C | 5 | 5 | M | 3 | 3 | M | 2 | 2 |
| Lau Teik Soon ^{&} | M | 6 | 1 | M | 5 | 1 | C | 3 | 2 | M | 2 | 1 |
| Mah Kai Leong | M | 6 | 6 | M | 5 | 5 | M | 3 | 3 | C | 2 | 2 |
| Elaine Beh Pur-Lin [®] | M | 6 | 4 | M | 5 | 4 | C | 3 | 1 | M | 2 | 1 |

CORPORATE GOVERNANCE REPORT

Note:

C: Chairman; M: Member

By invitation

& retired as an Independent Director on 27 May 2022

B appointed as an Independent Director on 25 April 2022. She was appointed as a member of Audit Committee, Nominating Committee and Remuneration Committee on 25 April 2022. She was subsequently appointed as Chairlady of Nominating Committee on 27 May 2022

Access to Information and Management and Company Secretary(ies)

All Directors will receive a set of Board papers prior to the Board meeting with sufficient time to enable them to obtain further explanations, where necessary, in order to be briefed properly and prepare for the meeting. This will include sensitive matters which may be tabled at the meeting itself or discussed without papers being distributed. The Board papers may include, amongst others, the following documents and details:

- Background or explanations on matters brought before the Board for decision or information, including issues being dealt with by Management, and relevant budgets, forecasts and projections. In respect of budgets, any material variance between the projections and actual results is disclosed and explained to the Board;
- Minutes of the previous Board meeting;
- Minutes of meetings of all Board Committees held since the previous Board Committees' meeting;
- Major operational and financial issues; and
- Statistics on key performance indicators including safety and accident records.

As part of good corporate governance, key matters requiring decisions are reserved for resolution at Board meetings rather than by circulation to facilitate discussions. Key analysts' reports on the Group are forwarded to the Directors on an ongoing basis, if any. In addition, the Board receives from Management quarterly management accounts which present a balanced and understandable assessment of the Group's performance, position and prospects.

The Non-Executive Independent Directors have separate and independent access to the Executive Committee, including the Chairlady, the Deputy Chairman, the Finance Director, Company Secretary (ies) and other officers in the Executive Committee, as well as the Group's Internal and External Auditors. Queries by individual Directors on circulated papers are directed to Management who will respond accordingly. Where relevant, the Non-Executive Independent Directors' queries and Management's responses are circulated to all Board members for their information.

The Board has also approved a procedure for Directors, whether as a full Board or in their individual capacity, to seek professional advice, where necessary in the furtherance of their duties, at the Company's expense. During the financial year, the Board has retained the services of external legal counsels to advise on matters relating to Taiwan Branch Office (please refer to announcements dated 21 June 2022, 12 July 2022, 22 December 2022 and 28 February 2023) and recovery of trade debtors due from Highbase Strategic Sdn Bhd (the ultimate debtor) (please refer to announcements dated 23 February 2022, 22 December 2022 and 28 February 2023).

All Directors have separate and independent access to the advice of the Company Secretary(ies). The Company Secretary(ies) and/or their representatives are present at Board meetings and ensures that procedures are followed, and that applicable rules and regulations, including requirements of the Companies Act, Securities and Futures Act and the Listing Rules of the SGX-ST are complied with. The Company Secretary(ies) and/or their representative will also attend all meetings of the Board and Board Committees meetings and prepare minutes of the meetings. The minutes of the meeting will be circulated respectively to the Board and Board committees for their review and approval.

CORPORATE GOVERNANCE REPORT

The Company Secretary(ies) and/or their representative assists the Chairlady and the Chairman of each Board Committees in the development of the agendas for the various Board and Board Committees meetings. They ensure good information flows within the Board and Board Committees, and between Management and Non-Executive Independent Directors, advising the Board on all corporate governance matters, as well as facilitating orientation and assisting with professional development as required.

Under the Constitution of the Company, the appointment or removal of the Company Secretary(ies) are subject to the approval of the Board.

Multiple Board Representations

All Directors are required to declare their board representations on an annual basis and as soon as practicable after the relevant facts have come to his or her knowledge. When a Director has multiple board representation, the Nominating Committee will consider whether the Director is able to adequately carry out his/her duties as a Director of the Company, taking into consideration the Director's number of listed company board representations and other principal commitments.

The Nominating Committee is satisfied that sufficient time and attention are being given by the Directors to the affairs of the Group, notwithstanding, that some of the Directors have other board representations or other principal commitments. There is presently no need to implement internal guidelines to address their competing time commitments and this matter will be reviewed on an annual basis by the Nominating Committee. At the same time, the Nominating Committee has recommended to the Board as a guide that Non-Executive Independent Directors should limit their other board representations in listed companies to six including that of the Company. For the financial year under review, no Director has exceeded such stipulation.

Board Composition and Guidance

Principle 2: The Board has an appropriate level of independence and diversity of thought and the background in its composition to enable it to make decisions in the best interest of the Company.

Board Independence

Currently, the Board comprise of five members, three of whom are Non-Executive Directors. With more than half of the Board is made up of independent directors, including independence from substantial shareholders (5% or more shareholders*) of the Company, the Board is capable of exercising independent and objective judgement on corporate affairs of the Group. It also ensures key issues and strategies are critically reviewed, constructively challenged, fully discussed and thoroughly examined, taking into consideration the long-term interests of the Group and its stakeholders. No individual or small group of individuals dominates the Board's decision making. This is in line with the definition of "independent director" as specified under Provision 2.1 of the 2018 Code and Rule 210(5)(d) of the Listing Manual of SGX-ST.

Each Independent Director is required to complete an Independent Director's declaration form annually to confirm his independence. The Nominating Committee reviews the independence status of each Non-Executive Director annually based on the definitions and guidelines of independence set out in the 2018 Code. The Non-Executive Independent Directors and their immediate family members have no relationship with the Company, its related corporations, its 5% or more shareholders* or its officers. None of the Non-Executive Independent Directors have received payments in excess of \$50,000 from the Company or Group or \$200,000 from a 5% or more shareholder* during the year. For FY2022, the Nominating Committee has assessed and satisfied that all the three Non-Executive Directors are independent.

* the term "5% or more shareholder" shall refer to a person who has an interest or interests in one or more voting shares in the Company and the total votes attached to that share, or those shares, is not less than 5% of the total votes attached to all the voting shares in the Company. "Voting shares" exclude treasury shares.

CORPORATE GOVERNANCE REPORT

The nomination of Ms Elaine Beh Pur-Lin was reviewed by the Nominating Committee and the Board. The Company had engaged Virtus Law as our Corporate lawyer for the period 2019 to 2022. Ms Elaine Beh was a partner with Virtus Law until her retirement from the law firm in August 2022. The aggregated legal fees paid to Virtus Law for the period 2019 to 2022 were less than \$200,000. Taking guidance from 2018 Code that the total aggregate payments paid were less than the \$200,000 threshold prescribed in the 2018 Code, the Nominating Committee is of the view and concurred by the Board that Ms Elaine Beh is considered a Non-Executive Independent Director.

SGX Mainboard Rule 210(5)(d)(iii)

The Board recognizes that Independent Directors may over time develop significant insights in the Group's business and operations and can continue to provide noteworthy and valuable contribution objectively to the Board as a whole. The independence of the Independent Directors must be based on the substance of their professionalism, integrity and objectivity, and not merely based on form, such as the number of years which they have served on the Board. Nevertheless, when there are Directors who have served beyond the nine years from the date of their first appointment, the Board will rigorously review their continuing contributions and decide if they should continue with the appointment.

At the end of FY2022, Mr David Tan Chao Hsiung has served on the Board for more than 9 years from the date of his appointment. In view of this, the Board has subjected his independence to a rigorous review by all Directors, with Mr David Tan Chao Hsiung abstaining from his own review, before deciding if he should continue with the appointment.

Mr David Tan Chao Hsiung has also voluntarily disclosed to the Nominating Committee on events that happened from the period 2004 to 2009 in connection with the assessment of Mr David Tan Chao Hsiung's suitability as a Director under pursuant to Rule 210 (5) (b) of the Listing Rules. Please refer to page 29 for more details.

After due consideration and with the concurrence of the Nominating Committee, the Board is of the view that Mr David Tan Chao Hsiung has made valuable contributions to the Company as a Director. He has demonstrated strong independence character and judgment over the years in discharging his duties and responsibilities as an Independent Director of the Company with the utmost commitment in upholding the interests of the non-controlling shareholders. He has expressed individual viewpoints, debated issues and objectively scrutinised and challenged Management. He has individually sought clarification and amplification as he deemed necessary, including direct access to Management.

Taking into account the above and also weighed the need for Board's renewal, the Nominating Committee and the Board have affirmed his independence status and recommended that Mr David Tan Chao Hsiung continues to be considered as Independent Director, notwithstanding he has served on the Board beyond nine years from the date of his first appointment. Nonetheless, in line with the requirement of Rule 210(5)(d)(iii) of the SGX Listing Rules which takes into effect on 1 January 2022, stipulates the re-appointment of any Independent Director who has served the Board for an aggregate period of more than nine years from the date of his first appointment, must undergo the mandatory two-tier voting process at the Annual General Meeting ("AGM"). Mr David Tan Chao Hsiung subjected himself to the mandatory two-tier voting processes at the last AGM on the 23 April 2021. At that AGM, the shareholders voted for and approved his continued appointment as Independent Director of the Company. In this respect, he will remain as Independent Director until the earlier of (a) his retirement or resignation or (b) the conclusion of the third AGM from the AGM held on 23 April 2021, pursuant to Rule 210(5)(d)(iii) of the SGX Listing Rules with effect from 1 January 2022.

The Rule 210 (5) (d) (iii) of the SGX Listing Rules was removed on 11 January 2023 with immediate effect. The Singapore Exchange Regulation will limit to nine years the tenure of independent director serving on the boards of listed issuers. As a transition, independent director whose tenure exceeds the nine-year limit can continue to be deemed independent until the issuer's next AGM held for the financial year ending on or after 31 December 2023. The Board will comply with this new ruling, limiting the tenure of Independent Directors to nine years.

CORPORATE GOVERNANCE REPORT

In view of the above rule change, Mr David Tan Chao Hsiung, who will be seeking re-election at this forthcoming AGM, will not be subjected to the mandatory two-tier voting processes. Mr Tan, if re-elected, will continue as our Independent Director until the Company's next AGM. This will allow the Board time to find a replacement Independent Director.

Proportion of Non-Executive Independent Directors

There is a strong independence element on the Board as all Non-Executive Independent Directors collectively comprise more than fifty percent (50%) of the Board of Directors as at the end of FY2022. With more than half of the Board made up of Independent Directors, including independence from the substantial shareholders, the Board is capable of exercising independent and objective judgement on the corporate affairs of the Group. In addition, the Board Committees are also chaired by the Non-Executive Independent Directors and comprise wholly of the Non-Executive Independent Directors. As the Non-Executive Independent Directors make up the majority of the Board, the Company has complied with the relevant provisions 2.2 and 2.3 as specified in the 2018 Code.

The Company as at 16 March 2023, has 1,362 shareholders – for details on the spread of shareholdings please refer to page 122 of this report. The two largest shareholders representing 62.9% of the total shares outstanding, are Executive Directors of the Company – one of whom is the Chairlady. The interests of minority shareholders are well represented through the Non-Executive Independent Directors, who constitutes majority of the Board of Directors.

Board Composition

A description of the background of each Director is presented in the "Board of Directors' Profile" section of this Annual Report. As a Group, the Directors bring with them a broad and diverse range of industry knowledge, expertise and working experience in areas such as business, management, operations, accounting and finance (including mergers and acquisitions and capital markets) and legal which are relevant to the Group and its industry.

The Board reviews the size and composition of the Board, including the Board committees, on an annual basis to ensure that both aspects continue to meet the needs of the Group. The Board is of the view that the present Board size and composition is appropriate for the current scope and nature of the Group's operations. It provides board diversity and allow for informed and constructive discussion and effective decision making at the Board meetings. The Board's decisions are undertaken on an unanimous basis and no individual or group is able to dominate the Board's decision-making process. There is also an appropriate balance and diversity of skills and experience in the Board. Although all the Directors are responsible for the Group's operations, the role of the Non-Executive Independent Directors is particularly important in ensuring that the strategies proposed by Management are constructively challenged, fully discussed and examined, and take into account the long term interests, not only of the shareholders, but also of employees, customers (or business partners), suppliers and the many communities in which the Group conducts its business. The Non-Executive Independent Directors also review the performance of Management in meeting agreed goals and objectives and monitor the reporting of performances. The Board will, however, continue to review opportunities to refresh the Board with a view to expanding the skills, experience and diversity of the Board as a whole.

Board Diversity

The Company's Board Diversity Policy endorses the principle that its Board should have a balance of skills, knowledge, experience and diversity of perspectives appropriate to its business so as to mitigate groupthink and foster constructive debate.

In reviewing Board Composition and succession planning, the Nominating Committee will consider the benefits of all aspects of diversity, including diversity of background, experience, gender, age and other relevant factors. These differences will be considered in determining the optimum composition of the Board and when possible, should be balanced appropriately.

CORPORATE GOVERNANCE REPORT

On annual basis, the Nominating Committee conducts its review of the composition of the Board, which comprises members of both genders and from different backgrounds whose core competencies, qualifications, skills and experiences, meets the requirements of the Group. All Directors will submit to the Nominating Committee on an annual basis a completed Board Evaluation Questionnaire (including a section on board diversity). The Nominating Committee has reviewed the completed Questionnaire for FY2022, is satisfied that the Board has the appropriate mix of expertise and experience, and collectively possesses the necessary group core competencies to lead and govern the Group effectively.

The Board currently has two female directors, representing 40% of the total Board Membership, in recognition of the importance and value of gender diversity.

In addition, the Board consists of Directors with ages ranging from late thirties to seventy years old, and Directors who have served different tenures on the Board. The Board members with their combined business, management and professional experience knowledge and expertise, provide the core competencies to allow for diverse and objective perspectives of the Group's business and direction.

Details of the Board Composition are as follows:

Board Independence
(as at 31 December 2022)

| | |
|------------------------------|-----------------------|
| 2 | 3 |
| Non-Independent Directors | Independent Directors |

Directors' Length of Service
(as at 31 December 2022)

| | |
|-------------------|-------------------|
| 2 | 3 |
| More than 9 years | Less than 9 years |

Board Gender Diversity
(as at 31 December 2022)

| | |
|---------------------|----------------|
| 2 | 3 |
| Female Directors | Male Directors |

Directors' Age Group
(as at 31 December 2022)

| | | |
|-----|-----|-----|
| 1 | 1 | 3 |
| 30s | 50s | 60s |

Meeting of Independent Directors without Management

During the financial year, the Non-Executive Independent Directors, led by the Lead Independent Director, have met several times (without the presence of Management) both formally and informally; notably, to discuss cessation and appointment of key executives, remunerations of the Executive Directors and key executives (including the granting of performance shares), and feedbacks from the External Auditors. Where appropriate, the Lead Independent Director will meet with the other Non-Executive Independent Directors without the presence of the Executive Directors, and the Lead Independent Director will provide feedbacks and recommendations to the Chairlady after such meetings.

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

Principle 3: There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision-making.

Separation of The Chairman and Chief Executive Officer ("CEO")

The roles of the Chairman and CEO are separate to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making.

The Chairman (in our Company, Chairlady), Madam Cheng Woei Fen who is also an Executive Director, is responsible for leading the Board and facilitating its effectiveness. She promotes high standards of corporate governance on the Board and within the Group. The CEO is responsible for the operations, business direction, strategic positioning and business expansion of the Group. Currently, the Group does not have a CEO as the functions of the CEO has been shared between the two Executive Directors, Madam Cheng Woei Fen and Mr Quek Kian Hui, who is the son of the Chairlady.

All major proposals and decisions made by the two Executive Directors are discussed and reviewed by the Audit Committee. Their performance and appointment are reviewed periodically by the Nominating Committee and the remuneration packages are reviewed periodically by the Remuneration Committee. As the Board Committees consist of all Independent Directors, the Board believes that there are sufficient strong and independent elements and adequate safeguards in place against a possible concentration of power and authority in any single individual or a familial relationship exists between the Executive Chairlady and the CEO.

Role of Chairlady

The Group's Executive Chairlady, Madam Cheng Woei Fen, plays an instrumental role in developing the business strategy of the Group and provides the Group with strong leadership and vision. She leads the Board in its review of the Group's strategies for overseas expansion for growth, ensures the diversity of the Board, and provides guidance to the Group on succession planning, talent management and workforce transformation. In addition to setting and implementing the business direction and strategies for the Group as endorsed by the Board, as well as the management oversight of the Group's performance, she is to ensure that each member of the Board and Management works well together with integrity and competency.

The Chairlady ensures that the Board meetings are held as and when necessary. She leads the Board to ensure its effectiveness and approves the agenda of each Board meeting in consultation with the Management team and Company Secretary(ies). The Chairlady reviews the Board papers before they are presented to the Board and ensures that Board members are provided with complete, adequate, accurate, timely and clear information. Management staff who has prepared the papers, or who can provide additional insight into the matters to be discussed, is invited to present the paper or attend at the relevant time during the Board meeting.

During the Board meetings, the Chairlady will ensure that adequate time is available for discussion of all agenda items, in particular strategic issues. The Chairlady monitors communications and relations between the Company and its shareholders, between the Board and Management, and between the Non-Executive and Executive Directors, with a view to encouraging a culture of openness and constructive dialogue amongst them. The Chairlady works to facilitate the effective contributions of Non-Executive Independent Directors. She also sets guidelines and exercise the quality, quantity, accuracy and timeliness of information flow between the Board and the Management at the various meetings. She also takes a leading role in ensuring the Group's drive to achieve and maintain a high standard of corporate governance practices with the full support of the Board, the Company Secretary(ies) and the Management.

CORPORATE GOVERNANCE REPORT

Appointment of Lead Independent Director

In our Company, as the roles of the Chairlady and CEO are shared by two individuals who share close family ties, the Nominating Committee has determined that the Chairlady is not independent. The Board has appointed Mr David Tan Chao Hsiung, a Non-Executive Independent Director, as the Lead Independent Director. He will coordinate and lead the Independent Directors to provide a non-executive perspective and contribute to a balance of viewpoints on the Board. Mr David Tan Chao Hsiung is available to shareholders, where they have concerns, where contact through the normal channels of the Chairlady or the Finance Director has failed to resolve an issue or for which such contact is inappropriate. There was no query received or request on any matters which requires the Lead Independent Director's attention in FY2022.

Board Membership

Principle 4: The Board has a formal and transparent process for the appointment and re-appointment of Directors taking into account the need for progressive renewal of the Board.

The Nominating Committee comprises the following Non-Executive Independent Directors:

Elaine Beh Pur-Lin (Chairlady) (Appointed on 27 May 2022)#
David Tan Chao Hsiung
Mah Kai Leong

Appointed as Independent Director on 25 April 2022. Appointed as Chairlady on 27 May 2022

The Nominating Committee held three formal and several informal meetings during the financial year.

The Chairlady of the Nominating Committee and all its members are considered independent pursuant to the definition of independent under the 2018 Code and Listing Manual of the SGX-ST. Mr David Tan Chao Hsiung, who is the Lead Independent Director, is also a member of the Nominating Committee. The Nominating Committee is governed by the terms of reference endorsed by the Board which clearly sets out its duties and responsibilities. Its responsibilities include the following:

1. Making recommendations to the Board on succession plans for the Directors, in particular all Board appointments and appointment of key management personnel. During the nomination and selection process for new Directors, the Nominating Committee identifies the key attributes that an incoming Director should have, based on a matrix of the attributes of the existing Board and the requirements of the Group, taking into consideration age, gender as well as the diversity in their skill sets and experience. The Nominating Committee will also identify any gaps in the Board's skill set, taking into account the Group's strategy and business operations. The Nominating Committee seeks to refresh the Board membership progressively and in an orderly manner, to avoid losing institutional memory. After endorsement by the Board of the key attributes, the Nominating Committee taps on the resources of Directors' personal contacts and recommendations of potential candidates and goes through a short-listing process. If candidates identified from this process are not suitable, executive recruitment agencies may be appointed to assist in the search process. Interviews are set up with potential candidates for the Nominating Committee members to assess them, before a decision is made;
2. Making recommendations to the Board on the re-nomination of Directors at regular intervals and at least once every three years for each Director, as required by the Constitution of the Company. In its deliberations on the re-nomination of existing Directors, the Nominating Committee takes into consideration the Director's integrity, independence, mindedness, contributions and performance (including, if applicable, his contribution and performance as a Non-Executive Independent Director). The assessment parameters include attendance record, preparedness, intensity of participation and candour at meetings of the Board and Board Committees as well as the quality of intervention and special contributions. The Chairlady of the Board will give feedback to the Nominating Committee on the appointment of new Directors or retirement or resignation of existing Directors, following the outcome of an annual performance evaluation of individual Directors, and the Nominating Committee will take into consideration her views in this regard;

CORPORATE GOVERNANCE REPORT

3. Reviewing the criterion in performance evaluation of the Board, the Board Committees, Directors and reviewing the professional development requirements for Directors; and
4. Determining the independence of Directors annually. In doing so, the Nominating Committee takes into account the definitions and guidelines of independence as set out under Provision 2.1 of the 2018 Code, Rule 210(5)(d) of the Listing Manual, and any other salient factors. Following its annual review, the Nominating Committee has endorsed the independent status of the Non-Executive Independent Directors.

The Nominating Committee noted that the members of the Board Committees are experienced Independent Directors who are also currently board members of other listed companies. In this respect, each will also have additional avenues on training and updates on professional development programs. The Nominating Committee will review the training needs of the Board and where appropriate, recommend external training and seminars, or arrange for in-house briefings, to keep the members abreast of the updates and developments to enable them to fulfil their roles. The cost of professional development programs will be borne by the Company.

Continuous Review of Directors' Independence

The Board recognizes the contribution of its Independent Directors who have over time developed deep insight into the Group's businesses and operations and who are therefore able to provide invaluable contributions to the Group. As such, the Board has not set a fixed term of office for each of its Independent Directors so as to retain the services of the Directors, as necessary.

The Board has noted on the recent ruling, with effect from 11 January 2023, the Singapore Exchange Regulation will limit to nine years the tenure of independent directors serving on the boards of listed issuers. The Board will comply with this new ruling.

The independence of each Director is assessed and reviewed annually by the Nominating Committee, which will consider whether a Director has business relationships with the Group, its substantial shareholders (5% or more shareholders) and if so, whether such relationships could interfere or be reasonably be perceived to interfere, with the exercise of the Director's independent business judgement in the interest of the Group. No individual or small group of individuals dominates the Board's decision making. The assessment is in compliance with Provision 2.1 of the 2018 Code and Rule 210(5)(d) of the Listing Manual of SGX-ST.

The Board after taking into consideration the views of the Nominating Committee, is of the view that Mr David Tan Chao Hsiung, Mr Mah Kai Leong and Ms Elaine Beh Pur-Lin are considered independent and that, no individual or small group of individual dominates the Board's decision-making process.

Directors' Time Commitments

The Nominating Committee ensures new Directors are aware of their duties and obligations. For re-nomination and re-appointment of Directors, the Nominating Committee takes into consideration the competing time and commitments faced by directors and their ability to devote appropriate time and attention to the Company and Group.

CORPORATE GOVERNANCE REPORT

Each Director is required to confirm annually to the Nominating Committee as to whether he or she has any issue with competing time commitments which may impact his or her ability to provide sufficient time and attention to his or her duties as a Director of the Company. Based on the Directors' annual confirmation and the Directors' commitments and contributions to the Company, which are evident in their level of attendance and participation at the Board and Board Committees' meetings, the Nominating Committee and the Board are satisfied that all the Directors were able to and have been adequately carrying out their duties as Directors of the Company in FY2022.

Please refer to the section entitled "Board of Directors' Profile" of the Annual Report for the listed company directorship and principal commitments of each Director.

Currently, none of the Directors have appointed alternates. In the event that alternate Directors are appointed, it will be for a limited period and for exceptional cases such as medical emergency.

Re-Election of Directors at the Forthcoming AGM

Pursuant to Regulation 108 of the Company's Constitution, at least one-third of the Board is required to retire via rotation at each AGM. Accordingly, Madam Cheng Woei Fen and Mr David Tan Chao Hsiung are the Directors retiring via rotation at the forthcoming AGM. The Nominating Committee, having considered the individual performance and contributions of Madam Cheng Woei Fen and Mr David Tan Chao Hsiung, has recommended the retiring Directors for re-election at the forthcoming AGM.

Pursuant to Regulation 112 of the Company's Constitution, any Director appointed shall hold office until the next AGM and shall then be eligible for re-election, but shall not be taken into account in determining the number of Directors who are to retire by rotation at such AGM. Ms Elaine Beh Pur-Lin who as appointed on 25 April 2022 will be seeking re-election at the forthcoming AGM. The Nominating Committee, having considered Ms Elaine Beh Pur-Lin's independence as indicated on page 19 has recommended Ms Elaine Beh Pur-Lin for re-election at the forthcoming AGM.

Subject to being duly re-elected at the forthcoming AGM,

- (1) Madam Cheng Woei Fen will remain as the Executive Chairlady;
- (2) Mr David Tan Chao Hsiung will remain as Non-Executive Lead Independent Director, Chairman of the Audit Committee and members of the Remuneration Committee and Nominating Committee; and
- (3) Ms Elaine Beh Pur-Lin will remain as Non-Executive Independent Director, Chairlady of the Nominating Committee and members of the Audit Committee and Remuneration Committee

CORPORATE GOVERNANCE REPORT

Key information on Directors proposed to be re-elected to the Board are as follows:-

| | |
|--|--|
| Name of Director | Madam Cheng Woei Fen |
| Age | 65 |
| Country of principal residence | Singapore |
| The Board's comments on this re-election (including rationale, selection criteria, and the search and nomination process): | The Board has accepted and approved the Nominating Committee's recommendation, who has reviewed and considered Madam Cheng Woei Fen's contributions and performance as an Executive Chairlady of the Company. |
| Whether appointment is executive, and if so, the area of responsibility: | The appointment is Executive. Responsible for operational as well as the performances of the Group's key businesses, building new business relationships and develop Group's business strategies. |
| Shareholding interest in the listed issuer and its subsidiaries | <p><u>The Company</u> 278,997,600 shares (Direct Interest) 36,167,400 shares (Deemed Interest)*</p> <p><u>Subsidiaries of the Group</u> Nil</p> <p><i>* deemed interest of Madam Cheng Woei Fen derived from the interests held by her son, Mr Gabriel Quek Kian Teck (a substantial shareholder).</i></p> |
| Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries | <p>Mother to Executive Deputy Chairman, Mr Quek Kian Hui</p> <p>Mother to Mr Gabriel Quek Kian Teck (a substantial shareholder)</p> |
| Conflict of interest (including any competing business) | None |
| Undertaking (in the format set out in Appendix 7H) under Rule 720(1) has been submitted to the listed issuer | Yes |
| Principal Commitments including Directorships | <p><u>Past (for the last 5 years)</u> Nil</p> <p><u>Present</u> Nil</p> <p><u>Other Principal Commitments</u> Nil</p> |

CORPORATE GOVERNANCE REPORT

| | |
|--|--|
| Name of Director | Mr David Tan Chao Hsiung |
| Age | 62 |
| Country of principal residence | Singapore |
| The Board's comments on this re-election (including rationale, selection criteria, and the search and nomination process): | The Board has accepted and approved the Nominating Committee's recommendation, who has reviewed and considered Mr David Tan Chao Hsiung's contributions and performance as a Non-Executive and Lead Independent Director of the Company. |
| Whether appointment is executive, and if so, the area of responsibility: | Non-Executive. |
| Shareholding interest in the listed issuer and its subsidiaries | <u>The Company</u> Nil <u>Subsidiaries of the Group</u> Nil |
| Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries | None |
| Conflict of interest (including any competing business) | None |
| Undertaking (in the format set out in Appendix 7H) under Rule 720(1) has been submitted to the listed issuer | Yes |
| Principal Commitments including Directorships | <u>Past (for the last 5 years)</u> Nil <u>Present</u> Powermatic Data Systems Limited <u>Other Principal Commitments</u> Nil |

CORPORATE GOVERNANCE REPORT

| | |
|--|--|
| Name of Director | Ms Elaine Beh Pur-Lin |
| Age | 57 |
| Country of principal residence | Singapore |
| The Board's comments on this re-election (including rationale, selection criteria, and the search and nomination process): | The Board has accepted and approved the Nominating Committee's recommendation, who has reviewed and considered Ms Elaine Beh Pur-Lin's contributions and performance as a Non-Executive and Independent Director of the Company. |
| Whether appointment is executive, and if so, the area of responsibility: | Non-Executive. |
| Shareholding interest in the listed issuer and its subsidiaries | <u>The Company</u> Nil <u>Subsidiaries of the Group</u> Nil |
| Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries | None |
| Conflict of interest (including any competing business) | None |
| Undertaking (in the format set out in Appendix 7H) under Rule 720(1) has been submitted to the listed issuer | Yes |
| Principal Commitments including Directorships | <u>Past (for the last 5 years)</u> AcroMeta Group Limited Sanli Environmental Limited <u>Present</u> Audience Analytics Limited <u>Other Principal Commitments</u> Consultant at RHT Law Asia LLP |

The retiring Directors have responded negative to items (a) to (k) as listed in Appendix 7.4.1 (Announcement of Appointment) of the Listing Manual of the SGX-ST.

Notwithstanding the above, Mr David Tan Chao Hsiung has voluntarily provided the following information in response to item (j) of Appendix 7.4.1.

CORPORATE GOVERNANCE REPORT

Singapore Exchange Limited (the “SGX-ST”)

On 23 July 2008, the SGX-ST had written to Omega Capital Limited (the “Omega Capital”) requiring Omega Capital to appoint an independent professional firm to conduct a review and recommend improvements to its internal processes, raise its due diligence standards and build up its expertise and resources. Following a review of Omega Capital, SGX-ST had concluded that Omega Capital had not fully met the standards expected of an issue manager and financial adviser in some instances. Mr David Tan Chao Hsiung (“Mr Tan”) was the chief executive officer and substantial shareholder of Omega Capital.

Omega Capital duly complied with SGX-ST directive in appointing an independent professional firm and implemented the recommendations made by the professional firm.

Monetary Authority of Singapore (the “MAS”)

CMS Licence renewal:

Omega Capital’s Capital Markets Service licence (the “CMS Licence”), which was issued by the MAS, was due for renewal in March 2009.

Omega Capital, on its own accord, did not seek a renewal of its CMS Licence.

Supervisory warnings:

1. On 21 August 2009, Omega Capital was given a written warning by the MAS for contravention of Section 96(1) of the Securities Future Act (“SFA”). This was related to the appointment of a director onto the board of directors of Omega Capital without prior approval of the MAS. No penalty was imposed against Omega Capital or its directors.
2. On 21 August 2009, Mr Tan was given a warning by the MAS for not promptly informing them on the disposal of his interest in a private company and the resignation of his directorship in that company. No penalty was imposed on Mr Tan.
3. On 12 February 2007, one of Omega Capital’s directors was given a supervisory warning for contravention of Section 84(1)(b) of the SFA as Omega Capital has submitted its licence renewal application less than one month before the expiry. No penalty was imposed on the director concerned or Omega Capital or its directors.
4. On 8 November 2004, Omega Capital was given a written warning for non-compliance with Regulation 5 of the Securities & Futures (Licensing & Conduct of Business) Regulations on its failure to notify the MAS on changes to a representative’s particulars. This was related to Mr Tan’s resignation as an independent director in a listed company. No penalty was imposed against Omega Capital or Mr Tan.
5. On 18 October 2004, Omega Capital was given a written warning on the non-compliance with licence condition and the Securities and Futures (Financial & Margin Requirements for Holders of Capital Markets Services Licences) Regulations 2002 on the following issues:
 - (i) Failure to promptly notify MAS of effective date of the change to shareholdings of one of the directors even if the change does not require prior approval from the MAS;
 - (ii) Failure to comply with regulation 27 of the SFA – late lodgement of statement of assets and liabilities in Form 1 and statement of financial resources and total risk requirement in Form 5; and
 - (iii) Failure to promptly notify MAS of the resignation of one of the directors. No penalty was imposed against Omega Capital or its directors.

CORPORATE GOVERNANCE REPORT

Assessment of the Nominating Committee and the Board on the suitability of Mr David Tan Chao Hsiung pursuant to Rule 210 (5) (b) of the Listing Rules.

The Nominating Committee and the Board (with Mr David Tan Chao Hsiung abstaining), having considered that no penalty was imposed against Mr David Tan Chao Hsiung, and having considered the Nominating Committee's assessment of Mr David Tan Chao Hsiung's overall contribution and performance as a Director of the Company, is of the view that, notwithstanding the above disclosure, Mr David Tan Chao Hsiung is suitable to be appointed as a director of a listed company in Singapore. Accordingly, the Nominating Committee and the Board recommend the re-election of Mr David Tan Chao Hsiung as the Non-Executive Independent Director of the Company.

Board Performance

Principle 5: The Board undertakes a formal annual assessment of its effectiveness as a whole, and that of each of its Board Committees and individual Directors.

The Board has a process for assessing its effectiveness as a whole (including Board Committees) and for assessing the contribution by each Director to the effectiveness of the Board. The Board, through the Nominating Committee, used its best effort to ensure that Directors appointed to the Board and the Board Committees, whether individually or collectively, possess the background, experience, knowledge in the business, competencies in finance and management skills critical to the Group's business. It has also ensured that each Director, with its special contributions, brings to the Board an independent and objective perspective to enable sound, balanced and well-considered decisions to be made.

The Nominating Committee has established a formal review process to assess the performance and effectiveness of the Board as a whole and of its Board Committees, as well as the contribution by the Chairlady of the Board and each individual Directors to the effectiveness of the Board.

The Nominating Committee assesses the performance of the Board and its Board Committees, annually using objective and appropriate criteria which were approved by the Board. On an annual basis, all Directors will complete a Board evaluation questionnaire. The questionnaire is designed to seek their views on the various aspects of the Board and its Board Committees performance and competencies so as to assess the overall effectiveness of the Board and its Board Committees. To ensure confidentiality, the completed questionnaires were submitted to the Company Secretary for collation. The consolidated responses were presented to the Nominating Committee for review before submitting to the Board for discussion and determining areas for improvement and enhancement of the effectiveness of the Board and its Board Committees.

Following the review in FY2022, the Board is of the view that the Board and its Board Committees operate effectively, and that each Director is contributing to the overall effectiveness of the Board and its Board Committees.

The Nominating Committee has not engaged any external facilitator in FY2022 to assist in the assessment of the performance of the Board and Board Committees.

Board and Board Committee Evaluation Criteria

The performance criteria for the Board and Board Committees evaluations are in respect of the board size and composition, board independence, board processes, board information and accountability, board performance in relation to discharging its principal functions and board committees' performance in relation to discharging their responsibilities as set out in their respective terms of reference.

The primary objective of the Board evaluation exercise is to create a platform for the Board and its Board Committees' members to provide constructive feedback on the board procedures and processes and the changes which should be made to enhance the effectiveness of the Board and its Board Committees.

CORPORATE GOVERNANCE REPORT

Chairlady Evaluation

The evaluation of the Chairlady of the Board is undertaken by the Nominating Committee and the results are reviewed by the Board.

The assessment of the Chairlady of the Board is based on her ability to lead, whether she established proper procedures to ensure the effective functioning of the Board and that the time devoted to Board meetings were appropriate and are conducted in a manner that facilitate open communication and meaningful participation for effective discussion and decision making by the Board. She has also ensured that the Board Committees formed were appropriate, with clear terms of reference, to assist the Board in the discharge of its duties and responsibilities.

Individual Director Evaluation

Individual Director's performance is evaluated annually and informally on a continual basis by the Nominating Committee and the Chairlady of the Board. The assessment of individual Directors (including Chairlady) is done through peer-assessments, whereby the assessment parameters for such individual evaluation are consolidated in the questionnaire together with the assessment of the effectiveness of the Board. Other factors taken into consideration by the Nominating Committee and the Chairlady of the Board include the value of contribution to the development of strategy, availability at Board meetings (as well as informal contribution via email and telephone), interactive skills, industry and business knowledge and experience each Director possesses which are crucial to the Group's business.

The individual Director evaluation exercise assists the Nominating Committee in determining whether to re-nominate Directors who are due for retirements at the forthcoming AGM and in determining whether Directors with multiple board representations are able to and have adequately discharged their duties as Directors of the Company.

Nonetheless, replacement of a Director, when it happens, does not necessarily reflect the Director's performance or contributions to the Board, but may be driven by the need to align the Board with the medium-term or long-term needs of the Group.

When deliberating on the performance of a particular Director who is also a member of the Nominating Committee, that member abstains from the discussions to avoid any conflicts of interests.

REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 6: The Board has a formal and transparent procedure for developing policies on Director and executive remuneration, and for fixing the remuneration packages of individual Directors and key management personnel. No Director is involved in deciding his or her own remuneration.

Remuneration Committee

The Remuneration Committee comprises the following Non-Executive Independent Directors:

Mah Kai Leong (Chairman)
David Tan Chao Hsiung
Elaine Beh Pur-Lin (appointed on 25 April 2022)

CORPORATE GOVERNANCE REPORT

The Chairman of the Remuneration Committee and all its members are considered independent pursuant to the definition of independent under the 2018 Code and Listing Manual of the SGX-ST. The Remuneration Committee is principally responsible for assisting the Board to establish a formal and transparent process for developing policies on remuneration and development. The Remuneration Committee has adopted terms of reference approved by the Board which clearly sets out its duties and responsibilities including the following:

- Reviewing and recommending to the Board for endorsement, a framework of remuneration for the Board and key management personnel including the Executive Directors and Senior Management. For Executive Directors and Senior Management, the framework covers all aspects of executive remuneration (including but not limited to Directors' fees, salaries, allowances, bonuses (including profit sharing arrangement), allotment of performance shares and benefits-in-kind); and
- Recommending the specific remuneration packages for each Director and Senior Management ("key management personnel").

No Director is involved in deciding his/her own remuneration, except in providing information and documents if specifically requested by the Remuneration Committee to assist in its deliberations.

In FY2022, the Remuneration Committee reviewed and recommended to the Board the remuneration packages of the Executive Directors and Senior Management, which are within the specific mandates sought from the Board. The Remuneration Committee also reviewed the Company's obligations arising from the event of termination of services of the Executive Directors and Senior Management to ensure the contracts of the service contain fair and reasonable terminating clauses which are not overly generous.

In framing the Group's remuneration policy as described above, the Remuneration Committee may from time to time refer to market reports on average remuneration or seek external expert or independent professional advice of which the expenses will be borne by the Company. For FY2022, the Remuneration Committee has not sought external advice nor appointed remuneration consultants in considering the remuneration of Directors.

To further align the interest of key management personnel with shareholders, the Company has put in place a performance share plan. This was approved and adopted by the shareholders in the FY2016 AGM held on 20 April 2017 for a maximum duration of 10 years from the date of adoption. Details of the plan are set out in the Directors' Statement on pages 51 to 53.

Level and Mix of Remuneration

Principle 7: The level and structure of the remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value creation of the Company, taking into account the strategic objectives of the Company.

The Remuneration Committee seeks to establish and maintain an appropriate and competitive level of remuneration to attract, retain and motivate key management personnel (persons having authority and responsibility for planning, directing, and controlling the activities of the Group). The Remuneration Committee also ensures that the remuneration policies support the Group's objectives and strategies. In structuring the compensation framework, the Remuneration Committee takes into consideration the risk policies of the Group, the need for the compensation to be symmetric with the risk outcomes and the time horizon of risks.

The Remuneration Committee reviews on an annual basis the remuneration of the Executive Directors and key management personnel to ensure that their remuneration packages are commensurate with their performance and that of the Company, giving due regard to the financial and commercial health and business needs of the Group.

CORPORATE GOVERNANCE REPORT

Executive Directors do not receive Directors' fees but are remunerated as members of Management.

During the financial year, the Remuneration Committee also reviewed the current employment terms and conditions (including remuneration) of Executive Directors and key management personnel (comprise of Senior Management). The Remuneration Committee is satisfied that the terms and conditions (including remuneration) for the Executive Directors and key management personnel are reasonable and are in line with the Group's existing human resource policies, and accordingly, has recommended the aforesaid to the Board for adoption. The Remuneration Committee also reviews the Company's obligations arising in the event of termination of the Executive Director and key management personnel's contract of service, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous.

Provisions allowing the Company to reclaim incentive components of remuneration from the Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company have been incorporated into their service agreements and employment contracts. The extent of the claw-back on incentive component has been capped at up to the amount paid over the past three financial years. In addition, Executive Directors owe a fiduciary duty to the Company. The Company should be able to avail itself to remedies against the Executive Directors in the event of such breach of fiduciary duties.

Currently there is no service agreements for the Executive Directors. Service agreements for Executive Directors are for a fixed appointment period and do not contain onerous removal clauses. Their last service agreements expired in FY2019. The Executive Directors' compensation currently comprises of salary and bonuses. The bonuses will be linked to the performance of the Group as a whole and individual performance. The former aligns with the interests of shareholders and link rewards to corporate and individual performance.

The remuneration package of Executive Directors and key management personnel comprises both fixed and variable components and benefits. The Company subscribes to linking executive remuneration to corporate (with the emphasis on enhancing shareholders' value and long-term success of the Group) and individual performance based on annual appraisal of employees and using performance indicators such as core values, competencies, key result areas, performance rating, and potential of the employees.

(a) Fixed Component

Fixed pay comprises basic salary, statutory employer's contributions to the Central Provident Fund and fixed allowances. To ensure that key management personnel's remuneration is consistent and comparable with market practice, the Remuneration Committee also regularly benchmarks remuneration components against those of comparable companies, while continuing to be mindful that there is a general correlation between increased remuneration and performance improvements.

Since FY2018, there was no salary increment for Chairlady. There was a marginal salary adjustment for Chairlady in FY2022.

(b) Variable Component

This component comprises variable bonus based on the Group's and the individual's performance, as well as monthly variable component of the basic salary. To link rewards to performance, the more senior the executive is in the Group, the higher is the percentage of the variable component against total compensation. A comprehensive and structured assessment of the performance of key executives, against selected key performance indicators, is undertaken each year. Bonuses payable to Executive Directors and key executives are reviewed by the Remuneration Committee and approved by the Board to ensure alignment of their interests with those of shareholders.

CORPORATE GOVERNANCE REPORT

Bonus, based on the audited results, will only be paid to Executive Directors and key management personnel in the following year. FY2021 bonus was paid to the Executive Directors and key management personnel in 2022 based on the audited FY2021 results. Similarly, FY2022 bonus will be paid to the Executive Directors and key management personnel in 2023 based on the audited FY2022 results.

Since FY2018, no bonuses were paid to Chairlady and Executive Deputy Chairman. Both of them were paid bonuses for their FY2021 performances in 2022.

(c) Benefits

Benefits provided are consistent with market practice and include medical benefits, flexible benefits and transport allowance. Eligibility for these benefits will depend on individual salary grade and length of service.

The MSE Performance Share Plan was approved by the shareholders at the AGM held on 20 April 2017 and adopted by the Company. The duration of the plan, commencing on the date of adoption, is for a maximum period of 10 years. The Company did not award any shares to any employee in FY2022. Details of the plan are set out in the Directors' Statement on pages 51 to 53.

Remuneration of Non-Executive Directors

Directors' fees are subject to approval by the shareholders at the AGM. Factors such as level of contribution, effort and time spent, and responsibilities and leadership of the Non-Executive Independent Directors are considered when determining their level of fees. The Remuneration Committee is mindful that the remuneration for Non-Executive Independent Directors should not be excessive so as to compromise or reasonably be perceived to compromise their independence. No member of the Remuneration Committee is involved in deliberating and deciding in respect of any remuneration, compensation, or any form of benefits to be granted to him.

In FY2017, the Non-Executive Independent Directors on their own accord offered a reduction in their Directors' fees and since then, there was no increase in their Directors' fees up to FY2021. The Board concurred with the Remuneration Committee that the proposed fees for the year ending 31 December 2022 (FY2022) to be increased by 2.7% from \$113,000 (FY2021) to \$116,000 for FY2022. The increase in fees is moderate and will reinstate part of the voluntary reduction they have undertaken previously. The FY2023 proposed fees will remain at \$116,000.

At the last AGM held on 22 April 2022, the Shareholders had approved the total director fees of up to \$116,000 for FY2022. The actual total director fees for FY2022 amounted to \$119,000, an increase of \$3,000, being the addition of Ms Elaine Beh Pur-Lin as an Independent Director on 25 April 2022 (date of appointment). Subsequently, Dr Lau Teik Soon, an Independent Director retired on 27 May 2022. The Company will be seeking shareholders' approval at the forthcoming AGM to approve the total director fees of \$119,000 for FY2022.

The directors' fees of up to \$116,000 for FY2023 (FY2022: \$119,000), are recommended by the Board to be tabled for approval by the shareholders at the forthcoming AGM.

Disclosure on Remuneration

Principle 8: The Company is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.

A substantial portion of the Group's key customers (or business partners) are from the process industry that operates processing plants and facilities. Our customers' capital expenditures and operating budgets are closely correlated to global crude oil prices, which is determined by supply and demand. In addition, rising interest rates and possibly higher taxes imposed on our business partners will have an impact on our business partners' capital and operating expenditures.

CORPORATE GOVERNANCE REPORT

The Group links its remuneration policy to the achievement of key performance indicators. Key performance indicators of the Group are orientated towards retention of customers (or business partners), given that the process industry is dominated by a small number of major players, which is highly correlated to the Group's profitability and long-term financial performance. These key performance indicators would include project costing (at the tendering stage), project management capabilities, timely completion of projects in accordance with customer's time schedule, achieving targeted profit margins and achieving safety standards set by customers (or business partners).

For the Chairlady, Executive Deputy Chairman and key management personnel, their variable or performance related bonuses, beside individual performance, are also based on the Group's profitability.

The Group does not have any policy to pay post-employment and retirement benefits to its employees, including its Executive Directors.

The Board exercises its discretion and independent judgement in ensuring that the amount and mix of compensation are aligned with the interests of shareholders and promote the long-term success of the Group. The overall level of remuneration is not considered to be at a level which is likely to promote behaviour contrary to the Group's risk profile.

The remuneration of Directors and key management personnel are set out below. The disclosure is provided to enable investors to understand the link between the remuneration paid to the Directors and key management personnel, corporate and individual performance.

Remuneration table

| | Total Remuneration \$'000 | Breakdown in percentage | | | | Total % |
|----------------------------------|---------------------------------|----------------------------|-------------------------|---|--------------------------|------------|
| | | Based/Fixed Salary % | Director's Fees % | Variable or Performance- related Income/ Bonuses % | Benefits in kind % | |
| <u>Directors</u> | | | | | | |
| Cheng Woei Fen | 244 | 94.6 | - | 3.7 | 1.7 | 100.0 |
| Quek Kian Hui | 203 | 95.0 | - | 3.5 | 1.5 | 100.0 |
| David Tan Chao Hsiung | 42 | - | 100.0 | - | - | 100.0 |
| Lau Teik Soon [#] | 15 | - | 100.0 | - | - | 100.0 |
| Mah Kai Leong | 37 | - | 100.0 | - | - | 100.0 |
| Elaine Beh Pur-Lin ^{##} | 25 | - | 100.0 | - | - | 100.0 |

[#] retired as an independent director on 27 May 2022

^{##} appointed as an independent director on 25 April 2022

CORPORATE GOVERNANCE REPORT

| | ← Breakdown in percentage → | | | | |
|--|-----------------------------|---|--------------------------|--------------|------------|
| | Based/Fixed Salary % | Variable or Performance- related Income/ Bonuses % | Benefits in kind % | MSE PSP % | Total % |
| <u>Top 5 Key Management Personnel</u> | | | | | |
| <u>\$250,000 to \$500,000</u> | | | | | |
| Lim Poon Kheng, Eugene | 78.6 | 5.8 | 0.5 | 15.1 | 100.0 |
| <u>Below \$250,000</u> | | | | | |
| Lin Yan | 94.2 | 3.6 | 2.2 | – | 100.0 |
| Teo Kheng Hock | 85.2 | 12.5 | 2.3 | – | 100.0 |
| Narayanan Parthasarathy | 91.7 | 7.5 | 0.8 | – | 100.0 |
| Chin Sio Chiang, Kathleen [#] | 98.1 | – | 1.9 | – | 100.0 |

MSE PSP: relates to the Company's Performance Share Plan approved by shareholders on 20 April 2017.

Bonuses relate to FY2021 bonus payout

[#] She joined the Company in January 2022.

In line with the Group's financial performance for FY2022, based/fixed salary formed a substantial portion of the total remuneration of the Executive Directors (including that of the Chairlady) and key management personnel.

The total remuneration for the above key management personnel was \$967,040.

Save for the above disclosures for Madam Cheng Woei Fen and Mr Quek Kian Hui (son to Madam Cheng Woei Fen), there was no employee who was an immediate family member of a Director whose remuneration exceeded \$100,000 during the year under review.

ACCOUNTABILITY AND AUDIT

RISK MANAGEMENT AND INTERNAL CONTROLS

Principle 9: The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the Company and its shareholders.

The Board is responsible for the governance of risk and oversees the Company's risk management framework and policies and ensures that Management maintains a sound system of risk management and internal controls. The Board has delegated responsibility of risk governance to the Audit Committee. The Audit Committee will oversee the formulation and review, with the assistance of the internal auditors, the adequacy and effectiveness of the Group's management systems and internal controls and report to the Board annually on any internal control weaknesses.

Risk assessment and evaluation has become an essential part of the business planning and monitoring process. The Group has put in place a documentation on its risk profile which summaries the material risks faced by the Group and the countermeasures in place to manage or mitigate those risks. The Enterprise Risk Management ("ERM") manual or documentation was developed by Management with the assistance from the Internal Auditor in 2017. The ERM is reviewed from time to time to ensure the potential risks are appropriately identified and was last updated by Management in FY2022.

CORPORATE GOVERNANCE REPORT

The documentation provides an overview of the Group's key risks, the appropriate risk tolerance limits set for the respective risks, their likelihood of occurrence and the consequential impact to the Group as a whole. Having identified the risks that affect the achievement of the Group's business objectives and/or financial performance, each business unit or department is required to document the mitigating and/or proposed actions in place in respect of each significant risk. It allows the Group to address the on-going changes and the challenges in the business environment, reduces uncertainties and facilitates the shareholder value creation process.

Having regard to the risks which the business is exposed, the likelihood of such risks occurring and the risk tolerance accepted by the Group, the internal controls structure of the Group has been designed and put in place by the Group's business units and/or departments to provide reasonable assurance against material financial misstatements or loss, for the safeguarding of assets, for the maintenance of proper accounting records, for the provision of financial and other information with integrity, reliability and relevance and in compliance with applicable laws and regulations.

The Board acknowledges that it is responsible for the governance of the risks and the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risks of failure to achieve business objectives and can provide only reasonable and not absolute assurance against the occurrence of material errors or poor judgement in decision making.

The significant key framework and policies on risk management are summarised as follows:

Contract pricing and operational risks

Contract pricing risk is the potential loss associated with tendering at prices below the cost of carrying out a project. The Group mitigates this risk by putting in place a stringent control process. The tender proposal is first drawn up by the Contracts Department and tabled for discussions with the tender evaluation team, whom is also the project execution team.

The Group has established an approval process that is based on the project value as a percentage of the Group shareholders' funds. Projects that are below a certain percentage of the Group's shareholders' funds are approved by the Chairlady and an Executive Director. Those in excess of certain percentage of the Group's shareholders' funds would require approval by the Board. In FY2022, there was no project that exceeded more than 10% of the Group's shareholder's funds that require Board approval.

Operational risk relates to the costs of not being able to complete a project or work on time or at over budgeted cost/contract value. The Management of the Group manages this risk by holding regular meetings with the project execution team to discuss and solve issues that are being raised and observed from the site inspection on work progress. Each project will be assessed at the end of each financial year and if there is foreseeable loss, an appropriate allowance provision will be made.

In the last three financial years (2018 to 2021), the Group reported only a provision for foreseeable loss (or onerous contracts) of \$42,000 in 2020. This amount was subsequently recovered from the customer (or business partner) in 2021. No provision for foreseeable loss was made in FY2022.

CORPORATE GOVERNANCE REPORT

Safety risk

The Group operates in an industry where safety ranks as one of its top priorities by the customers (or business partners). Breaches of safety regulations will result in heavy financial losses to the Group and severe operating restrictions imposed on the Group by customers (or business partners) and relevant regulatory authorities (for example the Ministry of Manpower). In order to ensure that the Group provides a reasonable and practicable safe working environment to our employees, the Group has a safety committee that ensures that the Group meets the safety requirements imposed by its customers (or business partners) and the relevant authorities. The Group also provides training to its staff regularly on safety procedures. The safety procedures of the Group are further audited periodically by an independent body. The safety audit was last conducted in FY2019. The Audit Committee also reviews the safety records of the Group on a quarterly basis. No material safety breaches were noted in FY2022.

Information system risk

Information system risk is the potential cost to the Group caused by loss of information through either failure of hardware or software or malicious cyber-attacks. The Group has a disaster recovery plan and a maintenance program for its accounting and management information system. In the event of disruptions, there are assurances for recovery. This will minimise disruption to businesses and operations. The last internal audit review was done in FY2020.

Credit Risk

Credit risk is the risk of financial loss to the Group, resulting from the failure of a customer to settle its financial and contractual obligations to the Group. The Group has a standard procedure in place which includes the approval of credit applications, performing credit evaluations, setting credit limits and the monitoring of credit risks on a regular basis. Cash terms or advance payments are required for customers with low credit rating process.

The Group made an additional impairment of \$338,000 (FY2021: \$1,353,000) in the current year on the contract assets amount pertaining to a default risk against Highbase Strategic Sdn Bhd ("Highbase"). For more details, please refer to announcements dated 23 February 2022, 22 December 2022 and 28 February 2023. The Group was able to recover the full amount of \$534,000 from Highbase in FY2022 (classified as trade debtors) in which the Group had fully impaired in FY2021. For the remaining contract assets amount \$1,057,000 (fully impaired by the Group) as at 31 December 2022, the Group (via Pegasus Advance Engineering Sdn Bhd) is waiting for billing instructions from Petronas to submit billings.

Market concentration risk

Until FY2018, the Group's revenue was substantially from its Singapore operations. The Group's main customers (or business partners) are from the process industry which in turn, is dominated by a small number of big multi-national players. The majority of these multi-national companies are key customers (or business partners) of the Group. The Group tries to reduce the market concentration risk by maintaining its long-term relationships with these customers (or business partners).

To address both market and customers (or business partners) concentration risk, a number of initiatives to diversify its revenue base (including geographically) and broaden its range of services were undertaken. Since FY2019, the Group made its entries into Taiwan and Malaysia. For FY2021 and FY2022, Taiwan operations contributed to 25.5% and 10.0% respectively of the Group's revenue. The Malaysia operations saw steady increasing revenue. The Group in these countries are working with key business partners (or customers) who have substantial investments in plants and facilities. The Group is currently setting up a US operation providing cleaning and repair services (one of the Group's core competencies) in the State of Illinois, USA.

Besides geographical diversification, the Group has increased its range of offerings. These include distributorship agency agreements of certain types of mechanical components (including distribution of automation tools), establishment of in-house scaffolding capabilities and providing specialised coating services.

CORPORATE GOVERNANCE REPORT

Human resource risk

The Group is a service provider and is dependent on its human resource to achieve profitability and retain customers (or business partners). The Group faces risks of not being able to retain its pool of human resources. In order to retain and attract new talents, it provides staff with essential training and transparent career succession planning road map.

Compliance risk

As a listed company incorporated in Singapore with overseas subsidiaries as well as a branch office in various countries, the Group is obligated to comply with all the local statutory and regulatory requirements, such as the Singapore Exchange Listing Manual requirements and the Companies Act 1967 etc. Rapid changes in laws and regulations and practices in different jurisdictions has made compliance more complicated. Fraud or deliberate wrongful act can result in financial loss.

The Group has an effective compliance framework which include putting in place the relevant internal control processes, policies and procedures, delegation of authority matrix, risk management and corporate governance to monitor the level of compliance so as to minimise the level of lapses. The Group also has an internal guideline (Code of Business Ethics and Conduct) and anti-corruption policies in which employees are being briefed on as they are accountable for such compliances. The Group also maintain a whistle blowing policy whereby employees and other stakeholders could raise concern on any unethical, fraudulent or corrupt practices, in good faith, without fear of retaliation for investigation and action subject to applicable laws.

In FY2022, one of our ex-consultants who was engaged by the Taiwan Branch Office, was indicted on bribery charges. He was not an employee of the Taiwan Branch Office. Please refer to announcements dated 21 June 2022, 12 July 2022, 22 December 2022 and 28 February 2023 for more details. As at the date of this report, none of the employees of the Taiwan Branch or the Group, have been named as a defendant on the alleged bribery. The Group does not condone such action nor engage in such practices. Our Group Human Resource Department has conducted training sessions during the year for all employees within the Group to adhere to the Group's Code of Business Ethics and Conduct. The Group also performed a review of its existing consulting contracts to ensure that consultants do not engage in unethical business practices.

The Audit Committee notes that the Taiwan Branch's finance (accounting and treasury) and project management functions are supported by the Singapore operations. The financial records are maintained in Singapore by the Company's finance staff and is audited by the Singapore External Auditors. The Singapore Internal Auditors, CLA Global TS Risk Advisory Pte. Ltd. (formerly known as Nexia TS Risk Advisory Pte Ltd) had performed an internal audit on the Taiwan Branch operations in FY2022. The internal audit review has been completed and Management is currently implementing the recommendations as suggested by the Internal Auditors.

Assurances from the Chairlady and Finance Director

In addition, the Board has received assurances from the Chairlady and the Finance Director:

- that the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and
- that the Group's risk management and internal control systems are adequate and effective to address the financial, operational, compliance and information technology controls, and risk management systems within the current scope of the Group's business operations.

CORPORATE GOVERNANCE REPORT

Based on the internal controls established and maintained by the Group, work performed by the Internal Auditor as well as work performed by the External Auditors, and reviews performed by Management, the Audit Committee and the Board are of the opinion that the Group's internal controls are adequate and effective to address the financial, operational, compliance, information technology controls, and the risk management systems of the Group.

Audit Committee

Principle 10: The Board has an Audit Committee which discharges its duties objectively.

The Audit Committee comprises the following Non-Executive Independent Directors:

David Tan Chao Hsiung (Chairman)
Mah Kai Leong
Elaine Beh Pur-Lin (appointed on 25 April 2022)

None of the members of the Audit Committee is a former partner or director of the Company's existing audit firm (a) within a period of two years commencing on the date of their ceasing to be a partner of the audit firm or director of the auditing corporation and (b) for as long as they have any financial interest in, the Company's existing auditing firm or auditing corporation.

The Audit Committee held five formal meetings during the financial year. These meetings were also attended by the Executive Directors, Executive Committee members (including heads of business units) and Finance Director at the invitation of the Audit Committee. The Group's External Auditors and Internal Auditors were invited to present their audit plans and reports to the Audit Committee at the relevant junctures.

The Board is of the view that all the members of the Audit Committee are appropriately qualified to discharge their responsibilities as defined under the terms of reference which had been approved by the Board. Mr David Tan Chao Hsiung is an accountant by training and has relevant experience in mergers and acquisitions and capital markets transactions. He has in the past, served in a number of the SGX-ST listed companies (both the Catalist and the Mainboard) as board of directors and holds offices of audit committee chairman, lead independent director and chairman of the other board committees. Mr Mah Kai Leong, is a qualified mechanical engineer, held senior management position (with financial management experience) in a major processing plant in Singapore. Ms Elaine Beh, a lawyer, has relevant working experience from her involvement in the board committees of both listed and non listed companies. Besides this, she has in the current and past, served on the board of directors of two other SGX-ST listed companies.

The Audit Committee has a set of written terms of reference approved by the Board, clearly setting out their authority, duties and responsibilities. The Audit Committee is authorised by the Board to investigate any matter within its terms of reference and has full access to, and co-operation of Management, with full discretion to invite any Director or executive officer to attend its meetings. It has adequate resources to enable it to discharge its functions properly. During the meetings of the Audit Committee held during the financial year, the Audit Committee performed its functions and responsibilities as set out in its terms of reference, which include the following:

- Reviewing the significant financial reporting issues and judgments so as to ensure the integrity of the financial statements of the Group and any announcements relating to the Group's financial performance;
- Reviewing and reporting to the Board annually the adequacy and effectiveness of the Group's internal controls, including financial, operational, compliance controls, information technology controls and risk management systems;
- Reviewing the independence, adequacy, and effectiveness of the Group's internal audit functions;

CORPORATE GOVERNANCE REPORT

- Reviewing the adequacy, scope, approach and results of the audit and its cost effectiveness, and the independence and objectivity of the External Auditors;
- Reviewing the nature and extent of the External Auditors' non-audit services to the Group as well as the extent of reliance placed by the External Auditors on the Internal Auditor's work, seeking to balance the maintenance of objectivity and value for money;
- Making recommendations to the Board on the appointment, re-appointment and removal of the External Auditors, and approving the remuneration and terms of engagement of the External Auditors;
- Reviewing both Internal and External Auditors' audit plans and reports, the Internal and External Auditors' evaluation of the system of internal accounting controls, as well as the assistance given by Management to both the Internal and External Auditors;
- Reviewing the assurances from the Chairlady and Finance Director on the financial records and financial statements;
- Reviewing the policy and arrangements for concern about possible improprieties in financial reporting and other matters to be safely raised, independently investigated, and appropriately followed up on. The Company publicly discloses, and clearly communicates to employees, the existence of a whistle-blowing policy and procedures for raising such concerns; and
- Reviewing the financial reports of the Group, prior to their submission to the Board.

The Audit Committee reviews the adequacy and effectiveness of the Group's internal controls, including financial, operational, compliance and information technology controls and risk management systems through discussion with Management and its auditors and the Board annually.

The Audit Committee also reviews the assurance from the Chairlady and Finance Director on the financial records and statements.

To assist the Audit Committee in reviewing the Group's financial and operating performance, the Audit Committee has invited the heads of various business units (who are mostly Executive Committee members) to present the financial and operating performance of their units, explaining variances from budgets and understand the challenges that they face. This would enable the Audit Committee to have a better understanding of both the financial statements as well as the operations of the Group.

The Audit Committee has reviewed and is satisfied with the level of co-operation rendered by the Management to the External Auditors, the adequacy of scope and quality of their audits, and the independence and objectivity of the External Auditors.

In the course of its review, the Audit Committee also met with the External and Internal Auditors on an annual basis, without the presence of the Management, to discuss the reasonableness of the financial reporting process, identification of internal control weaknesses and any matters that arose during the course of their work.

During the various meetings that the Audit Committee have with the External Auditors and the Company's Finance Director, members of the Audit Committee are briefed by them on the various accounting standards, including changes and issues that affects the Group's financial reporting.

CORPORATE GOVERNANCE REPORT

Financial Reporting Matters

The Board is responsible for providing a balanced and understandable assessment of the Group's performance, position and prospects when presenting interim and other price sensitive public reports and reports to regulators (if required).

The Company prepares its financial statements in accordance with the Singapore Financial Reporting Standards (International) (the "SFRS (I)") prescribed by the Accounting Standards Council. The Audit Committee meets on a quarterly basis to review the quarterly updates, half yearly and the full year financial statements, SGXNet announcements and all related disclosures to shareholders (including where appropriate and necessary, press and media releases) before submission to the Board for approval. In the process, the Audit Committee reviews the key areas of management judgement applied for adequate provisioning and disclosure, critical accounting policies and any significant changes made that would have an impact on the Group's financial performance so as to ensure the integrity of the financial statements. In communicating and disseminating its results, the Board always aims to present a balanced and clear assessment of the Group's performance, position and prospects.

Management provides the Board with accounts and such explanation and information on a regular basis and as and when the Board may require from time to time enabling the Board to make a balanced and informed assessment of the Group's performance, position and prospects. On a quarterly basis, the Board is also updated by the various heads of the business units on the performance and developments under their charge.

Audit Committee comments on the Key Audit Matters

Revenue Recognition

The Audit Committee reviewed and concurred with the Management's revenue recognition method which is based on the percentage of completion method. Through the understanding of projects' progress at the quarterly updates by the Executive Directors, project directors/managers and Finance Director, the Audit Committee assessed the reasonableness of the Management's budgets of these projects. The Audit Committee determined that the budgets were reasonable.

Valuation of Non-Financial Assets and their Carrying Values

The Audit Committee considered and is satisfied with the valuation methodology and reasonableness of key assumptions used to determine the recoverable amounts of the non-financial assets.

Impairment of trade receivables and contract assets in HIMS Integrated Services Sdn Bhd

The Group recorded an impairment loss of \$338,000 on the contract assets during the year. The Audit Committee considered and is satisfied with Management's impairment assessment.

External Auditor

The Audit Committee reviews the scope and results of the audit carried out by the External Auditors, the cost effectiveness of the audit and the independence and objectivity of the External Auditors. The Audit Committee also recommends to the Board the appointment, re-appointment and removal of External Auditors, and approves the remuneration and terms of engagement of the External Auditors. The re-appointment of the External Auditors is always subject to the shareholders' approval at the AGM of the Company.

The Audit Committee undertook the review of the independence and objectivity of the External Auditors, KPMG LLP ("KPMG"). The Audit Committee is satisfied with the independence and objectivity of the External Auditors and recommends to the Board the nomination of the External Auditors for re-appointment. The Audit Committee has conducted an annual review of all non-audit services provided by the External Auditors and is satisfied that the nature and extent of such services do not affect the independence of the External Auditors.

CORPORATE GOVERNANCE REPORT

The fees paid to the External Auditors of the Company during the financial year for both audit and non-audit services are as follows:

| | Audit Fee | Non-audit Fee |
|--------------------------------|------------------|----------------------|
| Fees paid to External Auditors | S\$222,000 | S\$7,000 |

The non-audit fee relates to tax filing and tax advisory services.

Based on the above review, the Audit Committee is of the opinion that KPMG is, and is perceived to be, independent for the purpose of the Group's statutory audit.

In reviewing the nomination of KPMG for re-appointment for FY2022 and FY2023, the Audit Committee has considered the adequacy of the resources, experience and competence of KPMG, and has taken into account the Accounting and Corporate Regulatory Authority's ("ACRA") Audit Quality Indicators Framework relating to KPMG at the firm level and on the audit engagement level. Consideration was also given to the experience of the engagement partner and key team members in handling the audit. Based on the review, the Audit Committee is satisfied with the standard and quality of work performed by KPMG. It has recommended to the Board for nomination of KPMG for re-appointment as External Auditors at the forthcoming AGM of the Company.

Compliance with SGX Mainboard Rule 712, Rule 715, and Rule 716

KPMG are the auditors for the Company, subsidiaries (including significant foreign-incorporated subsidiaries) and the Group's interest in a foreign-incorporated equity accounted investee. KPMG International are the auditors of these significant foreign-incorporated companies.

The foreign-incorporated subsidiaries of Pegasus Advance Engineering Pte Ltd are either not required to be audited in their jurisdictions or are insignificant (revenue, profit/loss and assets) to the Group for FY2022. In respect of the former, the legal entities have yet to commence operations or are wholly owned investment holding companies. However, in the event they do commence operations and their contributions are significant to the Group, we will engage member firms of KPMG International to be auditors of these foreign-incorporated subsidiaries.

The Audit Committee is satisfied that the Group has complied with Rules 712 and 715 (read with 716) of the Listing Manual of the SGX-ST in relation to its selection and appointment of auditing firms. The Audit Committee and the Board are satisfied with the standards and the effectiveness of the audits performed by the independent auditors other than those of the Company.

Whistle-blowing program

The Company has established a Code of Conduct and Business Ethics that sets the principles of the code of conduct and business ethics which applies to all employees of the Group. This code covers areas such as conduct in workplaces, business conduct, protection of the Company's assets, confidentiality of information and conflict of interest etc. Directors, key management personnel and employees are expected to observe and uphold high standards of integrity which are in compliance with the Company's policies and the law and regulations of the countries in which it operates.

The Group is committed to a high standard of ethical conduct and adopts a zero-tolerance approach to fraud and unethical conduct. The Group undertakes to investigate complaints of suspected fraud and unethical conduct in an objective manner and has put in place, with the Audit Committee's endorsement, arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The objective for such arrangements is to ensure independent investigation of matters raised and to allow appropriate actions to be taken. The results from the investigation are reported directly to the Chairman of the Audit Committee.

CORPORATE GOVERNANCE REPORT

The Group has put in place a whistle-blowing framework endorsed by the Audit Committee which provides the mechanisms where employees may, in confidence, raise concerns or observations about possible corporate malpractices and improprieties in financial reporting or other matters directly to the Chairman of the Audit Committee. Details of the whistle-blowing policies, together with the dedicated whistle-blowing communication channels via our website have been made available to all employees. It has a well-defined process which ensures independent investigation of issues/concerns raised and appropriate follow up action and provides assurances that employees will be protected from reprisal within the limits of law or victimisation for whistle blowing in good faith. The whistle-blowing policy and procedures are reviewed by the Audit Committee from time to time to ensure they remain relevant. The Audit Committee reports to the Board on such matters at the Board meetings. Should the Audit Committee receive reports relating to serious offences and/or criminal activities in the Group, the Audit Committee and the Board have access to the appropriate external advice where necessary. Where appropriate or required, a report shall be made to the relevant government authorities for further investigation or action.

During the financial year under review, there were no reported cases under the whistle-blowing program.

Interested Person Transactions

To ensure compliance with Chapter 9 of the Listing Manual of the SGX-ST, the Audit Committee as well as the Board meets quarterly to review if the Group will be entering into any interested person transactions. The Group has established procedures to ensure that transactions with interested persons are properly reviewed and approved and are conducted at arm's length basis and do not prejudice the interests of the Group and its minority shareholders.

There were no interested person transactions during the financial year under review for disclosure pursuant to Rule 907 of the Listing Manual of the SGX-ST. There was also no general mandate for interested person transactions.

Material Contracts

Pursuant to Rule 1207(8) of the Listing Manual, there was no material contract entered into by the Group involving the interests of any director or controlling shareholder during the financial year.

Internal Audit

The Board recognises the importance of a sound risk management and internal controls practices to good corporate governance and has outsourced its internal audit function. The Audit Committee reviews the reliability, independence, adequacy and effectiveness of the internal audit function in each year. In addition to the review of the adequacy and effectiveness of the internal audit function, the Audit Committee also ensures that resources are adequate so that the internal audits are performed effectively. The Audit Committee also approves the appointment, termination, evaluation and compensation of the Internal Auditor. The Audit Committee will ensure that the Internal Auditor is qualified and appropriate to undertake the tasks and have unfettered access to the Audit Committee in carrying out its entrusted tasks.

The internal audit function of the Group is outsourced to CLA Global TS Risk Advisory Pte. Ltd. (formerly known as Nexia TS Risk Advisory Pte Ltd) (the "Internal Auditor"). The Internal Auditor is a member of the Institute of Internal Auditors Singapore and staffed with persons with the relevant qualifications with the Institute of Internal Auditors and experience. To review and test the controls of the Group's processes, the Internal Auditor adopts the International Standards for the Professional Practice of Internal Auditing which is laid down in the International Professional Practices Framework issued by the Institute of Internal Auditors. The Internal Auditor reports directly and primarily to the Chairman of the Audit Committee with administrative reporting to the Chairlady.

CORPORATE GOVERNANCE REPORT

The Internal Auditor assists the Board and Audit Committee in monitoring the risks and internal controls of the Group. In assessing the design and operating effectiveness of internal controls, the Group has in place a system of internal controls to ensure:

- Assets are safeguarded;
- Fraud or errors in the accounting records are prevented or detected;
- Accuracy and completeness of accounting records are ensured;
- Reliable financial information is prepared in a timely manner; and
- Compliance with applicable internal policies, laws and regulations relating to the financial reporting process.

The Internal Auditor plans its internal audit schedule in consultation with, but independent of the Management. The Audit Committee reviews the internal audit plan, determines the scope of the audit examination and oversees the implementation of the improvements required on internal control weaknesses identified.

During the year, the Audit Committee has reviewed the report by the Internal Auditor, as well as discussed with Management and the External Auditors, and is satisfied that the Management has devised and maintained a system of internal accounting controls that is sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheet, and to maintain accountability of assets.

In addition, the Internal Auditors may be involved in ad-hoc projects initiated by the Board which require the assurance of the Internal Auditors in specific areas of concerns. During the year, the Internal Auditors were not involved in any ad-hoc projects.

The Audit Committee is satisfied that the Group's internal audit function is independent, effective and adequately resourced. The current internal audit function, outsourced to CLA Global TS Risk Advisory Pte Ltd. (formerly known as Nexia TS Risk Advisory Pte Ltd), is staffed by suitably qualified and experienced professional with the relevant experience to perform its internal audit function effectively.

SHAREHOLDER RIGHTS AND ENGAGEMENT

Shareholder Rights and Conduct of General Meetings

Principle 11: The Company treats all shareholders fairly and equitably in order to enable them to exercise shareholders' rights and have the opportunity to communicate their views on matters affecting the Company. The Company gives shareholders a balanced and understandable assessment of its performance, position and prospects.

Shareholders are informed of shareholders' meetings through notices contained in annual reports or circulars sent to all shareholders. The notices are also published in the Business Times and posted onto the SGXNET and the Company's website.

Pursuant to Rule 730A(2) of the Listing Manual, all resolutions proposed at the AGM and at any adjournment thereof shall be put to the vote by way of poll. All shareholders are entitled to vote in accordance with the established voting rules and procedures at the AGM. Each share is entitled to one vote. An external firm is appointed as scrutineers for the AGM voting process. The detailed results setting out the number of votes cast for and against each resolution and the respective percentages are announced via SGXNET after the AGM.

CORPORATE GOVERNANCE REPORT

The resolutions tabled at the general meetings are on each substantially separate issue, including treating the election or re-election of each director as a separate subject matter. Detailed information on each item in the AGM agenda is provided in the explanatory notes to the Notice of AGM in the Annual Report.

The Group believes in encouraging active shareholder participation at general meetings to ensure high level of accountability and to stay informed of the Group's strategies. At general meetings of the Company, shareholders present are given the opportunity to communicate their views and are encouraged to ask the Directors and Management questions regarding matters affecting the Company and the Group. A shareholder who is entitled to attend and vote, may either vote in person or in absentia through the appointment of one or more proxies. If shareholders are unable to attend the meetings, the Constitution of the Company allows for shareholders who are not relevant intermediaries to appoint not more than two proxies to attend, speak and vote in general meetings. In order to have valid registration of proxy, the proxy forms must be sent in advance to the place(s) as specified in the notice of the general meetings at least 72 hours before the time set for the general meetings. The Company's Constitution does not allow for other absentia voting methods such as by mail, electronic mail, fax and/or other methods. Such methods will only be implemented if the necessary security and other measures to protect against errors, fraud and other irregularities are addressed and available on a cost-effective basis.

At each AGM, the members of the Board avail themselves and encourage shareholders to participate in the question-and-answer session. The Board views the AGM as the principal forum for dialogue with shareholders, being an opportunity to raise issues pertaining to the resolutions tabled for approval. The External Auditors are present to address shareholders' queries on the conduct of the audit and the preparation and content of the auditors' report. The respective Chairmen of the Audit Committee, Nominating Committee and Remuneration Committee, or members of the respective Board Committees standing in for them, are present at each AGM, and other general meetings held by the Company, if any, to address shareholders' queries. Appropriate key management personnel are also present at general meetings to respond, if necessary, to answer financial and operational questions from shareholders.

The Company also prepares minutes of general meetings (published within one month after the meeting) which include substantial and relevant comments or queries from shareholders relating to the agenda of the meeting, and responses from the Board and Management. Minutes of the AGM FY2021 held on 22 April 2022 had been published by the Company on its corporate website and SGX-ST website. During the year, the Company also held two separate physical Extraordinary General Meetings ("EGM") to seek Shareholders approval on the (1) Proposed investment in a newly incorporated wholly owned subsidiary (Pegasus Industrial Midwest Limited Liability Company), in Illinois USA, by subscription of units and shareholders loan (including the proposed acquisition of a property), totaling USD7.5 million, as a major transaction (EGM dated 5 August 2022) and (2) Proposed acquisition of a property located at 26 Gul Way for a consideration of \$11.0 million as a major transaction (EGM dated 10 November 2022). The shareholders at both EGMs approved the major transactions.

Currently, the Company does not maintain a definitive dividend policy. The amount of dividend proposed or declared is subject to the financial performance of the Group and availability of excess funds (after taking into consideration the operating environment, business expansion plans, capital expenditure and working capital requirements for the coming year). Please refer to the Chairlady message to Shareholders – the Group's working capital and capital commitments – on page 6 of this Report. While there is no definitive policy, the Board will endeavour to have a dividend rate that reflects closely with the Group's performance.

For the financial year ended 31 December 2022, the Board has proposed, subject to shareholders' approval at the AGM, a first and final tax-exempt (one-tier) dividend of 0.04 cents per ordinary share (2021: 0.04 cents). No special tax-exempt (one-tier) dividend was declared (2021: 0.02 cents). The proposed dividends for FY2022 will be paid out from current year profit. The dollar value of the dividends proposed is \$232,000 and represents 62.5 per cent (%) of the Group's profit after tax for FY2022.

CORPORATE GOVERNANCE REPORT

AGM – to be held on 21 April 2023

For the forthcoming AGM, the Company will be conducting a physical meeting instead of adopting AGM via electronic means (live video conference or live audio conference) which is allowed until 30 June 2023.

Shareholders are encouraged to submit their questions by the 13 April 2023. The Company will respond to these submitted questions and published it on the (i) SGX's website and (ii) the Company's corporate website on or before 16 April 2023 (in accordance with the guidelines in which questions must be responded forty-eight (48) hours prior to the closing date and time for the lodgement of the proxy forms). The minutes of the AGM will be published on (i) the SGX's website (ii) the Company's corporate website within one month after the date of the AGM.

ENGAGEMENT WITH SHAREHOLDERS

Principle 12: The Company communicates regularly with its shareholders and facilitates the participation of shareholders during general meetings and other dialogues to allow shareholders to communicate their views on various matters affecting the Company.

The Company is committed to corporate governance and transparency by disclosing to its stakeholders, including its shareholders, as much relevant information as far as possible, in a timely, fair and transparent manner as well as to hearing its shareholders' views and addressing their concerns. By supplying shareholders with reliable and timely information, the Company is able to strengthen the relationship with its shareholders based on trust and accessibility.

All shareholders of the Company receive the Annual Report and Notice of AGM on a yearly basis. The Notice of the AGM is also advertised in the local press. The AGM is the principal forum for dialogue between the Board and the shareholders. Shareholders are invited to participate in the question-and-answer session. The Constitution of the Company also provides for the appointment of proxies to attend the meeting in his or her stead and the proxies need not be shareholders of the Company.

Besides the AGMs, the Company believes in regular, effective and fair communication with its shareholders and is committed to hearing shareholders' views and addressing their concerns where possible. The Company has an investor relations team which attends to their queries or concerns. The Company does not have an Investor Relations Policy in place.

The Board strives to provide Shareholders and investors comprehensive disclosures enabling them to keep abreast with developments and making informed investment decisions for example voluntary quarterly financial guidance and updates on Malaysia, Taiwan and US operations (arising from material developments in FY2022). Guided by the policy, of equal access, shareholders are informed simultaneously in an accurate and comprehensive manner regarding all material developments via SGXNet, the Company's website (www.mun-siong.com) and where appropriate through media release on an immediate basis. This is in line with the Company's disclosure obligations pursuant to the Listing Manual of the SGX-ST and the Companies Act 1967.

The investor relations team also manages the dissemination of corporate information to the media, public, institutional investors and public shareholders and acts as a liaison point for such entities and parties. Shareholders can make use of telephone or email directly to the Company's investor relations team.

CORPORATE GOVERNANCE REPORT

MANAGING STAKEHOLDERS RELATIONSHIPS

ENGAGEMENT WITH STAKEHOLDERS

Principle 13: The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the Company are served.

The Company has regularly engaged its stakeholders through various medium and channels to ensure that business interests are aligned with those of the stakeholders, to understand and address the concerns as to improve the services and quality and to maintain safety standards, in addition to sustaining the business opportunities for long term growth.

The stakeholders have been identified as those who are impacted by the Group's business and operations or those whose actions are able to impact the Group's business and operations. Five stakeholder groups have been identified and through an assessment of their significance to the business operations. They are namely suppliers, customers (or business partners), employees, community, and shareholders.

The Group has undertaken a process to determine the environmental, social and governance ("ESG") issues which are important to these stakeholders. These issues form the materiality matrix upon which targets, performance and progress are reviewed and endorsed by the Board annually. The Company's Sustainability Report will be made available on our website on an annual basis in the month of April. Having identified the stakeholders and the material issues, the Company has mapped out the key areas of focus in relation to the Management of the respective stakeholder relationships.

The Company also maintains a corporate website at www.mun-siong.com to communicate and engage stakeholders. The Company monitors the dissemination of material information to ensure that it is made publicly available on a timely and non-selective basis. The Group does not practice selective disclosure of material information. Information relating to the Company or Group which are deemed price sensitive or affecting shareholders' or investors' decisions in investing in the Company's shares, for example, events affecting financial performance, changes in business plans, announcement of financial results and annual reports are announced or issued within the mandatory period as prescribed under the Listing Manual of the SGX-ST.

Other Corporate Governance Matters

Dealing in Securities

The Group has adopted an internal code on securities trading for its Directors and officers and the execution of its share buyback mandate setting out the implications on insider trading. The Group's internal code prohibits the dealing in listed securities of the Company while in possession of price-sensitive information, and during the period commencing one month before the date of announcement of results for half-yearly of the Group's financial year and full year financial results, and ending on the date of the announcement. The Company has also on a voluntary basis, provided quarterly financial guidance. Two weeks prior to the announcements of the first and third quarters guidance, no dealings in the Company's securities are observed. Directors are required to notify the Company of their securities trading within two market days of such dealings and the Company shall disseminate such notifications received via SGXNet within one market day upon receipt.

CORPORATE GOVERNANCE REPORT

In addition, Directors and officers are reminded to observe insider trading laws at all times even when dealing in securities within permitted trading periods. Directors and officers are discouraged from dealing in the Company's securities on short-term considerations.

All directors are required to seek Board's approval before trading in the Company's shares and are also required to notify the Company's Secretary of any change in his interest in the Company's shares within two business days of the change.

During FY2022, there was no trading of the Company's shares by its Directors and officers.

DIRECTORS' STATEMENT

We are pleased to present this annual report to the members of the Company together with the audited financial statements for the financial year ended 31 December 2022.

In our opinion:

- (a) the financial statements set out on pages 61 to 121 are drawn up so as to give a true and fair view of the financial positions of the Group and of the Company as at 31 December 2022 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Companies Act 1967 and Singapore Financial Reporting Standards (International); and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

Directors

The directors in office at the date of this statement are as follows:

Cheng Woei Fen
 Quek Kian Hui
 David Tan Chao Hsiung
 Mah Kai Leong
 Elaine Beh Pur-Lin (Appointed on 25 April 2022)

Arrangements to enable shares and debentures

Except as described below, neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' interests

According to the register kept by the Company for the purposes of Section 164 of the Companies Act 1967 (the "Act"), particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and children) in shares, debentures, warrants and share options in the Company and in related corporations (other than wholly-owned subsidiaries) are as follows:

| Name of director and corporation in which interests are held | ← Direct interests → | | ← Deemed interests → | |
|---|---|-----------------------------------|---|-----------------------------------|
| | Holdings at beginning of the year | Holdings at end of the year | Holdings at beginning of the year | Holdings at end of the year |
| The Company | | | | |
| <i>Ordinary shares</i> | | | | |
| Cheng Woei Fen | 278,997,600 | 278,997,600 | 36,167,400 | 36,167,400 |
| Quek Kian Hui | 86,376,800 | 86,376,800 | - | - |

DIRECTORS' STATEMENT

By virtue of Section 7 of the Act, Cheng Woei Fen is deemed to have interests in the subsidiaries of the Company, all of which are wholly-owned, at the beginning and at the end of the financial year.

Except as disclosed in this statement, no director who held office at the end of the financial year had interest in shares, debentures, warrants or share options of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

There were no changes in any of the abovementioned interest in the Company between the end of the financial year and 21 January 2023.

Neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Mun Siong Engineering Limited Performance Share Plan (The "Plan")

(Unless otherwise defined herein capitalised terms shall have the meanings ascribed in the circular to shareholders dated 29 March 2017).

The Plan was approved at an Annual General Meeting ("AGM") held on 20 April 2017, for granting awards to eligible full-time employees and Executive Directors.

Principal Terms of the Plan

Eligibility

The following persons shall be eligible to participate in the Plan subject to the absolute sole discretion of the Committee:

- (a) full time employees who are confirmed in their employment with the Company or any subsidiary as at 31 December of the financial year prior to the Award Date and have been with the Company or its subsidiary for at least 12 Months or such shorter period as the Committee may determine on or prior to the Award Date; and
- (b) Executive Directors (subject to approval by the Independent Shareholders)

provided always that any of the aforesaid persons:

- (i) have attained the age of 21 years on or before the Award Date; and
- (ii) are not undischarged bankrupts.

Subject to the separate approval by Independent Shareholders for their participation in the Plan, controlling shareholders and their associates within the above categories are eligible to participate in the Plan.

DIRECTORS' STATEMENT

Awards

Awards represent the right of a Participant to receive fully paid Shares, free of charge, upon the satisfaction of the prescribed Performance Conditions within the Performance Period. Participants will be granted an Award, under which Shares will be Vested and Released at the end of the Performance Period once the Committee is, at its sole discretion, satisfied that the Performance Conditions have been achieved.

Grant of Awards

Under the rules of the Plan, there are no fixed periods for the grant of Awards. As such, offers for the Awards may be made at any time from time at the discretion of the Committee. In considering an award to be granted to a Participant, the Committee may take into account, inter alia, the participant's rank, scope of responsibilities, job performance, length of service and potential for future development, contribution to the success and development of the Company and if the extent of effort and resourcefulness required to achieve the Performance Conditions within the Performance Period.

Vesting of Awards

Awards will typically vest only after the satisfactory completion of the Performance Conditions within the Performance Period. No minimum vesting periods are prescribed under the Plan, and the length of the vesting period(s) in respect of each Award will be determined by the Committee on a case-by-case basis.

Size of the Plan

The aggregate number of Shares to be delivered pursuant to the Vesting of the Awards on any date, when added to the number of Shares issued and issuable in respect of such other Shares issued and/or issuable under such other share-based incentive schemes of the Company, shall not exceed 15 percent of the total issued share capital excluding treasury shares of the Company on the day preceding the relevant Award Date.

Duration of the Plan

The Plan shall continue in force at the discretion of the Committee, subject to a maximum period of 10 years commencing on the date on which the Plan is adopted by the Company in general meeting, provided always that the Plan may continue beyond the above stipulated period with the approval of Shareholders by ordinary resolution in general meeting and of any relevant authorities which may then be required. The termination or discontinuance of the Plan shall be without prejudice to the rights accrued to any Participant who has been granted Awards, whether such Awards have been Vested (whether fully or partially) or not.

The Plan is administered by the Remuneration Committee consisting of non-executive independent directors, Mr Mah Kai Leong (Chairman), Mr David Tan Chao Hsiung and Dr Lau Teik Soon (resigned on 27 May 2022) and Ms Elaine Beh Pur-Lin (appointed on 25 April 2022).

On 21 February 2019, an aggregate of 2,400,000 share awards were granted to the employees of the Company and its subsidiaries since the commencement of the plan until the end of the financial year. The first tranche of the Award in respect of 800,000 Shares vested during the financial year ended 31 December 2019. The second tranche of the Award in respect of 800,000 shares vested after the financial year ended 31 December 2019 and the third tranche in respect of 800,000 shares vested after financial year ended 31 December 2020. No shares awards were cancelled or forfeited.

DIRECTORS' STATEMENT

On 4 March 2021, an employee was awarded 2,400,000 shares. The first tranche of the Award in respect of 800,000 Shares vested after the financial year 31 December 2021, the second tranche of the Award, in respect of 800,000 shares will vest after the financial year 31 December 2022 and the third tranche in respect of 800,000 shares will vest after financial year 31 December 2023.

Details of all share awards of the Company granted pursuant to the Plan as at 31 December 2022 are as follows:

| Date of grant of share awards | Share awards outstanding as at 1 January 2022 | Share awards granted during the year | Share awards vested during the year | Share awards lapsed during the year | Share awards outstanding as at 31 December 2022 |
|-------------------------------|---|--------------------------------------|-------------------------------------|-------------------------------------|---|
| 4/3/2021 | 2,400,000 | - | (800,000) | - | 1,600,000 |

Audit Committee

The members of the Audit Committee during the year and at the date of this statement are:

- David Tan Chao Hsiung (Chairman), non-executive director
- Lau Teik Soon, non-executive director Resigned on 27 May 2022
- Mah Kai Leong, non-executive director
- Elaine Beh Pur-Lin, non-executive director Appointed on 25 April 2022

The Audit Committee performs the functions specified in Section 201B of the Act, the SGX Listing Manual and Code of Corporate Governance.

The Audit Committee has held five meetings since the last directors' statement. In performing its functions, the Audit Committee met with the Company's external and internal auditors to discuss the scope of their work, the results of their examination and evaluation of the Company's internal accounting control system.

The Audit Committee also reviewed the following:

- assistance provided by the Company's officers to the internal and external auditors;
- quarterly financial information and annual financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption; and
- interested person transactions (as defined in Chapter 9 of the SGX Listing Manual).

The Audit Committee has full access to the management and is given the resources required for it to discharge its functions. It has full authority and discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditors and has recommended to the Board of Directors that the auditors, KPMG LLP, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

DIRECTORS' STATEMENT

In appointing our auditors for the Company and subsidiaries, we have complied with Rules 712 and 715 of the SGX Listing Manual.

Auditors

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

Cheng Woei Fen
Director

Quek Kian Hui
Director

31 March 2023

INDEPENDENT AUDITORS' REPORT

Members of the Company
Mun Siong Engineering Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Mun Siong Engineering Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2022, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 61 to 121.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act 1967 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)s") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2022 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the '*Auditors' responsibilities for the audit of the financial statements*' section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITORS' REPORT

Members of the Company
Mun Siong Engineering Limited

Revenue recognition

(Refer to Note 21 to the financial statements)

The key audit matter

For the Group's contracts with its major customers, the Group recognises revenue over time, based on the percentage of completion of its projects. The percentage of completion is measured by reference to the work performed, based on the ratio of contract costs incurred to-date to the estimated total contract costs.

The recognition of revenue and profit/loss therefore relies on estimates in relation to the forecast total costs of each contract, which involve a significant degree of judgement.

The revenue on contracts may also include variations and claims. Variations and claims are recognised on a contract-by-contract basis when the Group's negotiations have reached a stage such that it is probable that the customer will accept the claim and the amount can be measured reliably.

The assessment of the judgement involved is a key focus area of our audit.

Findings

We found the assumptions and resulting estimates of the percentage of completion applied in the recognition of revenue to be balanced.

How the matter was addressed in our audit

We tested the key internal controls identified in the Group's revenue and contract budgeting processes.

We inspected contracts to assess whether the related revenue is recognised in accordance with the Group's accounting policies, with reference to the requirements of the accounting standards.

We discussed with Management on the performance of the contracts in progress during the year, on a sample basis and challenged the key estimates and assumptions adopted in the forecasts for contract revenue and contract costs, including estimated costs to completion, the recognition of variation orders by obtaining and evaluating relevant information in connection with the assumptions adopted, including correspondence with customers regarding contract variations and claims and by considering historical outcomes for similar contracts.

We performed re-computation of management's computation of the percentage of completion to ascertain proper recognition of revenue.

INDEPENDENT AUDITORS' REPORT

Members of the Company
Mun Siong Engineering Limited

Valuation of non-financial assets and their carrying values (Refer to Note 4 to the financial statements)

The key audit matter

As at 31 December 2022, the aggregate carrying values of the Group's and Company's property, plant and equipment (and right-of-use assets) totalled \$22.1 million and \$13.2 million (2021: \$17.3 million and \$14.9 million) respectively. The aggregate carrying values represented 29.9% and 17.3% (2021: 19.9% and 16.8%) of the total assets of the Group and the Company respectively.

An assessment is required to determine if there are any indicators of impairment of each of the Group's cash-generating units (CGUs). Where it is determined that an indicator of impairment exists, the carrying values of all assets in the CGU are compared to the amounts expected to be recoverable from that CGU. This requires estimates to be made for that CGU of future revenues, operating costs, capital expenditure, timing of cash flows and the discount rates applicable to these cash flows.

Significant judgement was required in the aspects above and the assessment of the judgement involved is a key focus area of our audit.

Findings

Where impairment triggers exist for a significant CGU and its recoverable amount was calculated, the estimates were found to be balanced.

How the matter was addressed in our audit

We considered the need for impairment provisions by assessing whether there were indicators of potential impairment in each significant CGU taking into consideration changes in profitability, cashflow generation and outlook as compared to the previous reporting period. In addition, we considered whether the gap between the Group's net assets and market capitalisation of the Group represents an impairment indicator. Where impairment trigger exists and the recoverable amount of that CGU is estimated, we challenged the forecasts of its future revenues, operating costs, capital expenditure and discount rates based on our knowledge of the business and industry. We assessed the arithmetical accuracy of the discounted cash flow models by re-performing the mathematical calculations.

INDEPENDENT AUDITORS' REPORT

Members of the Company
Mun Siong Engineering Limited

Impairment of trade receivables and contract assets in HIMS Integrated Services Sdn Bhd ("HIMS")
(Refer to Note 28 to the financial statements)

The key audit matter

In 2019, as part of the Group's entry into the Malaysian market, the Group entered into a joint venture arrangement with an external party to set up HIMS. HIMS was set up to undertake the contract award issued by a large oil and gas company for integrated turnaround mechanical and maintenance works. The Group's subsidiary, Pegasus Advanced Engineering Sdn Bhd ("PAE(M)") was engaged as a subcontractor by HIMS.

In the previous year, a default payment risk arose between PAE(M) and HIMS over payments for services performed by PAE(M). In December 2021, the Group issued a letter of demand to HIMS for payment.

As set out in Note 28 of the financial statements, in the previous year, the Group assessed that the related trade receivables and contract assets were credit impaired, having considered the default payment risk of HIMS. During the year, the Group had fully recovered the said trade receivables from HIMS and provided a further impairment loss on contract assets from HIMS which is awaiting final instructions and direct payments from Petronas to HIMS.

The Group recorded allowance for impairment losses over the related trade receivables and contract assets of \$Nil (2021: \$0.6 million) and \$1.1 million (2021: \$0.8 million) respectively.

Judgement is required in making assumptions about the risk of default and expected loss rates to determine if adequate loss allowance is made to account for the Group's exposure.

Findings

The impairment losses recorded on the trade receivables and contract assets did not differ materially from our assessment of the estimated impairment losses, based on the prevailing circumstances at the date of issuance of the financial statements.

How the matter was addressed in our audit

We assessed the appropriateness of management's impairment assessment through evaluation of all supportable information, which includes historical, current and forecast information.

INDEPENDENT AUDITORS' REPORT

Members of the Company
Mun Siong Engineering Limited

Other information

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained all other information prior to the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I)s, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.

INDEPENDENT AUDITORS' REPORT

Members of the Company
Mun Siong Engineering Limited

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless the law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by that subsidiary corporation incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Voo Poh Jee.

KPMG LLP

*Public Accountants and
Chartered Accountants*

Singapore

31 March 2023

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2022

| | Note | Group | | Company | |
|---|------|----------------|----------------|----------------|----------------|
| | | 2022 \$'000 | 2021 \$'000 | 2022 \$'000 | 2021 \$'000 |
| Assets | | | | | |
| Property, plant and equipment | 4 | 22,139 | 17,269 | 13,215 | 14,873 |
| Intangible asset | 5 | – | – | – | – |
| Investment properties | 6 | 1,300 | 1,270 | 1,300 | 1,270 |
| Subsidiaries | 7 | – | – | 4,223 | 5,428 |
| Investment in an equity-accounted investee | 8 | 323 | 1 | 323 | – |
| Trade and other receivables | 11 | – | – | 12,793 | – |
| Non-current assets | | 23,762 | 18,540 | 31,854 | 21,571 |
| Inventories | 9 | 151 | 119 | 140 | 119 |
| Contract assets | 10 | 5,928 | 9,621 | 5,335 | 9,600 |
| Trade and other receivables | 11 | 15,535 | 23,622 | 15,854 | 24,993 |
| Cash and cash equivalents | 12 | 28,647 | 35,077 | 23,114 | 31,999 |
| Current assets | | 50,261 | 68,439 | 44,443 | 66,711 |
| Total assets | | 74,023 | 86,979 | 76,297 | 88,282 |
| Equity | | | | | |
| Share capital | 13 | 26,254 | 26,254 | 26,254 | 26,254 |
| Translation reserve | 14 | 79 | 83 | 88 | 100 |
| Treasury shares | 15 | (42) | (65) | (42) | (65) |
| Share-based compensation reserve | 16 | (55) | (39) | (55) | (39) |
| Retained earnings | | 28,868 | 28,845 | 31,902 | 30,365 |
| Equity attributable to owners of the Company | | 55,104 | 55,078 | 58,147 | 56,615 |
| Non-controlling interests | | – | – | – | – |
| Total equity | | 55,104 | 55,078 | 58,147 | 56,615 |
| Liabilities | | | | | |
| Loans and borrowings | 17 | 2,642 | 3,770 | 2,624 | 3,750 |
| Provisions | 18 | 1,315 | 1,289 | 1,315 | 1,289 |
| Deferred tax liabilities | 19 | 1,410 | 1,331 | 1,410 | 1,331 |
| Non-current liabilities | | 5,367 | 6,390 | 5,349 | 6,370 |
| Trade and other payables | 20 | 11,222 | 21,753 | 10,534 | 21,637 |
| Contract liabilities | 10 | – | 1,418 | – | 1,418 |
| Loans and borrowings | 17 | 1,784 | 1,762 | 1,754 | 1,734 |
| Provisions | 18 | 462 | 462 | 462 | 462 |
| Current tax payable | | 84 | 116 | 51 | 46 |
| Current liabilities | | 13,552 | 25,511 | 12,801 | 25,297 |
| Total liabilities | | 18,919 | 31,901 | 18,150 | 31,667 |
| Total equity and liabilities | | 74,023 | 86,979 | 76,297 | 88,282 |

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

| | Note | 2022 \$'000 | 2021 \$'000 |
|--|------|----------------|----------------|
| Revenue | 21 | 63,290 | 74,646 |
| Cost of sales | | (56,788) | (69,038) |
| Gross profit | | 6,502 | 5,608 |
| Other income | 22 | 754 | 1,938 |
| Administrative expenses | | (5,796) | (6,721) |
| Other operating (expenses)/income | | (1,092) | 274 |
| Share of results of an equity-accounted investee | | 317 | (321) |
| Results from operating activities | | 685 | 778 |
| Finance income | 23 | 255 | 59 |
| Finance costs | 23 | (131) | (157) |
| Profit before tax | 24 | 809 | 680 |
| Tax expense | 25 | (438) | (15) |
| Profit for the year | | 371 | 665 |
| Profit attributable to: | | | |
| Owners of the Company | | 371 | 674 |
| Non-controlling interests | | - | (9) |
| Profit for the year | | 371 | 665 |
| Other comprehensive income | | | |
| Item that is or may be reclassified subsequently to profit or loss: | | | |
| Foreign currency translation difference from foreign operations | | (4) | 49 |
| Total comprehensive income for the year | | 367 | 714 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | 367 | 723 |
| Non-controlling interests | | - | (9) |
| Total comprehensive income for the year | | 367 | 714 |
| Earnings per share | | | |
| Basic earnings per share (cents) | 26 | 0.06 | 0.12 |
| Diluted earnings per share (cents) | 26 | 0.06 | 0.12 |

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

| Group | Note | Attributable to owners of the Company | | | | | | Non-controlling interests | Total equity |
|---|------|---------------------------------------|---------------------|-----------------|-------------------|----------------------------------|--------|---------------------------|--------------|
| | | Share capital | Translation reserve | Treasury shares | Retained earnings | Share-based compensation reserve | Total | | |
| | | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | |
| At 1 January 2021 | | 26,254 | 34 | (92) | 28,403 | (34) | 54,565 | 9 | 54,574 |
| Total comprehensive income for the year | | | | | | | | | |
| Profit for the year | | - | - | - | 674 | - | 674 | (9) | 665 |
| Other comprehensive income | | | | | | | | | |
| Foreign currency translation difference from foreign operations | | - | 49 | - | - | - | 49 | - | 49 |
| Total comprehensive income for the year | | - | 49 | - | 674 | - | 723 | (9) | 714 |
| Transactions with owners, recognised directly in equity | | | | | | | | | |
| Contributions by and distributions to owners | | | | | | | | | |
| Dividends | 13 | - | - | - | (232) | - | (232) | - | (232) |
| Purchase of treasury shares | | - | - | (16) | - | - | (16) | - | (16) |
| Share-based payment transactions | 16 | - | - | 43 | - | (5) | 38 | - | 38 |
| Total transactions with owners | | - | - | 27 | (232) | (5) | (210) | - | (210) |
| At 31 December 2021 | | 26,254 | 83 | (65) | 28,845 | (39) | 55,078 | - | 55,078 |

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

| Group | Note | Attributable to owners of the Company | | | | | Total | Non-controlling interests | Total equity |
|---|------|---------------------------------------|---------------------|-----------------|-------------------|----------------------------------|--------|---------------------------|--------------|
| | | Share capital | Translation reserve | Treasury shares | Retained earnings | Share-based compensation reserve | | | |
| | | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | |
| At 1 January 2022 | | 26,254 | 83 | (65) | 28,845 | (39) | 55,078 | - | 55,078 |
| Total comprehensive income for the year | | | | | | | | | |
| Profit for the year | | - | - | - | 371 | - | 371 | - | 371 |
| Other comprehensive income | | | | | | | | | |
| Foreign currency translation difference from foreign operations | | - | (4) | - | - | - | (4) | - | (4) |
| Total comprehensive income for the year | | - | (4) | - | 371 | - | 367 | - | 367 |
| Transactions with owners, recognised directly in equity | | | | | | | | | |
| Contributions by and distributions to owners | | | | | | | | | |
| Dividends | 13 | - | - | - | (348) | - | (348) | - | (348) |
| Purchase of treasury shares | | - | - | (33) | - | - | (33) | - | (33) |
| Share-based payment transactions | 16 | - | - | 56 | - | (16) | 40 | - | 40 |
| Total transactions with owners | | - | - | 23 | (348) | (16) | (341) | - | (341) |
| At 31 December 2022 | | 26,254 | 79 | (42) | 28,868 | (55) | 55,104 | - | 55,104 |

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

| | Note | 2022 \$'000 | 2021 \$'000 |
|--|------|----------------|----------------|
| Cash flows from operating activities | | | |
| Profit before tax | | 809 | 680 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | 3,231 | 3,284 |
| (Gain)/loss on disposal of property, plant and equipment | | (134) | 10 |
| Unwinding of discount on provision for restoration costs | | 26 | 25 |
| Property, plant and equipment written off | | - | 6 |
| Impairment losses on contract assets | | 338 | 782 |
| Equity-settled share-based payment transactions | | 40 | 38 |
| Fair value gain on investment properties | | (30) | (65) |
| Write back of provision for onerous contracts | | - | (42) |
| (Write back)/provision of impairment losses on trade receivables | | (534) | 571 |
| Share of results of an equity-accounted investee | | (317) | 321 |
| Interest expense | | 105 | 132 |
| Interest income | | (255) | (59) |
| | | 3,279 | 5,683 |
| Changes in inventories | | (32) | 74 |
| Changes in contract assets | | 3,419 | (401) |
| Changes in contract liabilities | | (1,418) | 175 |
| Changes in trade and other receivables | | 8,657 | (11,120) |
| Changes in trade and other payables | | (11,492) | 7,977 |
| Cash generated from operating activities | | 2,413 | 2,388 |
| Tax paid | | (391) | (623) |
| Net cash from operating activities | | 2,022 | 1,765 |
| Cash flows from investing activities | | | |
| Interest received | | 255 | 59 |
| Investment in an equity-accounted investee | | - | (82) |
| Net cash outflow on divestment of a subsidiary | | (9) | - |
| Acquisition of property, plant and equipment | | (6,775) | (3,142) |
| Proceeds from disposal of property, plant and equipment | | 289 | 9 |
| Net cash used in investing activities | | (6,240) | (3,156) |
| Cash flows from financing activities | | | |
| Repayment of bank loans | | (1,219) | (341) |
| Dividends paid | | (348) | (232) |
| Payment of lease liabilities | | (621) | (567) |
| Purchase of treasury shares | | (33) | (16) |
| Interest paid | | (103) | (139) |
| Net cash used in financing activities | | (2,324) | (1,295) |
| Net decrease in cash and cash equivalents | | (6,542) | (2,686) |
| Cash and cash equivalents at 1 January | | 35,077 | 37,737 |
| Effect of exchange rate fluctuations on cash held | | 112 | 26 |
| Cash and cash equivalents at 31 December | 12 | 28,647 | 35,077 |

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

Significant non-cash transactions

During the year, the Group acquired property, plant and equipment totalling \$8,509,000, of which:

- i) Construction costs of the fabrication yard in Malaysia of \$964,000 have been incurred but remained unpaid as at year end; and
- ii) New leases acquired of \$770,000.

In the previous year, the Group acquired property, plant and equipment totalling \$4,196,000, of which upon full implementation of the Group's computer software system, prepayment of \$1,054,000 was reclassified to property, plant and equipment.

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 31 March 2023.

1 DOMICILE AND ACTIVITIES

Mun Siong Engineering Limited (the “Company”) is incorporated in the Republic of Singapore on 30 April 1969. The address of the Company’s registered office and principal place of business is 35 Tuas Road, Jurong Town, Singapore 638496.

The financial statements of the Group as at and for the year ended 31 December 2022 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in an equity-accounted investee.

The principal activities of the Company are those of mechanical engineering, provision of specialised services and investment holding. In March 2019, the Company established a branch office known as Mun Siong Engineering Limited, Taiwan branch in Kaohsiung, Republic of China (“Taiwan”). The following notes for the Company include the results of the branch office. The principal activities of the subsidiaries and an equity-accounted investee are set out in Note 7 and Note 8 to the consolidated financial statements respectively.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards (International) (“SFRS(I)”). The Group has applied a number of SFRS(I)s amendments to and interpretations of SFRS(I) for the first time for the annual period beginning on 1 January 2022. These amendments to standards and interpretations do not have a material effect on the financial statements.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except as otherwise described in the notes below.

2.3 Functional and presentation currency

These financial statements are presented in Singapore dollars, which is the Company’s functional currency. All financial information presented in Singapore dollars have been rounded to the nearest thousand, unless otherwise stated.

2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with SFRS(I) requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

2 BASIS OF PREPARATION (CONTINUED)

2.4 Use of estimates and judgements (Continued)

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 4 – Impairment of property, plant and equipment;
- Note 8 – Impairment of the Company's investment in an equity-accounted investee; and
- Note 21 – Revenue recognition: estimate of total contract costs used in determining the percentage of completion.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Significant valuation issues are reported to the Group's Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement (with Level 3 being the lowest).

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 6 – Valuation of investment properties; and
- Note 29 – Determination of fair values.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

2 BASIS OF PREPARATION (CONTINUED)

2.5 Changes in accounting policies

New standards and amendments

The Group has applied the following SFRS(I)s, amendments to and interpretations of SFRS(I) for the first time for the annual period beginning on 1 January 2022:

- Amendment to SFRS(I) 16: *COVID-19-Related Rent Concessions beyond 30 June 2021*
- Amendments to SFRS(I) 3: *Reference to the Conceptual Framework*
- Amendments to SFRS(I) 1-16: *Property, Plant and Equipment – Proceeds before Intended Use*
- Amendments to SFRS(I) 1-37: *Onerous Contracts – Cost of Fulfilling a Contract*
- Annual Improvements to SFRS(I)s 2018-2020

The application of these amendments to standards and interpretations does not have a material effect on the financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The accounting policies have been applied consistently by Group entities and its equity-accounted investee.

3.1 Basis of consolidation

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group.

The Group measures goodwill at the date of acquisition as:

- the consideration transferred (generally measured at fair value); plus
- the recognised amount of any non-controlling interests (“NCI”) in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree,

over the net recognised amount (generally measured at fair value) of the identifiable assets acquired and liabilities assumed. Any goodwill that arises is tested annually for impairment.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (Continued)

NCl that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured either at fair value or at the NCl's proportionate share of the recognised amounts of the acquiree's identifiable net assets, at the date of acquisition. The measurement basis taken is elected for each business combination. All other NCl are measured at acquisition-date fair value, unless another measurement basis is required by SFRS(I).

Costs related to the acquisition, other than those associated with the issue of debt or equity investments, that the Group incurs in connection with a business combination are expensed as incurred.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners and therefore no adjustments are made to goodwill and no gain or loss is recognised in profit or loss. Adjustments to NCl arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the NCl in a subsidiary are allocated to the NCl even if doing so causes NCl to have a deficit balance.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Investment in an equity-accounted investee (joint venture)

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investment in a joint venture is accounted for using the equity method. It is initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investee, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (Continued)

Investment in an equity-accounted investee (joint venture) (Continued)

When the Group's share of losses exceeds its investment in an equity-accounted investee, the carrying amount of the investment, together with any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation to fund the investee's operations or has made payments on behalf of the investee.

Subsidiaries and joint venture in the separate financial statements

Investments in subsidiaries and a joint venture are stated in the Company's statement of financial position at cost less accumulated impairment losses.

3.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations, excluding goodwill and fair value adjustments arising on acquisition, are translated to Singapore dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Singapore dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income. When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of its investment in a joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use; and
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised as an expense in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land and construction-in-progress are not depreciated.

Depreciation is recognised from the date that the property, plant and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Property, plant and equipment (Continued)

Depreciation (Continued)

The estimated useful lives for the current and comparative years are as follows:

- Leasehold property 2 to 59 years
- Building 25 years
- Machinery, tools and equipment 12 to 15 years
- Furniture and office equipment 3 to 10 years
- Motor vehicles 5 to 15 years
- Other assets 15 years

Depreciation methods, useful lives and residual values are reviewed at the end of reporting period and adjusted if appropriate.

3.4 Intangible asset

Licensing rights

Licensing rights acquired by the Group has a finite useful life and is measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated based on the cost of the asset, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use. The estimated useful life of the licensing rights for the current and comparative years is 10 years.

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

3.5 Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Investment properties (Continued)

Cost includes expenditure that is directly attributable to the acquisition of the investment properties.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

3.6 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Leases (Continued)

(i) As a lessee (Continued)

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments; and
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including office equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group recognises rental income received from investment property as part of 'other income'.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Inventories

Inventories consists mainly of materials used for maintenance contracts and are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

3.8 Financial instruments

(i) Recognition and initial measurement

Non-derivative financial assets and financial liabilities

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Non-derivative financial assets

The Group classifies its non-derivative financial assets as measured at amortised cost.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial instruments (Continued)

(ii) Classification and subsequent measurement (Continued)

Financial assets: Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose consistent with the Group's continuing recognition of the assets.

Non-derivative financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate fractures;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial instruments (Continued)

(ii) Classification and subsequent measurement (Continued)

Non-derivative financial assets: Subsequent measurement and gains and losses

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Non-derivative financial liabilities: Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost.

Other financial liabilities are initially measured at fair value less directly attributable transaction costs. They are subsequently measured at amortised costs using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit and loss.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Transferred assets are not derecognised when the Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial instruments (Continued)

(iii) Derecognition (Continued)

Interest rate benchmark reform

When the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, the Group updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. No immediate gain or loss is recognised. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applies the policies on accounting for modifications to the additional changes.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(v) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. For the purpose of the statement of cash flows, bank overdrafts that are repayable on demand and that form an integral part of the Group's cash management are included in cash and cash equivalents.

(vi) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with SFRS(I) 1-12.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial instruments (Continued)

(vi) Share capital (Continued)

Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury shares account. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in non-distributable capital reserve.

3.9 Impairment

(i) Non-derivative financial assets and contract assets

The Group recognises loss allowances for expected credit loss ("ECLs") on:

- financial assets measured at amortised cost; and
- contract assets (as defined in SFRS(I) 15).

Loss allowances of the Group are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument or contract asset.

Simplified approach

The Group applies the simplified approach to provide for ECLs for all trade receivables and contract assets. The simplified approach requires the loss allowance to be measured at an amount equal to lifetime ECLs.

General approach

The Group applies the general approach to provide for ECLs on all other financial instruments. Under the general approach, the loss allowance is measured at an amount equal to 12-month ECLs at initial recognition.

At each reporting date, the Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment (Continued)

(i) Non-derivative financial assets and contract assets (Continued)

General approach (Continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and includes forward-looking information.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs.

The Group considers a financial asset and contract asset to be in default when the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are probability-weighted estimates of credit losses. Credit losses are measured at the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the debtor;
- a breach of contract such as a default; or
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

Presentation of allowance for ECLs in the statement of financial position

Loss allowances for financial assets measured at amortised cost and contract assets are deducted from the gross carrying amount of these assets.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment (Continued)

(i) Non-derivative financial assets and contract assets (Continued)

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment properties, inventories and contract assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment (Continued)

(ii) Non-financial assets (Continued)

An impairment loss in respect of a joint venture is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with the requirements for non-financial assets. An impairment loss is recognised in profit or loss. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and only to the extent that the recoverable amount increases.

3.10 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Share-based payment transactions

The grant date fair value of equity-settled share-based payment awards granted to employees and Executive Directors is recognised as an employee benefit expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the performance conditions at the vesting date.

3.11 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Provisions (Continued)

(i) Provision for restoration costs

Where required by the lease agreements to restore the premises to its original condition, an estimate is made for the costs of dismantling and removing an asset and restoring the site which is recognised at the commencement of the lease and amortised over the period of the lease.

(ii) Provision for reworks

The Group recognises at the reporting date the estimated liability on all expenditure for the rework cost due to joints quality problem specific to a particular project. The provision is calculated based on management's best estimate of the expenditure expected to be incurred over the quantity of joints that need rework over a specified contracted period of time.

(iii) Provision for onerous contracts

A provision is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the expected net cost of continuing with the contract, which is determined based on the incremental costs of fulfilling the obligation under the contract and an allocation of other costs directly related to fulfilling the contract.

3.12 Revenue

Services provided

The Group provides mechanical engineering and specialised services to customers through fixed-price contracts. Revenue is recognised when the control of a promised service has been transferred to the customer. At contract inception, the Group assesses whether the Group transfers control of the services over time or at a point in time by determining if (a) its performance does not create an asset with an alternative use to the Group; and (b) the Group has an enforceable right to payment for performance completed to date.

Where a promised service has no alternative use for the Group due to contractual restriction, and the Group has enforceable rights to payment for performance completed to date arising from the contractual terms, revenue is recognised over time, based on the percentage of completion of its projects. The percentage of completion is measured by reference to the work performed, based on the ratio of costs incurred to-date to the estimated total costs. Costs incurred that are not related to the contract or that do not contribute towards satisfying a performance obligation are excluded from the measure of progress and instead are expensed as incurred.

In respect of contracts where the Group does not have an enforceable right to payment for performance completed to date, revenue is recognised only when the service is delivered to the customer and the customer has accepted it in accordance with the sales contract.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Revenue (Continued)

Services provided (Continued)

Revenue is measured at the transaction price agreed under the contract entered into with customers. Estimates of revenues, costs or extent of progress towards completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in the profit or loss in the period in which the circumstances that give rise to the revision become known by management.

The customer is invoiced based on a payment schedule which is typically triggered upon achievement of specified milestones. If the value of the services transferred by the Group exceeds the payments, a contract asset is recognised. If the payments exceed the value of the services transferred, a contract liability is recognised.

Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from property is recognised as “other income”.

3.13 Finance income and finance costs

The Group’s finance income and finance costs include:

- interest income;
- interest expense; and
- unwinding of discount on site restoration provision.

Interest income or expense is recognised using the effective interest method.

3.14 Government grants

Grants under Job Support Scheme that compensate the Group for expenses incurred are recognised in profit or loss as “cost of sales” on a systematic basis in the periods in which the expenses are recognised.

Other government grants are recognised in the profit or loss as “other income”.

3.15 Income tax

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under SFRS(I) 1-37 *Provisions, Contingent Liabilities and Contingent Assets*.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Income tax (Continued)

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, measured using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Temporary differences in relation to a right-of-use asset and a lease liability for a specific lease are regarded as a net package (the lease) for the purpose of recognising deferred tax.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the carrying amount of the investment property is presumed to be recovered through sale, and the Group has not rebutted this presumption. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date, and reflects uncertainty related to income taxes, if any.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets are recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

3.17 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Executive Committee (the chief operating decision maker) to make decisions about resources to be allocated to the segments and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's Executive Committee to include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's Headquarter).

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment and intangible assets other than goodwill.

3.18 New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these financial statements.

The following amendments to SFRS(I)s are not expected to have a significant impact on the Group's consolidated financial statements and the Company's statement of financial position.

- Amendments to SFRS(I) 1-12: *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- Amendments to SFRS(I) 1-1: *Classification of Liabilities as Current or Non-Current*
- SFRS(I) 17 Insurance Contracts and Amendments to SFRS(I) 17: *Insurance Contracts*
- Amendments to SFRS(I) 1-1 and SFRS(I) Practice Statement 2: *Disclosure of Accounting Policies*
- Amendments to SFRS(I) 1-8: *Definition of Accounting Estimates*

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

4 PROPERTY, PLANT AND EQUIPMENT

| Group | Leasehold property \$'000 | Freehold land \$'000 | Building \$'000 | Construction-in-progress \$'000 | Machinery, tools and equipment \$'000 | Furniture and office equipment \$'000 | Motor vehicles \$'000 | Other assets \$'000 | Total \$'000 |
|---------------------------------------|---------------------------|----------------------|-----------------|---------------------------------|---------------------------------------|---------------------------------------|-----------------------|---------------------|--------------|
| Cost | | | | | | | | | |
| At 1 January 2021 | 13,785 | - | - | - | 32,165 | 1,928 | 7,440 | 523 | 55,841 |
| Transfer | - | - | - | - | 51 | - | (51) | - | - |
| Additions | 2,152 | - | - | - | 723 | 1,060 | 261 | - | 4,196 |
| Disposals/write-off | - | - | - | - | (31) | (12) | - | - | (43) |
| Effect of movements in exchange rates | 8 | - | - | - | 16 | - | 3 | - | 27 |
| At 31 December 2021 | 15,945 | - | - | - | 32,924 | 2,976 | 7,653 | 523 | 60,021 |
| At 1 January 2022 | 15,945 | - | - | - | 32,924 | 2,976 | 7,653 | 523 | 60,021 |
| Additions | 738 | 542 | 3,340 | 1,759 | 1,534 | 32 | 564 | - | 8,509 |
| Disposals/write-off | - | - | - | - | (1,830) | - | (426) | (368) | (2,624) |
| Termination of lease | (217) | - | - | - | - | - | - | - | (217) |
| Effect of movements in exchange rates | (155) | - | - | - | (40) | (3) | (49) | - | (247) |
| At 31 December 2022 | 16,311 | 542 | 3,340 | 1,759 | 32,588 | 3,005 | 7,742 | 155 | 65,442 |
| Accumulated depreciation | | | | | | | | | |
| At 1 January 2021 | 11,771 | - | - | - | 19,973 | 1,737 | 5,480 | 523 | 39,484 |
| Transfer | - | - | - | - | 1 | - | (1) | - | - |
| Depreciation | 808 | - | - | - | 1,728 | 387 | 361 | - | 3,284 |
| Disposals/write-off | - | - | - | - | (6) | (12) | - | - | (18) |
| Effect of movements in exchange rates | 1 | - | - | - | 1 | - | - | - | 2 |
| At 31 December 2021 | 12,580 | - | - | - | 21,697 | 2,112 | 5,840 | 523 | 42,752 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| Group | Leasehold property \$'000 | Freehold land \$'000 | Building \$'000 | Construction-in-progress \$'000 | Machinery, tools and equipment \$'000 | Furniture and office equipment \$'000 | Motor vehicles \$'000 | Other assets \$'000 | Total \$'000 |
|---------------------------------------|---------------------------|----------------------|-----------------|---------------------------------|---------------------------------------|---------------------------------------|-----------------------|---------------------|--------------|
| Accumulated depreciation | | | | | | | | | |
| At 1 January 2022 | 12,580 | - | - | - | 21,697 | 2,112 | 5,840 | 523 | 42,752 |
| Depreciation | 864 | - | 46 | - | 1,488 | 436 | 397 | - | 3,231 |
| Disposals/write-off | - | - | - | - | (1,741) | - | (360) | (368) | (2,469) |
| Termination of lease | (188) | - | - | - | - | - | - | - | (188) |
| Effect of movements in exchange rates | (5) | - | (1) | - | 18 | (2) | (33) | - | (23) |
| At 31 December 2022 | 13,251 | - | 45 | - | 21,462 | 2,546 | 5,844 | 155 | 43,303 |
| Carrying amounts | | | | | | | | | |
| At 1 January 2021 | 2,014 | - | - | - | 12,192 | 191 | 1,960 | - | 16,357 |
| At 31 December 2021 | 3,365 | - | - | - | 11,227 | 864 | 1,813 | - | 17,269 |
| At 31 December 2022 | 3,060 | 542 | 3,295 | 1,759 | 11,126 | 459 | 1,898 | - | 22,139 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| Company | Leasehold property \$'000 | Machinery, tools and equipment \$'000 | Furniture and office equipment \$'000 | Motor vehicles \$'000 | Other assets \$'000 | Total \$'000 |
|--|---------------------------------|--|--|-----------------------------|---------------------------|-----------------|
| Cost | | | | | | |
| At 1 January 2021 | 13,799 | 32,068 | 2,234 | 6,727 | 513 | 55,341 |
| Transfer | - | 51 | - | (51) | - | - |
| Additions | - | 655 | 1,060 | 261 | - | 1,976 |
| Disposals | - | (31) | - | - | - | (31) |
| Effect of movements in exchange rates | 8 | 16 | - | 3 | - | 27 |
| At 31 December 2021 | 13,807 | 32,759 | 3,294 | 6,940 | 513 | 57,313 |
| At 1 January 2022 | 13,807 | 32,759 | 3,294 | 6,940 | 513 | 57,313 |
| Additions | 692 | 838 | 32 | 85 | - | 1,647 |
| Disposals | - | (1,830) | - | (426) | (368) | (2,624) |
| Termination of lease | (217) | - | - | - | - | (217) |
| Effect of movements in exchange rates | (27) | (32) | - | (45) | - | (104) |
| At 31 December 2022 | 14,255 | 31,735 | 3,326 | 6,554 | 145 | 56,015 |
| Accumulated depreciation | | | | | | |
| At 1 January 2021 | 11,852 | 19,939 | 2,126 | 4,831 | 513 | 39,261 |
| Transfer | - | 1 | - | (1) | - | - |
| Depreciation | 745 | 1,719 | 365 | 354 | - | 3,183 |
| Disposals/write-off | - | (6) | - | - | - | (6) |
| Effect of movements in exchange rates | 1 | 1 | - | - | - | 2 |
| At 31 December 2021 | 12,598 | 21,654 | 2,491 | 5,184 | 513 | 42,440 |
| At 1 January 2022 | 12,598 | 21,654 | 2,491 | 5,184 | 513 | 42,440 |
| Depreciation | 783 | 1,456 | 413 | 375 | - | 3,027 |
| Disposals/write-off | - | (1,741) | - | (360) | (368) | (2,469) |
| Termination of lease | (188) | - | - | - | - | (188) |
| Effect of movements in exchange rates | 2 | 19 | - | (31) | - | (10) |
| At 31 December 2022 | 13,195 | 21,388 | 2,904 | 5,168 | 145 | 42,800 |
| Carrying amounts | | | | | | |
| At 1 January 2021 | 1,947 | 12,129 | 108 | 1,896 | - | 16,080 |
| At 31 December 2021 | 1,209 | 11,105 | 803 | 1,756 | - | 14,873 |
| At 31 December 2022 | 1,060 | 10,347 | 422 | 1,386 | - | 13,215 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In the previous year, for the purpose of impairment testing, the management identified the CGUs according to the countries in which the Group operates in, namely Singapore, Malaysia and Taiwan.

During the year, following the incorporation of Pegasus Industrial Midwest Limited Liability Company, for the purpose of impairment testing, the management has identified the CGUs according to the countries in which the Group operates in, namely Singapore, Malaysia, Taiwan and North America.

Impairment of property, plant and equipment

In view of the Group's market capitalisation being lower than its net assets as at the balance sheet date, the Group performed an impairment assessment of its property, plant and equipment by determining the recoverable amount based on value in use. This assessment requires significant judgement and takes into account past performance, management's expectation of market developments, future cash flows and discount rates. The post-tax discount rate used in the calculation of recoverable amount is as follows:

| | 2022 | 2021 |
|------------------------|-----------|-----------|
| | % | % |
| Post-tax discount rate | 10.2 | 9.2 |
| Sales growth rate | 12.0-16.0 | 10.0-12.0 |
| Forecast period | 5 years | 5 years |

The recoverable amount could change significantly as a result of changes in market conditions and the assumptions used in determining the recoverable amount. Based on this assessment, no impairment losses were necessary as at the reporting date.

5 INTANGIBLE ASSET

| | Licensing rights \$'000 |
|--|-------------------------------|
| Group and Company | |
| Cost | |
| At 1 January 2021, 31 December 2021 and 31 December 2022 | 1,487 |
| Accumulated amortisation | |
| At 1 January 2021, 31 December 2021 and 31 December 2022 | 1,487 |
| Carrying amounts | |
| At 1 January 2021, 31 December 2021 and 31 December 2022 | - |

Impairment of intangible asset

For the purpose of impairment testing, the intangible asset is allocated to the tube coating CGU. In the previous year, the management assessed that there were no indicators of reversal of impairment. During the year, the intangible asset had reached the end of its useful life, hence, no assessment of indicators of reversal of impairment was made.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

6 INVESTMENT PROPERTIES

| | Group and Company | |
|-----------------|-------------------|--------|
| | 2022 | 2021 |
| | \$'000 | \$'000 |
| At 1 January | 1,270 | 1,205 |
| Fair value gain | 30 | 65 |
| At 31 December | 1,300 | 1,270 |

Investment properties comprise a number of commercial properties that are leased to third parties. Each of the leases contains initial non-cancellable periods of between 1 to 2 years. Subsequent renewals are negotiated with the lessee. No contingent rents are charged.

Changes in fair values are recognised as gains or losses in profit or loss and included in 'other operating income'. All gains or losses are unrealised.

Measurement of fair value

(i) Fair value hierarchy

The fair values of investment properties were determined by an external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of properties being valued. The independent valuers provide the fair value of the Group's investment properties annually.

The fair value measurement for all of the investment properties of \$1,300,000 (2021: \$1,270,000) has been categorised as a Level 2 fair value based on the inputs to the valuation technique used (see Note 6(ii)).

(ii) Valuation technique

The following table shows the Group's valuation techniques used in measuring Level 2 fair values, as well as significant unobservable inputs.

| Type | Valuation technique | Significant unobservable inputs | Inter-relationship between key unobservable inputs and fair value measurement |
|-----------------------|--------------------------|---|---|
| Investment properties | Direct comparison method | Transacted prices per square metre of comparable properties in close proximity on recent market transactions ⁽¹⁾ | The estimated fair value varies with different adjustment factors used |

(1) Adjustments are made for any difference in the location, tenure, size and condition of the specific property.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

7 SUBSIDIARIES

| | Company | |
|--------------------------------------|--------------|--------------|
| | 2022 | 2021 |
| | \$'000 | \$'000 |
| Unquoted equity investments, at cost | 5,979 | 7,184 |
| Allowance for impairment loss | (1,756) | (1,756) |
| | <u>4,223</u> | <u>5,428</u> |

In the previous year, the Company entered into a subscription agreement with PAE(M) and its other shareholder, MRA. The Company, the subscriber, fully subscribed to \$2,600,000 (RM8,000,000) value of redeemable convertible preference shares issued by PAE(M).

During the year, PAE (M) redeemed the redeemable convertible preference shares of \$2,600,000 (RM8,000,000) held by the Company. The Company also incorporated a wholly owned subsidiary in Taiwan, Pegasus Advance Industrial Company Limited ("PAI") with a paid up capital of \$1,395,000 (TWD30,000,000).

Details of the subsidiaries are as follows:

| Name of subsidiaries | Principal activities | Country of incorporation | Effective equity held by the Company | |
|--|--|--------------------------|--------------------------------------|------|
| | | | 2022 | 2021 |
| | | | % | % |
| OHM Engineering Pte Ltd ⁽¹⁾ | Mechanical and electrical engineering services | Singapore | 100 | 100 |
| Pegasus Advance Engineering Pte. Ltd. ⁽¹⁾ | Investment holding company | Singapore | 100 | 100 |
| Mun Siong Engineering Sdn Bhd ⁽²⁾ | Provision of engineering services and contractor to the process industries in Malaysia | Malaysia | 100 | 100 |
| Pegasus Advance Industrial Company Ltd ⁽⁵⁾ | Provision of engineering services and contractor to the process industries in Taiwan | Taiwan | 100 | - |
| Mun Siong Engineering Sdn Bhd and its subsidiary | | | | |
| Pegasus Advance Engineering Sdn Bhd ^{(2),(3),(4)} | Provision of project management and mechanical engineering services in Malaysia | Malaysia | 49 | 49 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

7 SUBSIDIARIES (CONTINUED)

| Name of subsidiaries | Principal activities | Country of incorporation | Effective equity held by the Company | |
|---|--|--------------------------|--------------------------------------|-----------|
| | | | 2022 % | 2021 % |
| Pegasus Advance Engineering Pte. Ltd. and its subsidiaries | | | | |
| Pegasus Advance Engineering LLP (in the process of being liquidated) | Provision of engineering, procurement and construction services as well as contractor to the process industries in India | India | 100 | 100 |
| Pegasus Advance Engineering Co., Ltd ⁽⁷⁾ | Provision of engineering, procurement and construction services as well as contractor to the process industries in Myanmar | Myanmar | - | 80 |
| Pegasus Advance Engineering (Netherlands) BV | Investment holding company | Netherlands | 100 | 100 |
| Pegasus Advance Engineering (US) Inc | Investment holding company | United States | 100 | 100 |
| Pegasus Industrial Midwest Limited Liability Company ⁽⁶⁾ | Provision of engineering services and contractor to the process industries in State of Illinois, USA | United States | 100 | - |

(1) Audited by KPMG LLP.

(2) Audited by KPMG PLT, Johor, Malaysia.

(3) Incorporated on 16 January 2020 with an initial issued and paid up capital of RM750,000. The issued and paid up capital was subsequently raised to RM8,750,000 in 2022.

(4) Although the Group holds less than 50% equity stake in Pegasus Advance Engineering Sdn Bhd ("PAE(M)"), pursuant to a contractual agreement between the Group and MRA in PAE(M), the Group controls the directors' voting power over the relevant activities of PAE(M). Accordingly, PAE(M) is considered a subsidiary of the Group.

(5) Incorporated on 20 October 2022 with issued and paid up capital of TWD30,000,000.

(6) Incorporated on 6 May 2022 with an approved paid up capital USD6,000,000. As at 31 December 2022, the issued and paid up capital was USD5,500,000.

(7) During the year, the Group divested its entire 80% equity interest in Pegasus Advance Engineering Co., Ltd, an inactive subsidiary in Myanmar to the minority shareholder and recognised a loss on disposal of \$476 in "other operating expenses" in profit or loss.

Impairment loss

In 2022 and 2021, the Company did not identify any indicator of impairment or reversal of impairment.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

8 INVESTMENT IN AN EQUITY-ACCOUNTED INVESTEE

| | Group | | Company | |
|-------------------------------|----------------|----------------|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 | 2022 \$'000 | 2021 \$'000 |
| Interest in a joint venture | 323 | 1 | 323 | 322 |
| Allowance for impairment loss | - | - | - | (322) |
| | <u>323</u> | <u>1</u> | <u>323</u> | <u>-</u> |

The following table summarises the financial information of HIMS, based on its financial statements prepared in accordance with SFRS(I).

| | Group | |
|---|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 |
| Revenue | 274 | 192 |
| Profit/(loss) from continuing operations ^a | 647 | (654) |
| OCI | - | - |
| Total comprehensive income | <u>647</u> | <u>(654)</u> |
| a Includes: | | |
| - depreciation of \$21,000 (2021: \$6,000) | | |
| - write back of impairment loss on trade and other receivables of \$653,000 (2021: provision of impairment loss on trade and other receivables of \$665,000). | | |
| Non-current assets | 179 | 4 |
| Current assets ^b | 1,498 | 299 |
| Current liabilities – trade and other payables and provisions | (1,342) | (626) |
| Net assets/(liabilities) | <u>335</u> | <u>(323)</u> |
| b Includes cash and cash equivalents of \$93,000 (2021: \$85,000) | | |
| Group's interest in net assets of an investee at the beginning of year | 1 | 244 |
| Share of total comprehensive income | 322 | (325) |
| Group's contribution during the year | - | 82 |
| Carrying amount of interest in an investee at end of the year | <u>323</u> | <u>1</u> |

Impairment loss and subsequent reversal

During the year, the Company assessed the carrying amount of its investment in a joint venture for indicators of reversal of impairment. Based on the assessment, the Company reversed the impairment loss of \$322,000 previously recognised on HIMS following the repayment of trade receivables from its customer, Highbase Strategic Sdn Bhd (HSSB) (Note 28). The recoverable amount of HIMS was estimated taking into consideration the fair value of the underlying assets and the liabilities. These net assets comprise predominantly working capital items whose carrying values closely approximate the fair values. The fair value measurement was categorised as a Level 3 in the fair value hierarchy based on the inputs in the valuation techniques used.

In the previous year, the Company assessed the carrying amount of its investment in HIMS for indicators of impairment and recognised an impairment loss of \$322,000 due to default payment risk of HSSB (Note 28).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

9 INVENTORIES

| | Group | | Company | |
|----------------------|----------------|----------------|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 | 2022 \$'000 | 2021 \$'000 |
| Consumables, at cost | 151 | 119 | 140 | 119 |

In 2022, changes in consumables recognised as cost of sales amounted to \$177,443 (2021: \$110,000).

10 CONTRACT ASSETS/(CONTRACT LIABILITIES)

| | Note | Group | | Company | |
|--------------------------|------|----------------|----------------|----------------|----------------|
| | | 2022 \$'000 | 2021 \$'000 | 2022 \$'000 | 2021 \$'000 |
| Contract assets | | 6,985 | 10,403 | 5,335 | 9,600 |
| Allowance for impairment | | (1,057) | (782) | - | - |
| Net contract assets | (i) | 5,928 | 9,621 | 5,335 | 9,600 |
| Contract liabilities | (ii) | - | (1,418) | - | (1,418) |
| | | 5,928 | 8,203 | 5,335 | 8,182 |

(i) Contract assets

Contract assets relate primarily to the Group's right to consideration for work completed but not billed at the reporting date in respect of its business. The contract assets are transferred to trade receivables when the rights become unconditional. This usually occurs when the Group invoices the customer.

The changes in contract assets in 2022 and 2021 are due to the differences between the agreed payment schedule and progress of the construction work.

(ii) Contract liabilities

Contract liabilities relate primarily to progress billings issued in excess of the Group's rights to the consideration.

The contract liabilities are recognised as revenue when the Group fulfils its performance obligation under the contract with the customer. The significant changes in the contract liabilities during the year are as follows:

| | 2022 \$'000 | 2021 \$'000 |
|---|----------------|----------------|
| Revenue recognised that was included in contract liabilities at the beginning of the year | 1,418 | 1,243 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

11 TRADE AND OTHER RECEIVABLES

| | Note | Group | | Company | |
|--|------|----------------|----------------|----------------|----------------|
| | | 2022 \$'000 | 2021 \$'000 | 2022 \$'000 | 2021 \$'000 |
| Non-current | | | | | |
| Amounts due from subsidiaries | | | | | |
| -Interest bearing | (a) | - | - | 11,430 | - |
| -Interest-free | (b) | - | - | 1,363 | - |
| | | - | - | 12,793 | - |
| Current | | | | | |
| Trade receivables | | 12,015 | 22,862 | 11,337 | 22,288 |
| Allowance for impairment losses | | (29) | (600) | (29) | (29) |
| Net trade receivables | | 11,986 | 22,262 | 11,308 | 22,259 |
| Amounts due from subsidiaries – non-trade, interest-free | (c) | - | - | 1,500 | 1,472 |
| Deposits | | 1,635 | 1,019 | 1,249 | 1,009 |
| Other receivables | | 36 | 33 | 33 | 33 |
| | | 13,657 | 23,314 | 14,090 | 24,773 |
| Prepayments | | 1,878 | 308 | 1,764 | 220 |
| | | 15,535 | 23,622 | 15,854 | 24,993 |

- (a) In respect of interest-bearing amounts due from subsidiaries, the interest ranges from 2.05% to 5.18% per annum and are repayable in 2024-2025.
- (b) The non-trade interest-free amounts due from subsidiaries are unsecured and are repayable on demand. As at 31 December 2022, these amounts were assessed to be collectible after 12 months from the reporting date, therefore they were classified as 'non-current' in the statement of financial position.
- (c) The non-trade interest-free amounts due from subsidiaries are unsecured and are repayable on demand. There is no allowance for doubtful debts arising from these outstanding balances as the ECL is not material.

The Group's and the Company's exposure to credit and currency risks, and impairment losses for trade and other receivables are disclosed in Note 28.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

12 CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 | 2022 \$'000 | 2021 \$'000 |
| Cash at bank and on hand | 11,593 | 19,150 | 9,126 | 16,479 |
| Fixed deposits | 17,054 | 15,927 | 13,988 | 15,520 |
| Cash and cash equivalents in the consolidated statement of cash flows | 28,647 | 35,077 | 23,114 | 31,999 |

Fixed deposits placed with financial institutions have maturity periods within one to three months (2021: one to three months) from the financial year end and interest rates ranged from 0.65% to 3.80% (2021: 0.25% to 0.50%) per annum, which are also the effective interest rates.

The Company's exposure to interest rate risk for cash and cash equivalents is disclosed in Note 28.

13 SHARE CAPITAL

| | Ordinary shares | |
|---------------------------------------|-------------------------------------|-------------------------------------|
| | 2022 Number of shares '000 | 2021 Number of shares '000 |
| Company | | |
| In issue at 1 January and 31 December | 581,546 | 581,546 |

Ordinary shares

The holders of ordinary shares (excluding treasury shares) are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares (excluding treasury shares) rank equally with regard to the Company's residual assets.

All issued shares are fully paid, with no par value.

Dividends

The following tax exempt (one-tier) dividends were declared and paid by the Group and Company:

| | Group and Company | |
|---|-------------------|----------------|
| | 2022 \$'000 | 2021 \$'000 |
| Paid by the Company to owners of the Company | | |
| 0.06 cents per ordinary share (2021: 0.04 cents), comprising a final dividend of 0.04 cents per ordinary share (2021: 0.04 cents) and a special dividend of 0.02 cents per ordinary share (2021: Nil cents) | 348 | 232 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

13 SHARE CAPITAL (CONTINUED)

Ordinary shares (Continued)

Dividends (Continued)

After the respective reporting dates, a final tax exempt (one-tier) dividend is proposed by the directors. These tax exempt (one-tier) dividends have not been provided for.

| | Group and Company | |
|--|-------------------|------------|
| | 2022 | 2021 |
| | \$'000 | \$'000 |
| A first and final dividend of 0.04 (2021: 0.04) cents per ordinary share | 232 | 232 |
| A special dividend of Nil (2021: 0.02 cents) per ordinary share | - | 116 |
| | <u>232</u> | <u>348</u> |

Capital management

The primary objective of the Group's capital management is to ensure that it maintains sound capital position in order to support its business and maximise shareholders' value. The Group is also committed to maintain efficient mix of debt and equity in order to achieve optimal cost of capital, while taking into account the adequacy of access to cash flows.

The Group manages its capital structure and makes alignment to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may align the dividend payment to shareholders, return capital to shareholders or issue new shares.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

14 TRANSLATION RESERVE

Translation reserve comprise foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the presentation currency of the Group.

15 TREASURY SHARES

Treasury shares comprises the cost of the Company's shares held by the Group. As at 31 December 2022, the Group held 834,000 (2021: 934,000) of the Company's shares.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

16 SHARE-BASED PAYMENT ARRANGEMENTS

Mun Siong Engineering Limited Performance Share Plan ("MSE PSP") (equity-settled)

The MSE PSP was approved at an Annual General Meeting held on 20 April 2017, for granting of awards to eligible full time employees and Executive Directors. Details of the MSE PSP are disclosed in the Directors' statement.

On 21 February 2019, an award was granted by the Company to a qualifying employee pursuant to the MSE PSP in respect of 2,400,000 shares of the Company. Under the MSE PSP, a specified number of shares will be vested and released by the Committee in accordance with the release schedule to the participant subject to the achievement of certain pre-determined performance conditions. The vesting period and the release schedule is as follows:

- a) The first tranche of the Award in respect of 800,000 shares had vested during the financial year ended 31 December 2019;
- b) The second tranche of the Award in respect of 800,000 shares vested after the financial year ended 31 December 2019; and
- c) The third tranche of the Award in respect of 800,000 shares vested after financial year ended 31 December 2020.

As the pre-determined performance conditions were met in 2021, the third tranche of the Award in respect of 800,000 shares were vested to the employee under the MSE PSP. There were no cancellation or forfeiture of share awards.

On 4 March 2021, an award was granted by the Company to a qualifying employee pursuant to the MSE PSP in respect of 2,400,000 shares of the Company. Under the MSE PSP, a specified number of shares will be vested and released by the Committee in accordance with the release schedule to the participant subject to the achievement of certain pre-determined performance conditions. The vesting period and the release schedule is as follows:

- a) The first tranche of the Award in respect of 800,000 shares were vested after financial year ended 31 December 2021;
- b) The second tranche of the Award in respect of 800,000 shares will vest after the financial year ended 31 December 2022; and
- c) The third tranche of the Award in respect of 800,000 shares will vest after financial year ended 31 December 2023.

As the pre-determined performance conditions were met in 2022, the first tranche of the Award in respect of 800,000 shares were vested to the employee under the MSE PSP.

Expense recognised in profit or loss

For the current financial year, the Group has recognised a share-based compensation expense of \$40,000 (2021: \$38,000) in relation to the MSE PSP.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

17 LOANS AND BORROWINGS

| | Group | | Company | |
|-----------------------------------|----------------|----------------|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 | 2022 \$'000 | 2021 \$'000 |
| Non-current liabilities | | | | |
| Lease liabilities | 446 | 327 | 428 | 307 |
| Bank loans | 2,196 | 3,443 | 2,196 | 3,443 |
| | <u>2,642</u> | <u>3,770</u> | <u>2,624</u> | <u>3,750</u> |
| Current liabilities | | | | |
| Lease liabilities | 540 | 543 | 510 | 515 |
| Bank loans | 1,244 | 1,219 | 1,244 | 1,219 |
| | <u>1,784</u> | <u>1,762</u> | <u>1,754</u> | <u>1,734</u> |
| Total loans and borrowings | <u>4,426</u> | <u>5,532</u> | <u>4,378</u> | <u>5,484</u> |

Terms and debt repayment schedule

| | Currency | Nominal interest rate % | Year of maturity | Face value \$'000 | Carrying amount \$'000 |
|-------------------|----------|-------------------------------|---------------------|----------------------|------------------------------|
| Group | | | | | |
| 2022 | | | | | |
| Lease liabilities | SGD | 1.6 to 3.5 | 2023-2027 | 963 | 938 |
| Lease liabilities | MYR | 3.5 | 2023-2024 | 49 | 48 |
| Bank loans | SGD | 2.0 to 2.1 | 2025 | 3,539 | 3,440 |
| | | | | <u>4,551</u> | <u>4,426</u> |
| 2021 | | | | | |
| Lease liabilities | SGD | 1.6 to 2.9 | 2022-2024 | 850 | 822 |
| Lease liabilities | MYR | 3.5 | 2022-2023 | 49 | 48 |
| Bank loans | SGD | 2.0 to 2.1 | 2025 | 4,845 | 4,662 |
| | | | | <u>5,744</u> | <u>5,532</u> |
| Company | | | | | |
| 2022 | | | | | |
| Lease liabilities | SGD | 1.6 to 3.5 | 2023-2027 | 963 | 938 |
| Bank loans | SGD | 2.0 to 2.1 | 2025 | 3,539 | 3,440 |
| | | | | <u>4,502</u> | <u>4,378</u> |
| 2021 | | | | | |
| Lease liabilities | SGD | 1.6 to 2.9 | 2022-2024 | 850 | 822 |
| Bank loans | SGD | 2.0 to 2.1 | 2025 | 4,845 | 4,662 |
| | | | | <u>5,695</u> | <u>5,484</u> |

The Group's and the Company's exposure to liquidity and interest rate risks for loans and borrowings are disclosed in Note 28.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

17 LOANS AND BORROWINGS (CONTINUED)

Reconciliation of movements of liabilities to cash flows arising from financing activities

| Group | Lease liabilities \$'000 | Bank loans \$'000 | Total \$'000 |
|--|--------------------------------|----------------------|-----------------|
| At 1 January 2022 | 870 | 4,662 | 5,532 |
| Changes from financing cash flows | | | |
| Payment of lease liabilities | (621) | - | (621) |
| Repayment of bank loans | - | (1,219) | (1,219) |
| Interest paid | (19) | (84) | (103) |
| Total changes from financing cash flows | (640) | (1,303) | (1,943) |
| The effect of changes in foreign exchange | (9) | - | (9) |
| Other changes | | | |
| Liability-related | | | |
| Termination of lease | (29) | - | (29) |
| Lease modification | 46 | - | 46 |
| New leases | 724 | - | 724 |
| Interest expense | 24 | 81 | 105 |
| Total liability-related other changes | 765 | 81 | 846 |
| At 31 December 2022 | 986 | 3,440 | 4,426 |
| At 1 January 2021 | 1,438 | 5,010 | 6,448 |
| Changes from financing cash flows | | | |
| Payment of lease liabilities | (567) | - | (567) |
| Repayment of bank loans | - | (341) | (341) |
| Interest paid | (31) | (108) | (139) |
| Total changes from financing cash flows | (598) | (449) | (1,047) |
| The effect of changes in foreign exchange | (1) | - | (1) |
| Other changes | | | |
| Liability-related | | | |
| Interest expense | 31 | 101 | 132 |
| Total liability-related other changes | 31 | 101 | 132 |
| At 31 December 2021 | 870 | 4,662 | 5,532 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

18 PROVISIONS

(i) Provision for restoration costs

| | Group and Company | |
|------------------------|-------------------|--------|
| | 2022 | 2021 |
| | \$'000 | \$'000 |
| Balance at 1 January | 1,289 | 1,264 |
| Unwinding of discount | 26 | 25 |
| Balance at 31 December | 1,315 | 1,289 |

The provision for restoration costs relates to costs for dismantling and removing of assets and restoring the leased premises to its original condition as required by the operating lease agreements.

(ii) Provision for reworks

| | Group and Company | |
|--------------------------------------|-------------------|--------|
| | 2022 | 2021 |
| | \$'000 | \$'000 |
| Balance at 1 January and 31 December | 462 | 462 |

The provision for reworks relates to the estimated liability on all expenditure for the rework cost due to the joints quality problem specific to a particular project.

(iii) Provision for onerous contracts

| | Group and Company | |
|-------------------------------------|-------------------|--------|
| | 2022 | 2021 |
| | \$'000 | \$'000 |
| Balance at 1 January | - | 42 |
| Provisions made during the year | - | - |
| Provisions reversed during the year | - | (42) |
| Balance at 31 December | - | - |

The provision for onerous contracts is made when it is assessed that the costs to fulfil the performance obligation is unavoidable for loss-making contracts. It is expected that these costs will be incurred in the next financial year.

In 2020, the provision for onerous contracts of \$42,000 relates to a loss-making ongoing project.

In the previous year, the provision is no longer required as the customer agreed to the Company's additional works request.

| | Group and Company | |
|-------------------|-------------------|--------|
| | 2022 | 2021 |
| | \$'000 | \$'000 |
| Provisions | | |
| Non-current | 1,315 | 1,289 |
| Current | 462 | 462 |
| | 1,777 | 1,751 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

19 DEFERRED TAX LIABILITIES

Movements in temporary differences during the year are as follows:

| | At 1 January 2021 \$'000 | Recognised in profit or loss (Note 25) \$'000 | At 31 December 2021 \$'000 | Recognised in profit or loss (Note 25) \$'000 | At 31 December 2022 \$'000 |
|---------------------------------|-----------------------------------|--|-------------------------------------|--|-------------------------------------|
| Group | | | | | |
| <i>Deferred tax assets</i> | | | | | |
| Unutilised capital allowances | (223) | 223 | - | - | - |
| Provisions | (40) | (55) | (95) | 43 | (52) |
| Trade and other receivables | 25 | (25) | - | - | - |
| | (238) | 143 | (95) | 43 | (52) |
| <i>Deferred tax liabilities</i> | | | | | |
| Property, plant and equipment | 1,806 | (380) | 1,426 | 36 | 1,462 |
| | 1,568 | (237) | 1,331 | 79 | 1,410 |
| Company | | | | | |
| <i>Deferred tax assets</i> | | | | | |
| Unutilised capital allowances | (223) | 223 | - | - | - |
| Provisions | (40) | (55) | (95) | 43 | (52) |
| Trade and other receivables | 25 | (25) | - | - | - |
| | (238) | 143 | (95) | 43 | (52) |
| <i>Deferred tax liabilities</i> | | | | | |
| Property, plant and equipment | 1,799 | (373) | 1,426 | 36 | 1,462 |
| | 1,561 | (230) | 1,331 | 79 | 1,410 |

Deferred tax liabilities and assets are set off when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxation authority. The amounts determined after appropriate offsetting included in the balance sheet are as follows:

| | Group | | Company | |
|--------------------------|----------------|----------------|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 | 2022 \$'000 | 2021 \$'000 |
| Deferred tax liabilities | 1,410 | 1,331 | 1,410 | 1,331 |

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

| | Group | |
|----------------------------------|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 |
| Unabsorbed capital allowances | - | 3 |
| Deductible temporary differences | 1,074 | 1,344 |
| | 1,074 | 1,347 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

20 TRADE AND OTHER PAYABLES

| | Group | | Company | |
|-----------------------------|----------------|----------------|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 | 2022 \$'000 | 2021 \$'000 |
| Trade payables | 3,099 | 10,056 | 2,583 | 9,573 |
| Amounts due to subsidiaries | | | | |
| - trade | - | - | 1,944 | 1,486 |
| - non-trade | - | - | 125 | 134 |
| Other payables and accruals | 8,123 | 11,697 | 5,882 | 10,444 |
| | <u>11,222</u> | <u>21,753</u> | <u>10,534</u> | <u>21,637</u> |

The trade and non-trade amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

The Group's and the Company's exposure to liquidity and foreign currency risks related to trade and other payables are disclosed in Note 28.

21 REVENUE

| | Group | |
|---------------------------------------|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 |
| Revenue from contracts with customers | <u>63,290</u> | <u>74,646</u> |

As at 31 December 2022, the Group has revenue of \$5,101,595 (2021: \$3,998,000) which is expected to be recognised over the next year as the Group completes the work under contract.

The Group applied the practical expedient in SFRS(I) 15 paragraph 121 and did not disclose information about its remaining performance obligations if:

- the performance obligation was part of a contract that had an original expected duration of one year or less; or
- the Group had a right to invoice a customer in an amount that corresponded directly with its performance to date, then it recognised revenue in that amount.

Significant judgements are used to estimate total contract costs to complete. In making these estimates, management has relied on past experience of completed projects. The estimated total contract costs are reviewed every reporting period and adjusted, where necessary, with the corresponding effect of change being recognised prospectively from the date of change.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

21 REVENUE (CONTINUED)

Disaggregation of revenue

In the following table, revenue is disaggregated by geographical markets. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segment (see Note 27).

| | Group | |
|-------------------------------------|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 |
| Primary geographical markets | | |
| Singapore | 51,966 | 53,002 |
| Indonesia | 921 | 453 |
| Malaysia | 3,850 | 2,132 |
| Taiwan | 6,341 | 19,059 |
| North America | 212 | - |
| | <u>63,290</u> | <u>74,646</u> |

22 OTHER INCOME

| | Group | |
|--|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 |
| Rental income | 46 | 46 |
| Gain/(loss) on disposal of property, plant and equipment | 134 | (10) |
| Government grants | 216 | 1,520 |
| Sale of scraps and pinnacle pigs | 175 | 356 |
| Others | 183 | 26 |
| | <u>754</u> | <u>1,938</u> |

23 FINANCE INCOME AND FINANCE COSTS

| | Group | |
|--|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 |
| Finance income | | |
| Interest income | 255 | 59 |
| Finance costs | | |
| Financial liabilities measured at amortised costs – interest expense | (105) | (132) |
| Unwinding of discount on provision for restoration costs | (26) | (25) |
| | <u>(131)</u> | <u>(157)</u> |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

24 PROFIT BEFORE TAX

The following items have been included in arriving at profit before tax:

| | Group | |
|--|--------|--------|
| | 2022 | 2021 |
| | \$'000 | \$'000 |
| Staff costs | 35,298 | 31,391 |
| Contribution to defined contribution plans included in staff costs | 979 | 932 |
| Jobs support scheme grant | – | (131) |
| Equity-settled share-based payment transactions | 40 | 38 |
| Depreciation of property, plant and equipment | 3,231 | 3,284 |
| Operating expenses arising from rental of investment properties | 14 | 14 |
| Audit fees paid to: | | |
| – auditors of the Company | 222 | 177 |
| – other auditors | 11 | 13 |
| Non-audit fees paid to auditors of the Company | 7 | 22 |
| (Write back)/provision of impairment losses on trade receivables | (534) | 571 |
| Impairment losses on contract assets | 338 | 782 |
| Monetary penalties ⁽¹⁾ | 294 | – |
| Fair value gain on investment properties | (30) | (65) |
| Net foreign exchange loss/(gain) | 1,123 | (215) |

(1) Following the allegations of bribery against a former consultant who was engaged by the Group's Taiwan branch, its customer imposed penalties on the Taiwan branch. These penalties include the demand for the return of bid deposits, penalties and a 3-year suspension. The monetary penalties of \$294,000 had been deducted from the contract sum of the Group's existing contracts with the customer.

25 TAX EXPENSE

| | Group | |
|---|------------|--------------|
| | 2022 | 2021 |
| | \$'000 | \$'000 |
| Current tax expense | | |
| Current year | 391 | 217 |
| (Over)/under-provision in respect of prior years | (32) | 35 |
| | <u>359</u> | <u>252</u> |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | 79 | 115 |
| Over-provision in respect of prior years | – | (352) |
| | <u>79</u> | <u>(237)</u> |
| Total tax expense | <u>438</u> | <u>15</u> |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

25 TAX EXPENSE (CONTINUED)

| | Group | |
|--|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 |
| <i>Reconciliation of effective tax rate</i> | | |
| Profit before tax | 809 | 680 |
| Tax using the Singapore tax rate of 17% (2021: 17%) | 137 | 116 |
| Effect of tax rates in foreign jurisdictions | (23) | (20) |
| Non-deductible expenses | 804 | 391 |
| Tax exempt income | (402) | (373) |
| Current year losses for which no deferred tax assets is recognised | (46) | 218 |
| Over-provision in respect of prior years | (32) | (317) |
| | 438 | 15 |

26 Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2022 was based on the profit attributable to ordinary shareholders and a weighted-average number of ordinary shares outstanding less treasury shares as follows:

Profit attributable to ordinary shareholders

| | Group | |
|---------------------|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 |
| Profit for the year | 371 | 674 |

Weighted-average number of ordinary shares

| | Number of shares 2022 '000 | Number of shares 2021 '000 |
|--|-------------------------------------|-------------------------------------|
| | Issued ordinary shares at 1 January | 580,049 |
| Effect of treasury shares | 360 | 176 |
| Weighted-average number of ordinary shares during the year | 580,409 | 580,049 |

Diluted earnings per share

Diluted earnings per share is the same as the basic earnings per share as there were no dilutive instruments in issue during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

27 OPERATING SEGMENT

The Group's Executive Committee reviews internal management report at least on a monthly basis.

There is no change in the reportable segment in 2022 and 2021.

Other services provided by the Group have been aggregated under the segment "Mechanical, electrical, instrumentation and others". None of these segments meets any of the quantitative thresholds for determining reportable segments in 2022 and 2021.

Information regarding the results of the reportable segment is included below. Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by the Group's Executive Committee. Segment profit is used to measure performance as management believe that such information is the most relevant in evaluating the results of the segment relative to other entities that operate within these industries.

Information about reportable segment- Mechanical, electrical, instrumentation and others

| | 2022 \$'000 | 2021 \$'000 |
|---|----------------|----------------|
| External revenue | 63,290 | 74,646 |
| Interest income | 255 | 59 |
| Interest expenses | 105 | 132 |
| Depreciation of property, plant and equipment | 3,231 | 3,284 |
| Reportable segment profit before tax | 416 | 890 |
| Reportable segment assets | 69,244 | 82,243 |
| Capital expenditure | 8,509 | 4,196 |
| Reportable segment liabilities | 17,425 | 30,454 |

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

| | 2022 \$'000 | 2021 \$'000 |
|--|----------------|----------------|
| Revenues | | |
| Consolidated revenue | 63,290 | 74,646 |
| Profit | | |
| Total profit for reportable segment | 416 | 890 |
| Share of results of an equity-accounted investee | 317 | (321) |
| Fair value gain on investment properties | 30 | 65 |
| Unallocated segment profits | 46 | 46 |
| Consolidated profit before tax | 809 | 680 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

27 OPERATING SEGMENT (CONTINUED)

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items (Continued)

| | 2022 \$'000 | 2021 \$'000 |
|--|----------------|----------------|
| Assets | | |
| Total assets for reportable segment | 69,244 | 82,243 |
| Investment properties | 1,300 | 1,270 |
| Investment in an equity-accounted investee | 323 | 1 |
| Right-of-use assets | 3,156 | 3,465 |
| Consolidated total assets | <u>74,023</u> | <u>86,979</u> |
| Liabilities | | |
| Total liabilities for reportable segment | 17,425 | 30,454 |
| Current tax payable | 84 | 116 |
| Deferred tax liabilities | 1,410 | 1,331 |
| Consolidated total liabilities | <u>18,919</u> | <u>31,901</u> |

Major customers

During the financial year ended 31 December 2022, revenue from three major customers of the Group totalled approximately \$33,154,000 (2021: \$46,720,000), representing 52% (2021: 63%) of the Group's total revenue. The details of these customers which individually contributed 10 percent or more of the Group's revenue in each of the financial year are as follows:

| | 2022 \$'000 | 2021 \$'000 |
|------------|----------------|----------------|
| Customer 1 | 16,919 | 20,254 |
| Customer 2 | 10,107 | 18,293 |
| Customer 3 | 6,128 | 8,173 |
| | <u>33,154</u> | <u>46,720</u> |

28 FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Credit risk is the risk of financial loss to the Group resulting from the failure of a customer to settle its financial and contractual obligations to the Group.

The carrying amounts of financial assets and contract assets represent the Group's and the Company's remaining exposure to credit risk. The Group and the Company do not require any collateral in respect of their financial assets.

Trade receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group's three major customers accounts for \$9,671,000 (2021: \$23,667,000) of the carrying value of trade receivables and contract assets as at 31 December 2022. No significant credit risk exposure is expected based on historical data of payment statistics from these customers.

The Group's main customers are from the process industry which in turn, is dominated by a small number of big multinational players. Majority of these multi-national companies are key customers of the Group. The Group tries to reduce the market risk by maintaining its long-term relationships with these customers. The Group has reduced its market concentration risk by diversifying its source of revenue into Taiwan, Malaysia and North America.

The Group does not require collateral in respect of trade receivables. The Group does not have trade receivables and contract assets for which no loss allowance is recognised because of collateral.

The Group has established a credit policy under which the creditworthiness of each new customer is evaluated individually before the Group grants credit to the customer. Credit limits are established for each customer, which represents the maximum open amount without requiring approval from the directors. Payments will be required to be made up front by customers who do not meet the Group's credit requirements.

Amounts due from customers are closely monitored and reviewed on a regular basis to identify any non-payment or delay in payment, and to understand the reasons, so that appropriate actions can be taken promptly. The resultant effects of these measures have kept the Group's exposure to bad debts at an insignificant level.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (Continued)

Trade receivables and contract assets (Continued)

The Group assesses credit risk by also monitoring the ageing of its trade receivables and contract assets on an on-going basis.

Exposure to credit risk

A summary of the Group's and Company's exposures to credit risk for trade receivables and contract assets is as follows:

| | Group | |
|--|---------|---------|
| | 2022 | 2021 |
| | \$'000 | \$'000 |
| Not credit-impaired | | |
| External credit ratings from S&P at least A+ | 11,006 | 25,035 |
| Other customers: | | |
| – Four or more years' trading history with the Group | 3,841 | 4,614 |
| – Less than four years' trading history with the Group | 4,153 | 3,616 |
| Total gross carrying value | 19,000 | 33,265 |
| Loss allowance | (1,086) | (1,382) |
| | 17,914 | 31,883 |
| | 17,914 | 31,883 |
| | | |
| | Company | |
| | 2022 | 2021 |
| | \$'000 | \$'000 |
| Not credit-impaired | | |
| External credit ratings from S&P at least A+ | 11,006 | 25,035 |
| Other customers: | | |
| – Four or more years' trading history with the Group | 3,841 | 4,614 |
| – Less than four years' trading history with the Group | 1,825 | 2,239 |
| Total gross carrying value | 16,672 | 31,888 |
| Loss allowance | (29) | (29) |
| | 16,643 | 31,859 |
| | 16,643 | 31,859 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (Continued)

Movements in the allowance for impairment in respect of trade receivables and contract assets

The movement in the allowance for impairment in respect of trade receivables and contract assets during the year was as follows:

| | 2022 \$'000 | 2021 \$'000 |
|---------------------------------|----------------|----------------|
| Group | | |
| Individual impairments | | |
| At 1 January as per SFRS(I) 9 | 1,382 | 29 |
| Impairment loss recognised | 338 | 1,353 |
| Impairment loss written back | (534) | - |
| Foreign exchange difference | (100) | - |
| At 31 December as per SFRS(I) 9 | 1,086 | 1,382 |

On 1 March 2019, the Company and HSSB were jointly awarded a master contract from Petronas. Under this contract award, an equity-accounted investee, HIMS is required to be set up by the Company and HSSB.

These work orders by Petronas were subcontracted by HSSB to HIMS. HIMS had then subcontracted the work orders to PAE(M) for execution. Under this billing on behalf arrangement, the ultimate debtor is HSSB and HIMS is the intermediate debtor.

In October 2021, HSSB failed to pay HIMS which caused HIMS not able to pay PAE(M) for the works performed when Petronas had accepted the works completed by PAE(M) and payments had been received by HSSB. Due to the default payment risk, the management recognised a full impairment loss on the trade receivables and contract assets due from HIMS amounting to \$571,000 and \$782,000 respectively.

During the year, the Group had recovered trade receivables from HIMS which was fully provided in previous year and wrote back the impairment loss previously provided accordingly for an amount of \$534,000 with a realised exchange loss of \$37,000. For the contract assets, the Group had recognised a further impairment loss of \$338,000 for the works completed for HIMS which is awaiting final instruction and direct payments from Petronas to HIMS with exchange difference of \$63,000.

Cash and cash equivalents

Cash and cash equivalents are held with banks and financial institution counterparties, which are rated AA- to AA+, based on S&P ratings.

Impairment on cash and cash equivalents has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and fixed deposits have low credit risk based on the external credit ratings of the counterparties. The amount of the allowance on cash and fixed deposits was negligible.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the remaining contractual maturities of financial liabilities. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements:

| | Carrying amount \$'000 | Contractual cash flows \$'000 | Less than 1 year \$'000 | Between 1 and 5 years \$'000 | Over 5 years \$'000 |
|---|------------------------------|-------------------------------------|-------------------------------|------------------------------------|---------------------------|
| Group | | | | | |
| 31 December 2022 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Loans and borrowings | 4,426 | (4,551) | (1,860) | (2,691) | - |
| Trade and other payables | 11,222 | (11,222) | (11,222) | - | - |
| | 15,648 | (15,773) | (13,082) | (2,691) | - |
| 31 December 2021 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Loans and borrowings | 5,532 | (5,744) | (1,866) | (3,878) | - |
| Trade and other payables | 21,753 | (21,753) | (21,753) | - | - |
| | 27,285 | (27,497) | (23,619) | (3,878) | - |
| Company | | | | | |
| 31 December 2022 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Loans and borrowings | 4,378 | (4,502) | (1,830) | (2,672) | - |
| Trade and other payables | 10,534 | (10,534) | (10,534) | - | - |
| | 14,912 | (15,036) | (12,364) | (2,672) | - |
| 31 December 2021 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Loans and borrowings | 5,484 | (5,695) | (1,837) | (3,858) | - |
| Trade and other payables | 21,637 | (21,637) | (21,637) | - | - |
| | 27,121 | (27,332) | (23,474) | (3,858) | - |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities. The currency in which these transactions primarily are denominated are the US dollar (USD), Taiwan dollar (TWD) and Malaysia ringgit (MYR).

The Group's and the Company's exposures to currency risk are as follows based on notional amounts:

| | USD \$'000 | TWD \$'000 | MYR \$'000 |
|-----------------------------|---------------|---------------|---------------|
| Group | | | |
| 31 December 2022 | | | |
| Trade and other receivables | 988 | 733 | 662 |
| Cash and cash equivalents | 2,706 | 6,476 | 2,706 |
| Trade and other payables | (203) | (705) | (2,074) |
| Net exposure | 3,491 | 6,504 | 1,294 |
| 31 December 2021 | | | |
| Trade and other receivables | 205 | 11,598 | 14 |
| Cash and cash equivalents | 8,033 | 1,993 | 780 |
| Trade and other payables | (88) | (11,546) | (841) |
| Net exposure | 8,150 | 2,045 | (47) |
| Company | | | |
| 31 December 2022 | | | |
| Trade and other receivables | 559 | 733 | - |
| Cash and cash equivalents | 1,752 | 5,199 | - |
| Trade and other payables | (73) | (705) | - |
| Net exposure | 2,238 | 5,227 | - |
| 31 December 2021 | | | |
| Trade and other receivables | 206 | 11,598 | - |
| Cash and cash equivalents | 7,875 | 1,993 | - |
| Trade and other payables | - | (11,546) | - |
| Net exposure | 8,081 | 2,045 | - |

Sensitivity analysis

A 10% strengthening of the Singapore dollar, as indicated below, against USD, TWD and MYR at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2021.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (Continued)

Currency risk (Continued)

Sensitivity analysis (Continued)

| | Group Profit or loss \$'000 | Company Profit or loss \$'000 |
|-------------|-----------------------------------|-------------------------------------|
| 2022 | | |
| USD | (349) | (231) |
| TWD | (650) | (523) |
| MYR | (129) | - |
| 2021 | | |
| USD | (815) | (808) |
| TWD | (205) | (205) |
| MYR | 5 | - |

A weakening of the Singapore dollar against USD, TWD and MYR at 31 December would have had the equal but opposite effect on USD, TWD and MYR to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

At the reporting date, the interest rate profile of the Group's and Company's interest-bearing financial instruments, as reported to the management, was as follows:

| | Nominal amount | |
|-------------------------------|----------------|----------------|
| | 2022 \$'000 | 2021 \$'000 |
| Group | | |
| Fixed rate instruments | | |
| Cash and cash equivalents | 17,054 | 15,927 |
| Bank loans | (3,440) | (4,662) |
| Lease liabilities | (986) | (870) |
| | <u>12,628</u> | <u>10,395</u> |
| Company | | |
| Fixed rate instruments | | |
| Cash and cash equivalents | 13,988 | 15,520 |
| Bank loans | (3,440) | (4,662) |
| Lease liabilities | (938) | (822) |
| | <u>9,610</u> | <u>10,036</u> |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (Continued)

Interest rate risk (Continued)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at FVTPL. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Accounting classifications and fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statements of financial position, are as follows:

| | Note | Amortised cost \$'000 | Other financial liabilities \$'000 | Total carrying amount \$'000 | Fair value \$'000 |
|------------------------------|------|-----------------------------|--|------------------------------------|----------------------|
| Group | | | | | |
| 31 December 2022 | | | | | |
| Trade and other receivables* | 11 | 13,657 | - | 13,657 | 13,657 |
| Cash and cash equivalents | 12 | 28,647 | - | 28,647 | 28,647 |
| | | 42,304 | - | 42,304 | 42,304 |
| Bank loans | 17 | - | 3,440 | 3,440 | 3,539 |
| Trade and other payables | 20 | - | 11,222 | 11,222 | 11,222 |
| | | - | 14,662 | 14,662 | 14,761 |
| 31 December 2021 | | | | | |
| Trade and other receivables* | 11 | 23,314 | - | 23,314 | 23,314 |
| Cash and cash equivalents | 12 | 35,077 | - | 35,077 | 35,077 |
| | | 58,391 | - | 58,391 | 58,391 |
| Bank loans | 17 | - | 4,662 | 4,662 | 4,845 |
| Trade and other payables | 20 | - | 21,753 | 21,753 | 21,753 |
| | | - | 26,415 | 26,415 | 26,598 |

* Excludes prepayments.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

28 FINANCIAL RISK MANAGEMENT (CONTINUED)

Accounting classifications and fair values (Continued)

Fair values versus carrying amounts (Continued)

| | Note | Amortised cost \$'000 | Other financial liabilities \$'000 | Total carrying amount \$'000 | Fair value \$'000 |
|------------------------------|------|-----------------------------|--|------------------------------------|----------------------|
| Company | | | | | |
| 31 December 2022 | | | | | |
| Trade and other receivables* | 11 | 26,883 | – | 26,883 | 26,883 |
| Cash and cash equivalents | 12 | 23,114 | – | 23,114 | 23,114 |
| | | <u>49,997</u> | <u>–</u> | <u>49,997</u> | <u>49,997</u> |
| Bank loans | 17 | – | 3,440 | 3,440 | 3,539 |
| Trade and other payables | 20 | – | 10,534 | 10,534 | 10,534 |
| | | <u>–</u> | <u>13,974</u> | <u>13,974</u> | <u>14,073</u> |
| 31 December 2021 | | | | | |
| Trade and other receivables* | 11 | 24,773 | – | 24,773 | 24,773 |
| Cash and cash equivalents | 12 | 31,999 | – | 31,999 | 31,999 |
| | | <u>56,772</u> | <u>–</u> | <u>56,772</u> | <u>56,772</u> |
| Bank loans | 17 | – | 4,662 | 4,662 | 4,845 |
| Trade and other payables | 20 | – | 21,637 | 21,637 | 21,637 |
| | | <u>–</u> | <u>26,299</u> | <u>26,299</u> | <u>26,482</u> |

* Excludes prepayments.

29 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Investment properties

The determination of fair value of investment properties is discussed in Note 6.

(b) Bank loans

Fair value, which is determined for disclosure purposes for bank loans, are calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(c) Other financial assets and liabilities

The carrying amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents and trade and other payables) are assumed to approximate their fair values because of the short period to maturity.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

30 RELATED PARTY TRANSACTIONS

For the purpose of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control. Related parties may be individuals or other entities.

Key management personnel compensation

Key management personnel of the Group are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The members of the Board of Directors of the Company and significant subsidiaries and Executive Committee are considered to be the key management personnel of the Group.

Key management personnel compensation included in staff costs comprises:

| | Group | |
|------------------------------|--------|--------|
| | 2022 | 2021 |
| | \$'000 | \$'000 |
| Directors' fees | 119 | 113 |
| Short-term employee benefits | 1,992 | 1,489 |
| | 2,111 | 1,602 |

Other related party transactions

Other than disclosed elsewhere in the financial statements, significant transactions with related parties at terms agreed between the parties are as follows:

| | Group | |
|---|--------|--------|
| | 2022 | 2021 |
| | \$'000 | \$'000 |
| Transactions with an equity-accounted investee | | |
| Revenue from contract (rendering of services) | 3,399 | 2,090 |
| Management fees | (114) | (94) |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

31 LEASES

Leases as lessee (SFRS(I) 16)

The Group leases a piece of land from Jurong Town Corporation ("JTC") for a term of 30 years with effect from August 1980 with an option to renew the lease for another 10 years. On 9 March 2020, the Group has accepted the offer from JTC to extend the lease of its current premises at 35 Tuas Road for another 3 years, expiring on 16 August 2023, upon expiry date of 15 August 2020.

The Group leases office equipment with contract term of 5 years.

Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

Right-of-use assets related to leased land that do not meet the definition of investment property are presented as property, plant and equipment (see Note 4).

| | Leasehold property \$'000 | Office equipment \$'000 | Total \$'000 |
|---------------------------------------|---------------------------------|-------------------------------|-----------------|
| 2022 | | | |
| Balance at 1 January | 3,403 | 62 | 3,465 |
| Additions to right-of-use assets | 738 | 32 | 770 |
| Termination of lease | (29) | – | (29) |
| Depreciation charge for the year | (829) | (54) | (883) |
| Effect of movements in exchange rates | (167) | – | (167) |
| Balance at 31 December | 3,116 | 40 | 3,156 |
| 2021 | | | |
| Balance at 1 January | 2,032 | 109 | 2,141 |
| Additions to right-of-use assets | 2,161 | – | 2,161 |
| Depreciation charge for the year | (790) | (47) | (837) |
| Balance at 31 December | 3,403 | 62 | 3,465 |

Amounts recognised in profit or loss

| | 2022 \$'000 | 2021 \$'000 |
|--------------------------------|----------------|----------------|
| Leases under SFRS(I) 16 | | |
| Interest on lease liabilities | 24 | 31 |

Amounts recognised in statement of cash flows

| | 2022 \$'000 | 2021 \$'000 |
|--------------------------------------|----------------|----------------|
| Total cash outflow for leases | 645 | 598 |

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2022

31 LEASES (CONTINUED)

Leases as lessor

The Group leases out its investment properties consisting of its owned commercial properties (see Note 6). All leases are classified as operating leases from a lessor perspective.

Operating leases

The Group leases out its investment properties. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Rental income from investment properties recognised by the Group during 2022 was \$46,000 (2021: \$46,000). Note 6 sets out information about the operating leases of investment property.

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

| | Group and Company | |
|--------------------|-------------------|--------|
| | 2022 | 2021 |
| | \$'000 | \$'000 |
| Less than one year | 46 | 46 |

32 CAPITAL COMMITMENTS

| | Group | | Company | |
|---|--------|--------|---------|--------|
| | 2022 | 2021 | 2022 | 2021 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Capital expenditure contracted for but not provided in the financial statements | 15,000 | 3,000 | 11,500 | - |

33 SUBSEQUENT EVENT

During the year, the Company has entered into a conditional sale and purchase agreement with a vendor for the purchase of property located at 26 Gul Way. On 16 January 2023, the Company had obtained the approval from Jurong Town Corporation ("JTC") on the proposed acquisition on a condition that the Company must install solar photovoltaic within 2 years from approval date. The rental will be based on the existing JTC market rental rates. The Company completed the purchase transaction on 28 February 2023. The Group has estimated that the potential future lease payments would result in an increase in right-of-use assets and lease liability of \$1,436,000 and \$1,436,000 respectively.

STATISTICS OF SHAREHOLDINGS

AS AT 16 MARCH 2023

| | | |
|--|---|---------------------------------------|
| TOTAL NUMBER OF ISSUED SHARES | : | 581,546,400 |
| TOTAL NUMBER OF ISSUED SHARES EXCLUDING TREASURY SHARES AND SHARES HELD BY A SUBSIDIARY (IF ANY) | : | 580,712,400 |
| TOTAL NUMBER AND PERCENTAGE OF TREASURY SHARES | : | 834,000 (0.14%) |
| TOTAL NUMBER AND PERCENTAGE OF SHARES HELD BY A SUBSIDIARY | : | NIL |
| CLASS OF SHARES | : | ORDINARY |
| VOTING RIGHTS | | |
| – On a show of hands | : | ONE VOTE FOR EACH MEMBER |
| – On a poll | : | ONE VOTE FOR EACH ORDINARY SHARE HELD |

DISTRIBUTION OF SHAREHOLDINGS

| SIZE OF SHAREHOLDINGS | NO. OF SHAREHOLDERS | % | NO. OF SHARES | % |
|-----------------------|------------------------|---------------|--------------------|---------------|
| 1 – 99 | 190 | 13.95 | 2,395 | 0.00 |
| 100 – 1,000 | 190 | 13.95 | 175,551 | 0.03 |
| 1,001 – 10,000 | 252 | 18.50 | 1,565,350 | 0.27 |
| 10,001 – 1,000,000 | 705 | 51.76 | 85,529,668 | 14.73 |
| 1,000,001 AND ABOVE | 25 | 1.84 | 493,439,436 | 84.97 |
| TOTAL | 1,362 | 100.00 | 580,712,400 | 100.00 |

TWENTY LARGEST SHAREHOLDERS

| NO. | NAME | NO. OF SHARES | % |
|-----|--|--------------------|--------------|
| 1 | CHENG WOEI FEN | 278,997,600 | 48.04 |
| 2 | QUEK KIAN HUI (GUO JIANHUI) | 86,376,800 | 14.87 |
| 3 | GABRIEL QUEK KIAN TECK | 33,516,000 | 5.77 |
| 4 | PHILLIP SECURITIES PTE LTD | 17,336,580 | 2.99 |
| 5 | DBS NOMINEES (PRIVATE) LIMITED | 9,986,246 | 1.72 |
| 6 | UOB KAY HIAN PRIVATE LIMITED | 7,874,000 | 1.36 |
| 7 | OCBC SECURITIES PRIVATE LIMITED | 7,314,200 | 1.26 |
| 8 | LIN YAN | 7,266,000 | 1.25 |
| 9 | GLOBAL TRADE INVESTMENT MANAGEMENT PTE LTD | 7,095,000 | 1.22 |
| 10 | SINGAPORE WAREHOUSE CO PTE LTD | 5,454,300 | 0.94 |
| 11 | NG HIAN CHOW | 3,888,000 | 0.67 |
| 12 | MAYBANK SECURITIES PTE. LTD. | 3,551,010 | 0.61 |
| 13 | LIM POON KHENG EUGENE | 3,200,000 | 0.55 |
| 14 | ABN AMRO CLEARING BANK N.V. | 2,869,200 | 0.49 |
| 15 | QUEK KENG SIONG | 2,651,400 | 0.46 |
| 16 | KOH SER KIONG | 2,300,000 | 0.40 |
| 17 | CHEN ENG SHEE | 2,000,000 | 0.34 |
| 18 | TAY HWA LANG @ TAY AH KOU OR JORDAN TAY SHIH LIANG | 1,870,000 | 0.32 |
| 19 | TAN HAI PENG MICHEAL | 1,800,000 | 0.31 |
| 20 | TEO SOON HOCK | 1,600,000 | 0.28 |
| | TOTAL | 486,946,336 | 83.85 |

STATISTICS OF SHAREHOLDINGS

AS AT 16 MARCH 2023

RULE 723 COMPLIANCE

Based on the information available to the Company as at 16 March 2023, approximately 29.1% of the issued ordinary shares of the Company is held by the public. Hence, it is in compliance with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

SUBSTANTIAL SHAREHOLDERS

| | NO. OF SHARES | | NO. OF SHARES | |
|------------------------|-----------------|--------|-----------------|-------|
| | Direct Interest | % | Deemed Interest | % |
| CHENG WOEI FEN* | 278,997,600 | 48.04% | 36,167,400 | 6.23% |
| GABRIEL QUEK KIAN TECK | 33,516,000 | 5.77% | 0 | 0 |
| QUEK KIAN HUI | 86,376,800 | 14.87% | 0 | 0 |

* Deemed interest of Cheng Woei Fen derived from the interests held by her son, Gabriel Quek Kian Teck, and interest held by her spouse.

TREASURY SHARES

As at 16 March 2023, the Company held 834,000 treasury shares, representing 0.14% of the total issued shares excluding treasury shares.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting (“AGM”) of MUN SIONG ENGINEERING LIMITED (the “Company”) will be held at 80 Jurong East Street 21, Devan Nair Institute for Employment and Employability, Singapore 609607, Event Hall 2, Level 1 on Friday, 21 April 2023 at 2:00 p.m. for the following purposes:

ORDINARY BUSINESSES

1. To receive and adopt the Directors’ Statement and the Audited Financial Statements of the Company for the financial year ended 31 December 2022, together with the Auditors’ Report thereon. **[Resolution 1]**
2. To re-elect the following Directors of the Company retiring pursuant to the Constitution of the Company:
 - (i) Cheng Woei Fen (Regulation 108) **[Resolution 2]**
[See Explanatory Note 1]
 - (ii) David Tan Chao Hsiung (Regulation 108) **[Resolution 3]**
[See Explanatory Note 2]
 - (iii) Elaine Beh Pur-Lin (Regulation 112) **[Resolution 4]**
[See Explanatory Note 3]
3. To declare a first and final dividend of 0.04 cents per ordinary share tax-exempt (one-tier) for the financial year ended 31 December 2022. **[Resolution 5]**
4. To approve the revised Directors’ fees of \$119,000 for the financial year ended 31 December 2022. **[Resolution 6]**
[See Explanatory Note 4]
5. To approve Directors’ fees of up to S\$116,000 for the financial year ending 31 December 2023, payable quarterly by the Company in arrears (2022: S\$119,000). **[Resolution 7]**
6. To re-appoint Messrs KPMG LLP as the Auditors of the Company and to authorise the Directors to fix their remuneration. **[Resolution 8]**
7. To transact any other ordinary business which may be properly transacted at an AGM.

SPECIAL BUSINESSES

To consider and, if thought fit, to pass with or without amendments the following Ordinary Resolutions.

8. **Authority to allot and issue shares and convertible securities** **[Resolution 9]**

“That, pursuant to Section 161 of the Companies Act 1967 (“**Companies Act**”) and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) authority be and is hereby given to the Directors of the Company to:

- (i) (a) issue shares of the Company whether by way of rights, bonus or otherwise;
- (b) make or grant offers, agreements or options (collectively, “**Instruments**”) that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares; and/or
- (c) issue additional Instruments arising from adjustments made to the number of Instruments previously issued in the event of rights, bonus or capitalization issues,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit;

NOTICE OF ANNUAL GENERAL MEETING

- (ii) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instruments made or granted by the Directors while this Resolution was in force; and
- (iii) complete and do all such acts and things, including without limitation, executing all such documents and approving any amendments, alterations or modifications to any documents as they may consider necessary, desirable or expedient to give effect to this Resolution.

provided that:

- (1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued on a *pro-rata* basis pursuant to this Resolution shall not exceed 50% of the total number of issued shares (excluding treasury shares and subsidiary holdings, if any) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a *pro-rata* basis to shareholders of the Company (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) shall not exceed 20% of the total number of issued shares (excluding treasury shares and subsidiary holdings, if any) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);
- (2) (subject to such manner of calculation and adjustment as may be prescribed by the SGX-ST for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the percentage of issued shares shall be based on the total number of issued shares (excluding treasury shares and subsidiary holdings, if any) of the Company at the time this Resolution is passed, after adjusting for:
 - (a) new shares arising from the conversion or exercise of any convertible securities;
 - (b) (where applicable) new shares arising from exercising share options or vesting of share awards, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST; and
 - (c) any subsequent bonus issue, consolidation or subdivision of shares;

Adjustments in accordance with sub-paragraph (2)(a) or sub-paragraph (2)(b) above are only to be made in respect of new shares arising from convertible securities, share options or share awards which were issued and outstanding or subsisting at the time of the passing of this Resolution.

- (3) in exercising the authority conferred by this Resolution, the Company shall comply with the rules, guidelines and measures issued by the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution for the time being of the Company; and
- (4) (unless revoked or varied by the Company in general meeting), the authority conferred by this Resolution shall continue to be in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is the earlier.”
[See Explanatory Note 5]

NOTICE OF ANNUAL GENERAL MEETING

9. Proposed renewal of the authority to issue shares under the MSE Performance Share Plan [Resolution 10]

“That, pursuant to Section 161 of the Companies Act, the Directors of the Company be authorised and empowered to offer and grant performance shares under the MSE Performance Share Plan and to allot and issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the vesting of share awards under the MSE Performance Share Plan, whether granted during the subsistence of this authority or otherwise, Provided Always that the aggregate number of additional ordinary shares to be issued pursuant to the MSE Performance Share Plan and any other share option scheme/share-based incentive schemes of the Company shall not exceed 15% of the total number of issued shares (excluding treasury shares and subsidiary holdings, if any) in the capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier.”

[See Explanatory Note 6]

10. Proposed renewal of the share purchase mandate [Resolution 11]

“That

(i) for the purposes of the Companies Act, the Constitution of the Company and the Listing Manual of the SGX-ST, the Directors of the Company be and are hereby authorised to make purchases or otherwise acquire issued shares in the capital of the Company from time to time (whether by way of market purchases or off-market purchases on an equal access scheme) of up to 10% of the total number of issued shares (excluding treasury shares and subsidiary holdings, if any) of the Company (as ascertained as at the date of AGM of the Company), unless the Company has, at any time during the period commencing from the date of which this Resolution is passed and expiring on the date the next AGM of the Company is held or is required by law to be held, whichever is earlier, after the date of this Resolution is passed, effected a reduction of its share capital in accordance with the applicable provisions under the Companies Act or a share consolidation, in which event the total number of issued shares of the Company shall be taken the total number of shares of the Company as altered by the capital reduction or the share consolidation, at the price of up to but not exceeding the Maximum Price as defined under paragraph 2.3.4 of the Addendum, and this mandate shall, unless revoked or varied by the Company in general meeting, continue in force until the date on which the next AGM of the Company is held or required by law to be held, whichever is earlier, or the date on which the purchases or acquisitions of shares pursuant to the share purchase mandate are carried out to the full extent mandated, whichever is earlier; and

(ii) the Directors of the Company and/or any of them be and is hereby authorised to complete and do all such acts and things (including dealing with the shares purchased by the Company, entering into all transactions, arrangements and agreements and executing such documents as may be required) as they and/or he may consider necessary, desirable or expedient to give effect to this Resolution.

[See Explanatory Note 7]

By Order of the Board

Shirley Tan Sey Liy
Company Secretary
Singapore, 6 April 2023

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes:

1. **Cheng Woei Fen**, if re-elected, will remain as the Executive Chairlady. Please refer to page 26 of the Corporate Governance in the Annual Report 2022 for the detailed information as required pursuant to Rule 720(6) of the Listing Manual of SGX-ST.
2. **David Tan Chao Hsiung**, if re-elected, will be considered a Non-Executive Independent Director by the Board of Directors of the Company pursuant to Rule 704(8) of the Listing Manual of the SGX-ST until the conclusion of the next Annual General Meeting to be held in April 2024, in view of the removal of the two-tier vote mechanism for Company to retain long-serving Non-Executive Independent Director who have served for more than nine years as announced by the Singapore Exchange Regulation on 11 January 2023. He will remain as the Chairman of the Audit Committee and a member of the Remuneration and the Nominating Committees respectively. There are no relationships (including immediate family relationships) between David Tan Chao Hsiung and the other Directors of the Company, the Company, its related corporations, its substantial shareholders or its officers which may affect his independence. Please refer to page 27 of the Corporate Governance in the Annual Report 2022 for the detailed information as required pursuant to Rule 720(6) of the Listing Manual of SGX-ST.
3. **Elaine Beh Pur-Lin**, if re-elected, will be considered a Non-Executive Independent Director by the Board of Directors of the Company pursuant to Rule 704(8) of the Listing Manual of the SGX-ST and will remain as the Chairman of the Nominating Committee and a member of the Audit and the Remuneration Committees respectively. There are no relationships (including immediate family relationships) between Elaine Beh Pur-Lin and the other Directors of the Company, the Company, its related corporations, its substantial shareholders or its officers which may affect her independence. Please refer to page 28 of the Corporate Governance in the Annual Report 2022 for the detailed information as required pursuant to Rule 720(6) of the Listing Manual of SGX-ST.
4. The Shareholders, at the last AGM held on 22 April 2022, had approved the total directors' fees of up to \$116,000 for the financial year ended 31 December 2022. The increase in additional fees was due to the appointment of Ms Elaine Beh Pur-Lin as an independent director on 25 April 2022. Please refer to page 34 of the Corporate Governance in the Annual Report 2022 for more details.
5. **Resolution 9**, if passed, will empower the Directors of the Company, effective until the conclusion of the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding 50% of the total number of issued shares (excluding treasury shares and subsidiary holdings, if any) in the capital of the Company, of which up to 20% may be issued other than on a *pro-rata* basis to shareholders.

For the purpose of this Resolution, the total number of issued shares (excluding treasury shares and subsidiary holdings, if any) is based on the Company's total number of issued shares (excluding treasury shares and subsidiary holdings, if any) at the time this Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which were issued and outstanding or subsisting at the time when this Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.

6. **Resolution 10**, if passed, will empower the Directors of the Company, from the date of this AGM until the date of the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares in the Company pursuant to the vesting of performance shares granted or to be granted pursuant to the MSE Performance Share Plan, up to an aggregate (together with any other share option schemes/share-based incentive schemes of the Company) not exceeding in total 15% of the total number of issued shares (excluding treasury shares and subsidiary holdings, if any) in the capital of the Company from time to time.
7. **Resolution 11** is to renew the mandate to enable the Directors of the Company to purchase or otherwise acquire shares on the terms and subject to the conditions of this Resolution which was first approved by the shareholders on 20 April 2017. The rationale for, the authority and limitation on, the sources of funds to be used for the purchase or acquisition including the amount of financing and the financial effects of the purchase or acquisition of shares by the Company pursuant to the proposed renewal of the share purchase mandate on the audited financial statements for the financial year ended 31 December 2022 are set out in greater detail in the Addendum dispatched together with the Annual Report 2022.

Notes:

- (1) This Notice of AGM, Proxy Form, Annual Report 2022 and its Addendum will be sent to members by electronic means via publication on the Company's corporate website at the URL <https://www.mun-siong.com/investors-relationships> and is also made available on SGXNet at the URL <https://www.sgx.com/securities/company-announcements>. For convenience, printed copies of this Notice of AGM and Proxy Form will also be sent by post to members.
- (2) In view of the guidance note issued by the Singapore Exchange Regulation, members may also submit questions relating to the resolutions to be tabled for approval at the AGM in the following:
 - (a) submitting question via mail to the Company's registered office at 35 Tuas Road, Singapore 638496, or email to AGMQuery@mun-siong.com prior to the AGM manner by 2:00 p.m. on 13 April 2023; or
 - (b) "live" at the AGM.

NOTICE OF ANNUAL GENERAL MEETING

When submitting the questions, please provide the Company with the following details, for verification purpose:-

- (i) full name;
- (ii) NRIC number;
- (iii) current address;
- (iv) contact number; and
- (v) number of Shares held.

Please also indicate the manner in which you hold Shares in the Company (e.g. via CDP, CPF or SRS).

Shareholders are encouraged to submit their questions before 2:00 p.m. on 13 April 2023 as this will allow Company to have sufficient time to address all substantial and relevant submitted questions. The Company will respond to these questions and published it on the (i) SGX's website and (ii) the Company's corporate website on or before the 16 April 2023 (forty-eight (48) hours prior to the closing date and time for the lodgement of the proxy forms). The minutes of the AGM will be published on (i) the SGX's website (ii) the Company's corporate website, within one month after the date of the AGM.

- (3) A member who is not a relevant intermediary*, entitled to attend and vote at the AGM is entitled to appoint not more than two proxies or Chairman (Chairlady) to attend, speak and vote in his/her stead at the AGM of the Company. Where a member appoints more than one proxy, he/she shall specify the proportion of his/her shareholding to be represented by each proxy in the form of proxy. A proxy need not be a member of the Company.
- (4) A member who is a relevant intermediary* may appoint one or more proxies to attend, speak and vote at the AGM, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Relevant intermediary has the meaning ascribed to it in section 181 of the Companies Act.

*Relevant intermediary is either:

- (i) a banking corporation licensed under the Banking Act 1970 or its wholly-owned subsidiary which provides nominee services and holds shares in that capacity;
 - (ii) a capital markets services license holder which provides custodial services for securities under the Securities and Futures Act 2001 and holds shares in that capacity; or
 - (iii) the Central Provident Fund ("CPF") Board established by the Central Provident Fund Act 1963, in respect of shares purchased on behalf of CPF investors.
- (5) In appointing the Chairman (Chairlady) of the AGM as proxy, a member (whether individual or corporate) must give specific instructions as to voting, or abstentions from voting, in respect of a resolution in the form of proxy, failing which the appointment of the Chairman (Chairlady) of the AGM as proxy for that resolution will be treated as invalid.
 - (6) If the appointer is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.
 - (7) Investors who hold shares through CPF Investment Scheme or Supplementary Retirement Scheme ("SRS"):-
 - (a) may vote at the AGM if they are appointed as proxies by their respective CPF Agent Banks or SRS Operators, and should contact their respective CPF Agent Banks or SRS Operators if they have any queries regarding their appointment as proxies; or
 - (b) may appoint the Chairman (Chairlady) of the AGM as their proxy to vote on their behalf at the AGM, in which case they should approach their respective CPF Agent Banks or SRS Operators to submit their votes

at least seven (7) working days before the AGM (i.e. by 2:00 p.m. on 11 April 2023).

- (8) The instrument appointing proxy(ies) must be deposited to the Company in the following manner:
 - (a) mail to the Company's registered office at 35 Tuas Road, Jurong Town, Singapore 638496; or
 - (b) email to Proxyform@mun-siong.com.

in each case, by 2:00 p.m. on 18 April 2023, being no later than 72 hours before the time fixed for the AGM.

- (9) The Company's Annual Report 2022 dated 6 April 2023 has been published and may be accessed at the Company's corporate website at the URL <https://www.mun-siong.com/investors-relations> "Annual Report 2022" and is also made available on SGXNet at the URL <https://www.sgx.com/securities/company-announcements>.

NOTICE OF ANNUAL GENERAL MEETING

Personal data privacy:

By (a) submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM of the Company and/or any adjournment thereof, or (b) submitting any question prior to the AGM of the Company in accordance with this Notice, a member of the Company consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the following purposes:

- (i) processing, administration and analysis by the Company (or its agents) of proxy(ies) and representative(s) appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, proxy lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes");
- (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes;
- (iii) addressing substantial and relevant questions from members received before the AGM and if necessary, following up with the relevant members in relation to such questions;
- (iv) enabling the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines by the relevant authorities; and
- (v) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

The member's personal data may be disclosed or transferred by the Company to its subsidiaries, its share registrar and/or other agents or bodies for any of the abovementioned purposes, and retained for such period as may be necessary for the Company's verification and record purposes. Photographic, sound and/or video recordings of the AGM of the Company may be made by the Company for record keeping and to ensure the accuracy of the minutes prepared of the AGM of the Company. Accordingly, the personal data of a member (such as his name, his presence at the AGM of the Company and any questions he may raise or motions he propose/second) may be recorded by the Company for such purpose.

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MUN SIONG ENGINEERING LIMITED

Company Registration No. 196900250M
(Incorporated in the Republic of Singapore)

IMPORTANT

1. This Notice of Annual General Meeting (the "AGM"), together with this proxy form, Annual Report 2022 and the circular to the shareholders dated 6 April 2023 will be sent to members by electronic means via publication on the Company's corporate website at the URL <https://www.mun-siong.com/investors-relations> and is also made available on SGXNet at the URL <https://www.sgx.com/securities/company-announcements>. For convenience, printed copies of this Notice of AGM and Proxy Form will also be sent by post to members.
2. A relevant intermediary may appoint more than one proxy to attend the AGM and vote (please see note 3 for the definition of "relevant intermediary").
3. For investors who have used their Central Provident Fund ("CPF") and/or Supplementary Retirement Scheme ("SRS") monies to buy shares in the Company, this proxy form is not valid for use and shall be ineffective for all intents and purposes if used or is purported to be used by them.
4. Please read the notes to the proxy form.

Proxy Form Annual General Meeting ("AGM")

I/We _____ (Name), *NRIC/Passport No./Company Registration No. _____
of _____ (Address)
being a *member/members of MUN SIONG ENGINEERING LIMITED (the "Company") hereby appoint:-

| Name | Address | NRIC/Passport Number | Proportion of Shareholdings | |
|------|---------|----------------------|-----------------------------|---|
| | | | No. of Shares | % |
| | | | | |

and/or (delete as appropriate)

| Name | Address | NRIC/Passport Number | Proportion of Shareholdings | |
|------|---------|----------------------|-----------------------------|---|
| | | | No. of Shares | % |
| | | | | |

or failing *him/her/them, Chairman (Chairlady) of the AGM, as *my/our *proxy/proxies to attend, speak and vote for *me/us on *my/our behalf at the AGM of the Company to be convened at 80 Jurong East Street 21, Devan Nair Institute for Employment and Employability, Singapore 609607, Event Hall 2, Level 1 on Friday, 21 April 2023 at 2:00 p.m. and at any adjournment thereof.

*I/We direct *my/our *proxy/proxies to vote for or against or to abstain from voting on the resolutions to be proposed at the AGM as indicated hereunder. If no specific directions as to voting on the resolutions are given, the *proxy/proxies may vote or abstain from voting at *his/her/their direction and any other matters arising at the AGM.

Note: Please indicate with an "X" or number of votes in the spaces provided whether you wish your vote(s) to be cast for or against or abstain the resolutions as set out in the Notice of AGM. If you mark the abstain box for a particular resolution, you are directing the proxy(ies) or Chairman (Chairlady) of the AGM not to vote on that resolution on a poll and your votes will not be counted in computing the required majority on a poll.

| No. | Description of Resolutions | For | Against | Abstain |
|-----|--|-----|---------|---------|
| 1. | Adoption of the Directors' Statement and the audited financial statements of the Company for the financial year ended 31 December 2022 together with the Auditors' report thereon. | | | |
| 2. | Re-election of Cheng Woei Fen as a Director of the Company | | | |
| 3. | Re-election of David Tan Chao Hsiung as a Director of the Company | | | |
| 4. | Re-election of Elaine Beh Pur-Lin as a Director of the Company | | | |
| 5. | First and Final Dividends | | | |
| 6. | Approval of revised Directors' fees for financial year ended 31 December 2022 | | | |
| 7. | Approval of Directors' fees for financial year ending 31 December 2023 | | | |
| 8. | Re-appointment of Messrs KPMG LLP as Auditors | | | |
| 9. | Authority to allot and issue shares and convertible securities | | | |
| 10. | Proposed renewal of the authority to issue shares under the MSE Performance Share Plan | | | |
| 11. | Proposed renewal of the Share Purchase Mandate | | | |

Note: Please note that the short descriptions given above of the Resolutions to be passed do not in any way whatsoever reflect the intent and purpose of the Resolutions. The short descriptions have been inserted for convenience only. Shareholders are encouraged to refer to the Notice of AGM for the full purpose and intent of the Resolutions to be passed.

Dated this _____ day of _____ 2023

Total Number of Shares Held

Signature(s) of Member(s)/
Common Seal of Corporate Shareholder

IMPORTANT: PLEASE READ NOTES OVERLEAF



Fold here

Notes:-

1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act 2001), you should insert that number of shares. If you have shares registered in your name in the Register of Members of the Company, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by you.
2. A member of the Company (other than a Relevant Intermediary*) entitled to attend and vote at a meeting of the Company is entitled to appoint not more than two proxies. Where such member's instrument appointing a proxy(ies) appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the instrument. A proxy need not be a member of the Company.
3. Pursuant to Section 181 of the Companies Act 1967, any member who is a relevant intermediary* is entitled to appoint one or more proxies to attend, speak and vote at the AGM, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member appoints more than two proxies, the appointments shall be invalid unless the member specifies the number of Shares in relation to which each proxy has been appointed.

*Relevant intermediary is either:

- (i) a banking corporation licensed under the Banking Act 1970 or its wholly-owned subsidiary which provides nominee services and holds shares in that capacity;
- (ii) a capital markets services licence holder which provides custodial services for securities under the Securities and Futures Act 2001 and holds shares in that capacity; or
- (iii) the Central Provident Fund ("CPF") Board established by the Central Provident Fund Act 1963, in respect of shares purchased on behalf of CPF investors.

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MUN SIONG ENGINEERING LIMITED
35 TUAS ROAD
JURONG TOWN
SINGAPORE 638496

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4. The instrument appointing a proxy(ies) or the Chairman (Chairlady) of the AGM as proxy must be mailed to or deposited at the Company's registered office at 35 Tuas Road, Jurong Town, Singapore 638496 or email to Proxyform@mun-siong.com not less than seventy-two (72) hours before the time appointed for the AGM.
5. The instrument appointing a proxy(ies) or the Chairman (Chairlady) of the AGM as proxy must be under the hand of the appointor or of his/her attorney duly authorised in writing. Where the instrument appointing proxy(ies) or the Chairman of the AGM as proxy is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised.
6. Where an instrument appointing proxy(ies) or the Chairman of the AGM as proxy is executed by an attorney on behalf of the appointer, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument of proxy, failing which, the instrument may be treated as invalid.
7. A corporation that is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the AGM, in accordance with Section 179 of the Companies Act 1967.
8. The Company shall be entitled to reject an instrument of proxy which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the instrument of proxy. In addition, in the case of shares entered in the Depository Register, the Company may reject an instrument of proxy if the member, being the appointor, is not shown to have shares against his name in the Depository Register as at seventy-two (72) hours before the time appointed for holding the AGM, as certified by The Central Depository (Pte) Limited to the Company.

PERSONAL DATA PRIVACY

By submitting an instrument appointing a proxy(ies) or the Chairman of the AGM as proxy, the member accepts and agrees to the personal data privacy terms set out in the Notice of AGM dated 6 April 2023.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Cheng Woei Fen

Executive Chairlady

Quek Kian Hui

Executive Deputy Chairman

David Tan Chao Hsiung

Non-Executive Lead Independent Director

Mah Kai Leong

Non-Executive Independent Director

Elaine Beh Pur-Lin

Non-Executive Independent Director

AUDIT COMMITTEE

David Tan Chao Hsiung

Chairman

Mah Kai Leong

Elaine Beh Pur-Lin

REMUNERATION COMMITTEE

Mah Kai Leong

Chairman

David Tan Chao Hsiung

Elaine Beh Pur-Lin

NOMINATING COMMITTEE

Elaine Beh Pur-Lin

Chairlady

David Tan Chao Hsiung

Mah Kai Leong

EXECUTIVE COMMITTEE

Quek Kian Hui

Chairman

Cheng Woei Fen

Adviser

Sean Safavinejad

Group Chief Operating Officer

Lim Poon Kheng, Eugene

Group Finance Director

Teo Kheng Hock, Andy

Director, Specialised Services

Lin Yan

Director, Electrical and Instrumental Services

Narayanan Parthasarathy

Director, Mechanical Services

Shan YiJian

Director, Mechanical Services and Project Works

Chin Sio Chiang, Kathleen

Senior Human Resource Manager

COMPANY SECRETARY

Shirley Tan Sey Liy

REGISTERED OFFICE

35 Tuas Road, Jurong Town
Singapore 638496

SHARE AND WARRANT REGISTRAR

Boardroom Corporate & Advisory
Services Pte Ltd
1 Harbour Front Avenue
Keppel Bay Tower #14-07
Singapore 098632

PRINCIPAL BANKERS

United Overseas Bank Limited
80 Raffles Place, UOB Plaza
Singapore 048624

Oversea-Chinese Banking
Corporation Limited
65 Chulia Street
#01-01 OCBC Centre
Singapore 049513

CIMB Bank Berhad
30 Raffles Place
#04-01
Singapore 048622

AUDITORS

KPMG LLP
Public Accountants and
Chartered Accountants
12 Marina View,
#15-01 Asia Square
Tower 2
Singapore 018961
(Appointed Engagement Partner
since financial year ended
31 December 2018:
Ms Voo Poh Jee)



文祥

MUN SIONG ENGINEERING LIMITED

Company Reg. No. 196900250M

35 Tuas Road, Jurong Town

Singapore 638496

Tel: +65 6411 6570

Fax: +65 6862 0218

www.mun-siong.com

ADDENDUM DATED 6 APRIL 2023

THIS ADDENDUM IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY.

If you are in any doubt about this Addendum or the action you should take, you should consult your stockbroker, bank manager, accountant, solicitor, tax adviser, or other professional adviser immediately.

This Addendum is circulated to shareholders of Mun Siong Engineering Limited (the “**Company**”) together with the Company’s Annual Report (as defined in this Addendum). Its purpose is to provide Shareholders (as defined in this Addendum) with the relevant information relating to, and to seek Shareholders’ approval for, the proposed renewal of the Share Purchase Mandate (as defined in this Addendum) to be tabled at the Annual General Meeting held at **80 Jurong East Street 21, Devan Nair Institute for Employment and Employability, Singapore 609607, Event Hall 2, Level 1, on Friday, 21 April 2023 at 2.00 p.m.**

The Notice of Annual General Meeting and a Proxy Form are enclosed with the Annual Report.

The Singapore Exchange Securities Trading Limited assumes no responsibility for the accuracy of any of the statements made, reports contained or opinions expressed in this Addendum.



MUN SIONG ENGINEERING LIMITED

(Company Registration No. 196900250M)
(Incorporated in the Republic of Singapore)

ADDENDUM TO ANNUAL REPORT

**IN RELATION TO THE PROPOSED RENEWAL
OF THE SHARE PURCHASE MANDATE**

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DEFINITIONS

In this Addendum, the following definitions apply throughout except where the context otherwise requires:

| | | |
|--|---|--|
| “ACRA” | : | The Accounting and Corporate Regulatory Authority |
| “Addendum” | : | This addendum to Shareholders dated 6 April 2023 in relation to the proposed renewal of the Share Purchase Mandate |
| “AGM” | : | The annual general meeting of the Company |
| “Annual Report” | : | The annual report of the Company for FY2022 |
| “Associate” | : | (a) in relation to any Director, chief executive officer, Substantial Shareholder or Controlling Shareholder (being an individual) means: (i) his immediate family; (ii) the trustees of any trust of which he or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object; and (iii) any company in which he and his immediate family together (directly or indirectly) have an interest of 30% or more; (b) in relation to a Substantial Shareholder or a Controlling Shareholder (being a company) means any other company which is its subsidiary or holding company or is a subsidiary of such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of 30% or more |
| “Associated Company” | : | A company or a subsidiary of such company in which at least 20% but not more than 50% of its shares are held by the Group |
| “Associated Company Executive Director” | : | A director of an Associated Company who performs an executive function |
| “Board” | : | The Board of Directors of the Company |
| “CDP” | : | The Central Depository (Pte) Limited |
| “Committee” | : | The Remuneration Committee of the Company from time to time |

DEFINITIONS

| | | |
|-----------------------------------|---|---|
| “Company” | : | Mun Siong Engineering Limited, a company incorporated in the Republic of Singapore |
| “Companies Act” | : | The Companies Act 1967 of Singapore, as amended, supplemented or modified from time to time |
| “Controlling Shareholder” | : | A person who: (a) holds directly or indirectly 15% or more of the total number of issued Shares excluding Treasury Shares in the Company. The SGX-ST may determine that a person who satisfies this paragraph is not a controlling shareholder; or (b) in fact exercises control over the Company |
| “Directors” | : | The Directors of the Company as at the date of this Addendum |
| “EPS” | : | Earnings per Share |
| “FY” or “Financial Year” | : | The financial year ending on 31 December of the relevant year |
| “FY2022 AGM” | : | The AGM to be held on Friday, 21 April 2023, notice of which is set out in the Notice of AGM accompanying the Annual Report |
| “Grantee” | : | The person to whom an Award is granted |
| “Group” | : | The Company and its subsidiaries |
| “Group Executive Director” | : | A director of the Company and/or any of its subsidiaries, as the case may be, who performs an executive function |
| “Latest Practicable Date” | : | The latest practicable date prior to the printing of this Addendum, being 10 March 2023 |
| “Listing Manual” | : | The listing manual of the SGX-ST as amended, supplemented or modified from time to time |
| “Market Day” | : | A day on which the SGX-ST is open for trading in securities |
| “MSE PSP” | : | The MSE Performance Share Plan as amended, supplemented or modified from time to time |
| “Notice of AGM” | : | The notice of the AGM enclosed with the Annual Report, for the purposes of considering and, if thought fit, passing with or without modifications, the resolutions as set out therein |

DEFINITIONS

| | | |
|--|---|---|
| “ NTA ” | : | Net tangible assets |
| “ ROE ” | : | Return on equity |
| “ SFA ” | : | The Securities and Futures Act (Chapter 289) of Singapore as amended, supplemented or modified from time to time |
| “ SGX-ST ” | : | Singapore Exchange Securities Trading Limited |
| “ Shareholders ” | : | Registered holders of Shares, except that where the registered holder is the CDP, the term “ Shareholders ” shall, in relation to such Shares, and where the context admits, mean the Depositors whose securities accounts are maintained with CDP (but not including securities sub-accounts maintained with a Depository Agent) and credited with Shares |
| “ Shares ” | : | Ordinary shares in the issued share capital of the Company |
| “ Substantial Shareholder ” | : | A person who has an interest in not less than 5% of the issued voting shares of the Company |
| “ Share Purchase ” | : | The purchase or acquisition of Shares by the Company pursuant to the Share Purchase Mandate |
| “ Share Purchase Mandate ” | : | A general and unconditional mandate given by Shareholders (including the subsequent renewal thereof if approved by Shareholders) that authorises the Directors to purchase or acquire Shares in accordance with the terms set out in this Addendum as well as the rules and regulations set forth in the Companies Act and the Listing Manual |
| “ Take-over Code ” | : | The Singapore Code on Take-overs and Mergers, as the same may be amended or modified from time to time |
| “ S\$ ”, “ \$ ” and “ cents ” | : | Singapore dollars and cents, respectively |
| “ % ” | : | Per centum or percentage |

The terms “**Depositor**”, “**Depository Register**” and “**Depository Agent**” shall have the meanings ascribed to them respectively in Section 81SF of the SFA. The term “**Treasury Shares**” shall have the meaning ascribed to it in Section 4 of the Companies Act.

Words importing the singular shall, where applicable, include the plural and *vice versa*, and words importing the masculine gender shall, where applicable, include the feminine and the neuter genders and *vice versa*. Words importing persons shall include corporations.

DEFINITIONS

Any reference in this Addendum to any statute or enactment is a reference to that statute or enactment as for the time being amended or re-enacted. Any word defined under the Companies Act, SFA or the Listing Manual or any statutory modification thereof and not otherwise defined in this Addendum shall have the same meaning assigned to it under the Companies Act, SFA or the Listing Manual or such statutory modification thereof, as the case may be.

Any reference to a time of day in this Addendum is made by reference to Singapore time unless otherwise stated.

Any discrepancies in tables included herein between the amounts listed and the totals thereof are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Any reference to “**you**”, “**your**” and “**yours**” in this Addendum is, as the context so determines, to Shareholders.

The headings in this Addendum are inserted for convenience only and shall not affect the construction of this Addendum.

LETTER TO SHAREHOLDERS



MUN SIONG ENGINEERING LIMITED

MUN SIONG ENGINEERING LIMITED

(Company Registration No. 196900250M)
(Incorporated in the Republic of Singapore)

Directors:

Cheng Woei Fen (*Executive Chairlady*)
Quek Kian Hui (*Executive Deputy Chairman*)
David Tan Chao Hsiung (*Non-Executive and Lead Independent Director*)
Mah Kai Leong (*Non-Executive and Independent Director*)
Elaine Beh Pur-Lin (*Non-Executive and Independent Director*)

Registered Office:

35 Tuas Road
Jurong Town
Singapore 638496

6 April 2023

To: The Shareholders of Mun Siong Engineering Limited

Dear Sir/Madam

THE PROPOSED RENEWAL OF THE SHARE PURCHASE MANDATE

1 INTRODUCTION

At the forthcoming AGM of the Company to be held on 21 April 2023, the Directors are seeking the approval of the Shareholders for the proposed renewal of Share Purchase Mandate (“**Proposal**”).

The Share Purchase Mandate was first approved by Shareholders at the AGM held on 20 April 2017. The authority conferred pursuant to the Share Purchase Mandate may be exercised by the Directors at any time during the period commencing from the AGM dated 22 April 2022 and expiring on the date when the next AGM is held, or the date by which the next AGM is required by law to be held, or when the authority conferred is revoked or varied in any general meeting of the Company, whichever is earlier.

The existing Share Purchase Mandate will expire on the date of the Company’s FY2022 AGM. Accordingly, the Directors of the Company are seeking the approval of the Shareholders for the renewal of the Share Purchase Mandate at the FY2022 AGM.

The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed, or reports contained in this Addendum. If a Shareholder is in any doubt as to the action he should take, he should consult his stockbroker, bank manager, solicitor, accountant, or other professional adviser immediately.

2 TERMS OF THE SHARE PURCHASE MANDATE

2.1 Purchase of Shares Under the Share Purchase Mandate

Any purchase or acquisition of Shares by the Company must be made in accordance with, and in the manner prescribed by the Companies Act, the Listing Manual, the Company’s New Constitution and such other laws and regulations as may for the time being be applicable.

LETTER TO SHAREHOLDERS

The Constitution of the Company provides that the Company may purchase or otherwise acquire its issued Shares subject to and in accordance with the Companies Act on such terms and conditions as the Company may in a general meeting prescribed. The Listing Manual provides that if the Company wishes to purchase or otherwise acquire its own shares, it should obtain the prior specific approval of Shareholders in a general meeting. Accordingly, approval is being sought from Shareholders at the FY2022 AGM for the proposed renewal of the Share Purchase Mandate for the proposed purchase or acquisition by the Company of its issued Shares. The resolution will be proposed as an ordinary resolution pursuant to which the proposed Share Purchase Mandate will be given to the Directors to exercise all powers on behalf of the Company to purchase or otherwise acquire its Shares in accordance with the terms of the proposed Share Purchase Mandate as well as the rules and regulations set forth in the Companies Act and the Listing Manual.

If approved by Shareholders at the FY2022 AGM, the authority conferred by the Share Purchase Mandate will continue in force until the date of the next AGM of the Company or the date by which such AGM is required by law to be held or the date on which purchases or acquisitions of Shares pursuant to the Share Purchase Mandate are carried out to the full extent mandated or when the authority conferred is revoked or varied in any general meeting of the Company, whichever is the earliest.

2.2 Rationale for the Share Purchase Mandate

The approval of the Share Purchase Mandate authorising the Company to purchase or acquire its Shares would give the Company the flexibility to undertake Share Purchases up to the 10% limit described in paragraph 2.3.1 (*Maximum number of Shares*) below at any time, during the period when the Share Purchase Mandate is in force.

The rationale for the Company to undertake the purchase or acquisition of its issued Shares is as follows: –

- (a) In managing the business of the Group, the management will strive to increase Shareholders' value by improving, *amongst others*, the ROE of the Group. In addition to the growth and expansion of the business, Share Purchases may be considered one of the ways the ROE of the Group may be enhanced.
- (b) In line with international practice, the Share Purchase Mandate will provide the Company with greater flexibility in managing its capital and maximising returns to Shareholders. To the extent that the Company has capital and sufficient funds, which are in excess of its working capital needs, taking into account its growth and expansion plans, the Share Purchase Mandate will facilitate the return of excess cash and surplus funds (if any) to Shareholders in an expedient, effective and cost-efficient manner.
- (c) The Share Purchase Mandate will provide the Company with the flexibility to undertake Share Purchases at any time, subject to market conditions and compliance with the Listing Manual, during the period when the Share Purchase Mandate is in force.
- (d) Share Purchases may help mitigate short-term market volatility, offset the effects of short-term speculation and bolster Shareholder confidence.

LETTER TO SHAREHOLDERS

- (e) The Share Purchase Mandate will accord greater flexibility to the Company in providing Shares to eligible employees under its future share-based incentive schemes, including but not limited to the existing MSE Performance Share Plan approved in the AGM on 20 April 2017. Subject to prevailing legislation, the Constitution of the Company, the Listing Manual and the rules of the relevant share-based incentive schemes, the Company has the discretion to either issue new Shares, deemed fully paid upon issuance and allotment, to eligible employees, or transfer existing Shares to such eligible employees (whether held as Treasury Shares or otherwise). Share Purchases can be held by the Company as Treasury Shares to satisfy the Company's obligation to furnish Shares to eligible employees under such share-based incentive schemes, thus giving the Company greater flexibility to select the method of providing Shares to eligible employees in a manner most beneficial to the Company and its Shareholders.

While the Share Purchase Mandate would authorise a purchase or acquisition of Shares up to the said 10% limit during the duration referred to in paragraph 2.3.2 (*Duration of Authority*) below, Shareholders should note that Share Purchases may not be carried out to the full 10% limit as authorised. In particular, Share Purchases would be made in circumstances which would or may have a material adverse effect on the financial position of the Company or the Group, or result in the Company being delisted from the SGX-ST. The Directors will use their best efforts to ensure that after a purchase or acquisition of Shares pursuant to the Share Purchase Mandate, the number of Shares remaining in the hands of the public will not fall to such a level as to cause market illiquidity or adversely affect the orderly trading and listing status of the Shares on the SGX-ST.

2.3 Authority and Limits on the Share Purchase Mandate

The authority and limitations placed on purchases or acquisitions of Shares by the Company under the proposed Share Purchase Mandate are summarised below: –

2.3.1 Maximum number of Shares

Only Shares which are issued and fully paid-up may be purchased or acquired by the Company. The total number of Shares which may be purchased or acquired pursuant to the Share Purchase Mandate is limited to that number of Shares representing not more than 10% of the total number of issued Shares outstanding (excluding Treasury Shares and subsidiary holdings) as at the date of the FY2022 AGM at which the Share Purchase Mandate is approved, unless the Company has, at any time during the Relevant Period, effected a reduction of its share capital in accordance with the applicable provisions under the Companies Act or a share consolidation, in which event the total number of Shares shall be taken to be the total number of Shares as altered by the capital reduction or the share consolidation. Any Shares which are held as Treasury Shares or held through subsidiary holdings (if any) will be disregarded for purposes of computing the 10% limit. “**Relevant Period**” in this paragraph shall mean the period commencing from the date on which the AGM is held and the resolution relating to the Share Purchase Mandate is passed and expiring on the date the next AGM is held or is required by law to be held, whichever is the earlier.

As at the Latest Practicable Date, the issued capital of the Company comprises 580,712,400 Shares (excluding Treasury Shares) and the Company does not have any subsidiary holdings.

LETTER TO SHAREHOLDERS

For illustrative purposes only, on the basis of 580,712,400 Shares (excluding Treasury Shares) in issue as at the Latest Practicable Date and assuming no further Shares are issued on or prior to the date of the FY2022 AGM, not more than 58,071,240 Shares (representing not more than 10% of the total number of issued Shares as at that date) may be purchased or acquired by the Company pursuant to the proposed Share Purchase Mandate during the duration referred to in paragraph 2.3.2 (*Duration of authority*) below.

2.3.2 Duration of Authority

Purchases or acquisitions of Shares pursuant to the proposed Share Purchase Mandate may be made, at any time and from time to time, on and from the date of the FY2022 AGM, at which the adoption of the Share Purchase Mandate is approved, up to the earlier of: –

- (a) the conclusion of the next AGM of the Company;
- (b) the date by which the next AGM is required by law to be held;
- (c) the date on which the purchases or acquisitions of Shares pursuant to the proposed Share Purchase Mandate are carried out to the full extent mandated; or
- (d) the date on which the authority conferred by the Share Purchase Mandate is revoked or varied by Shareholders in a general meeting.

The authority conferred on the Directors by the Share Purchase Mandate to purchase or acquire Shares may be renewed at the next AGM or at an EGM to be convened immediately after the conclusion or adjournment of the next AGM.

2.3.3 Manner of purchases or acquisitions of Shares

Purchases or acquisitions of Shares may be made by way of: –

- (a) on-market purchase(s) (“**Market Purchase**”), transacted on the SGX-ST through the ready market, through one (1) or more duly licensed stockbrokers appointed by the Company for the purpose; and/or
- (b) off-market purchase(s) (“**Off-Market Purchase**”) effected pursuant to an equal access scheme(s) as defined in Section 76C of the Companies Act.

The Directors may impose such terms and conditions which are consistent with the Share Purchase Mandate, the Listing Manual, the Companies Act and the Existing Constitution or the New Constitution (as the case may be), as they consider appropriate in the interests of the Company in connection with or in relation to any equal access scheme(s). An Off-Market Purchase must, however, satisfy all the following conditions: –

- (i) offers for the purchase or acquisition of Shares shall be made to every person who holds Shares to purchase or acquire the same percentage of their Shares;
- (ii) all of the abovementioned persons shall be given a reasonable opportunity to accept the offers made; and

LETTER TO SHAREHOLDERS

- (iii) the terms of all the offers shall be the same, except that there shall be disregarded: –
 - (a) differences in consideration attributable to the fact that offers may relate to shares with different accrued dividend entitlements;
 - (b) differences in consideration attributable to the fact that offers relate to Shares with different amounts remaining unpaid (if applicable); and
 - (c) differences in the offers introduced solely to ensure that each person is left with a whole number of Shares.

Pursuant to the Listing Manual, if the Company wishes to make an Off-Market Purchase in accordance with an equal access scheme, the Company must, as required by the Listing Manual, issue an offer document to all Shareholders containing, *amongst others*, the following information: –

- (A) the terms and conditions of the offer;
- (B) the period and procedures for acceptances;
- (C) the reasons for the proposed purchase or acquisition of Shares;
- (D) the consequences, if any, of the purchase or acquisition of Shares by the Company that will arise under the Take-over Code or other applicable take-over rules;
- (E) whether the purchase or acquisition of Shares, if made, would have any effect on the listing of the Shares on the SGX-ST;
- (F) details of any purchases or acquisitions of Shares made by the Company in the previous 12 months (whether Market Purchases or Off-Market Purchases), giving the total number of Shares purchased, the purchase price per Share or the highest and lowest prices paid for the purchases of Shares, where relevant, and the total consideration paid for the purchases; and
- (G) whether the Shares purchased by the Company will be cancelled or, if permitted by the Company's New Constitution, held as Treasury Shares.

2.3.4 Purchase Price

The purchase price (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) to be paid for a Share will be determined by the Directors or a committee of Directors that may be constituted for the purposes of effecting purchases or acquisitions of Shares by the Company under the Share Purchase Mandate. However, the purchase price to be paid for the Shares pursuant to the purchases or acquisitions of the Shares must not exceed: –

- (a) in the case of a Market Purchase, 105% of the Average Closing Price of the Shares; and
- (b) in the case of an Off-Market Purchase pursuant to an equal access scheme, 120% of the Average Closing Price or Highest Last Dealt Price of the Shares,

LETTER TO SHAREHOLDERS

(the “**Maximum Price**”) in either case, excluding related expenses of the Share Purchase.

For the above purposes: –

“**Average Closing Price**” means the average of the closing market prices of a Share for the five (5) consecutive Market Days on which the Shares are transacted on the SGX-ST immediately preceding the date of the Market Purchase by the Company and deemed to be adjusted in accordance with the Listing Manual for any corporate action which occurs after the relevant five (5) Market Days.

“**Highest Last Dealt Price**” means the highest price transacted for a Share as recorded on the SGX-ST on the Market Day on which there were trades in the Shares immediately preceding the day of the making of the offer pursuant to the Off-Market Purchase.

“**day of the making of the offer**” means the day on which the Company announces its intention to make an offer for an Off-Market Purchase, stating therein the purchase price (which shall not be more than the Maximum Price for an Off-Market Purchase calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase.

2.4 Status of Purchased Shares

2.4.1 Cancellation

Any Shares which are purchased or acquired by the Company shall, unless held as Treasury Shares to the extent permitted under the Companies Act and the Company’s New Constitution, be deemed cancelled immediately on purchase or acquisition, and all rights and privileges attached to that Share will expire upon cancellation. Accordingly, the total number of Shares will be diminished by the number of Shares purchased or acquired by the Company and which are not held as Treasury Shares.

All Shares purchased or acquired by the Company (other than Treasury Shares held by the Company to the extent permitted under the Companies Act and the Company’s New Constitution) will be automatically delisted by the SGX-ST, and certificates in respect thereof will be cancelled and destroyed by the Company as soon as reasonably practicable following settlement of any such purchase or acquisition.

At the time of each purchase of Shares by the Company, the Directors will decide whether the Shares purchased will be cancelled or kept as Treasury Shares, or partly cancelled and partly kept as Treasury Shares, depending on the needs of the Company and as the Directors deem fit in the interest of the Company at that time.

2.4.2 Treasury Shares

Under the Companies Act, Shares purchased or acquired by the Company may be held or dealt with as Treasury Shares. Some of the provisions on Treasury Shares under the Companies Act are summarised below: –

(a) Maximum Holdings

The number of Shares held as Treasury Shares cannot at any time exceed 10% of the total number of issued Shares (the “**Treasury Shares Limit**”).

LETTER TO SHAREHOLDERS

(b) Voting and Other Rights

The Company cannot exercise any right in respect of Treasury Shares. In particular, the Company cannot exercise any right to attend or vote at meetings and for the purposes of the Companies Act, the Company shall be treated as having no right to vote and the Treasury Shares shall be treated as having no voting rights.

In addition, no dividend may be paid, and no other distribution of the Company's assets may be made to the Company in respect of Treasury Shares. However, the allotment of shares as fully paid bonus shares in respect of Treasury Shares is allowed. A subdivision or consolidation of any Treasury Share(s) into Treasury Shares of a smaller amount is also allowed so long as the total value of the Treasury Shares after the subdivision or consolidation is the same as before.

(c) Disposal and Cancellation

Where Shares are held as Treasury Shares, the Company may at any time: –

- (i) sell the Treasury Shares for cash;
- (ii) transfer the Treasury Shares for the purposes of or pursuant to a share-based incentive scheme;
- (iii) transfer the Treasury Shares as consideration for the acquisition of shares in or assets of another company or assets of a person;
- (iv) cancel the Treasury Shares; or
- (v) sell, transfer, or otherwise use the Treasury Shares for such other purposes as may be prescribed by the Minister for Finance.

Where Shares purchased pursuant to the Share Purchase Mandate are held as Treasury Shares, the number of such Shares to be held as Treasury Shares, when aggregated with the existing Treasury Shares held, shall not, subject to the Companies Act, exceed the Treasury Shares Limit at any time.

2.5 Reporting Requirements

2.5.1 SGX-ST

The Listing Manual specify that a listed company shall notify the SGX-ST of all purchases or acquisitions of its shares not later than 9.00 a.m.: –

- (a) in the case of a Market Purchase, on the Market Day following the day on which the Market Purchase was made; and
- (b) in the case of an Off-Market Purchase under an equal access scheme, on the second Market Day after the close of acceptance of the offer for the Off-Market Purchase.

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The notification of such purchases or acquisitions of Shares to the SGX-ST shall be in such form and shall include such details that the SGX-ST may prescribe. The Company shall make arrangements with its stockbrokers to ensure that they provide the Company, in a timely fashion, the necessary information which will enable the Company to make the notifications to the SGX-ST.

Under the Listing Manual, immediate announcement must be made of any sale, transfer, cancellation and/or use of Treasury Shares (in each case, the “usage”). Such announcement must include details such as the date of the usage, the purpose of the usage, the number of Treasury Shares comprised in the usage, the number of Treasury Shares before and after the usage, and the percentage of the number of Treasury Shares comprised in the usage against the total number of issued Shares (of the same class as the Treasury Shares) which are listed on the SGX-ST before and after the usage.

2.5.2 ACRA

Within 30 days of the passing of a Shareholders’ resolution to approve the purchase or acquisition of Shares by the Company, the Company shall lodge a copy of such resolution with ACRA.

Within 30 days of a purchase or acquisition of Shares on the SGX-ST or otherwise, the Company shall lodge with ACRA the notice of the purchase or acquisition in the prescribed form, such notification including, *amongst others*, the details of the purchase or acquisition, the total number of Shares purchased or acquired by the Company, the total number of Shares cancelled, the number of Shares held as Treasury Shares, the Company’s issued ordinary share capital before and after the Share Purchase, the amount of consideration paid by the Company for the purchase, and whether the Shares were purchased out of the profits or the capital of the Company.

Within 30 days of the cancellation or disposal of Treasury Shares in accordance with the provisions of the Companies Act, the Company shall lodge with ACRA the notice of cancellation or disposal of Treasury Shares in the prescribed form as required by ACRA.

2.6 Source of Funds

The Companies Act provides that any purchase or acquisition of shares by a company may be made out of the company’s capital or profits, so long as the company is solvent (as defined under paragraph 4.8 (*Solvency Test*) below). The Directors do not propose to exercise the Share Purchase Mandate in a manner and to such an extent that the working capital position and/or gearing of the Group would be materially adversely affected.

The Company intends to use internal sources of funds to finance purchases or acquisitions of its Shares. The amount of funding required for the Company to purchase or acquire its Shares and the financial impact on the Company and the Group arising from such Share Purchases will depend on, *amongst others*, the aggregate number of Shares purchased or acquired, the consideration paid at the relevant time and the amount (if any) borrowed by the Company to fund the purchases or acquisitions.

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2.7 Solvency Test

Under the Companies Act in force as at the Latest Practicable Date, we may not purchase or acquire Shares if we know that our Company is not solvent. For this purpose, a company is “**solvent**” if: –

- (a) the company is able to pay its debts in full at the time of the payment for the purchase or the acquisition and will be able to pay its debts as they fall due in the normal course of business during the period of 12 months immediately following the date of the payment; and
- (b) the value of the company’s assets is not less than the value of its liabilities (including contingent liabilities) and will not, after the proposed purchase or acquisition become less than the value of its liabilities (including contingent liabilities), having regard to the most recent financial statements of the Company and all other circumstances that the Directors or managers of the Company know or ought to know affect, or may affect, such values.

2.8 Financial Effects

It is not possible for the Company to realistically calculate or quantify the impact of purchases or acquisitions that may be made pursuant to the Share Purchase Mandate on the financial effects as it would depend on factors such as the aggregate number of Shares purchased or acquired, the purchase prices paid at the relevant time, and the amount (if any) borrowed by the Company to fund the purchases, whether the purchase or acquisition is made out of profits or capital, and whether the Shares purchased are held in treasury or cancelled. The Company’s total number of issued Shares will be diminished by the total number of the Shares purchased by the Company and which are cancelled. The purchase price paid by the Company for the Shares, if made out of profits, such consideration (excluding brokerage, stamp duties, applicable goods and services tax and other related expenses) will correspondingly reduce the amount available for the distribution of cash dividends by the Company. Where the consideration paid by the Company for the Share Purchase is made out of capital, the amount available for the distribution of cash dividends by the Company will not be reduced.

The Directors do not propose to exercise the Share Purchase Mandate to such an extent that it would have a material adverse effect on the working capital position and/or gearing of the Group. The purchase of the Shares will only be effected after considering relevant factors such as the working capital requirement, availability of financial resources, the expansion and investment plans of the Group, and the prevailing market conditions.

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For illustrative purposes only, the financial effects of the Share Purchase Mandate on the Company and the Group, based on the audited financial statements of the Group for the financial year ended 31 December 2022, are set out below based on the following assumptions: –

- (a) based on 580,712,400 Shares in issue as at the Latest Practicable Date and assuming no change in the number of Shares on or prior to the date of the FY2022 AGM and excluding Treasury Shares, such that not more than 58,071,240 Shares (representing not more than 10% of the total number of issued Shares as at that date) may be purchased or acquired by the Company pursuant to the Share Purchase Mandate;
- (b) in the case of Market Purchases by the Company and assuming that the Company purchases or acquires 58,071,240 Shares at the Maximum Price of S\$0.0454 for one (1) Share, which is 5% above the Average Closing Price of the Shares for the five (5) consecutive Market Days on which the Shares were traded immediately preceding the Latest Practicable Date, the maximum amount of funds required for the purchase or acquisition of up to 58,071,240 Shares (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) under and during the duration of the Share Purchase Mandate, is approximately S\$2,634,000.
- (c) in the case of Off-Market Purchases by the Company and assuming that the Company purchases or acquires 58,071,240 Shares at the Maximum Price of S\$0.0518 for one (1) Share, which is 20% above the Highest Last Dealt Price, the maximum amount of funds required for the purchase or acquisition of up to 58,071,240 Shares (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) under and during the duration of the Share Purchase Mandate, is approximately S\$3,010,000.

For illustrative purposes only, and based on the assumptions set out in sub-paragraphs (a), (b) and (c) above and assuming that:

- (i) the purchase or acquisition of Shares is financed solely by internal sources of funds;
- (ii) the Share Purchase Mandate had been effective on 1 January 2023; and
- (iii) the Company had purchased or acquired 58,071,240 Shares (representing not more than 10% of the total number of issued Shares at the Latest Practicable Date) on the Latest Practicable Date.

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The financial effects of the purchase or acquisition of 58,071,240 Shares by the Company pursuant to the Share Purchase Mandate on the audited financial statements of the Group and the Company for the financial year ended 31 December 2022 are set out below:

Scenario A: Purchases made entirely out of capital and held as Treasury Shares

| (\$'000) | Group | | | Company ⁵ | | |
|--|-----------------------|----------------------|---------------------|-----------------------|----------------------|---------------------|
| | Before Share Purchase | After Share Purchase | Off Market Purchase | Before Share Purchase | After Share Purchase | Off Market Purchase |
| As at 31 December 2022 | | | | | | |
| Profit attributable to Owners of the Company | 371 | 371 | 371 | 1,885 | 1,885 | 1,885 |
| Share Capital | 26,254 | 26,254 | 26,254 | 26,254 | 26,254 | 26,254 |
| Translation Reserve | 79 | 79 | 79 | 88 | 88 | 88 |
| Retained Earnings | 28,868 | 28,868 | 28,868 | 31,902 | 31,902 | 31,902 |
| Capital Reserve | (55) | (55) | (55) | (55) | (55) | (55) |
| Treasury Shares | (42) | (2,676) | (3,052) | (42) | (2,676) | (3,052) |
| Equity attributable to owners of the Company | 55,104 | 52,470 | 52,094 | 58,147 | 55,513 | 55,137 |
| Non Controlling Interests | – | – | – | – | – | – |
| Total Equity | 55,104 | 52,470 | 52,094 | 58,147 | 55,513 | 55,137 |
| NTA | 55,104 | 52,470 | 52,094 | 58,147 | 55,513 | 55,137 |
| Current Assets | 50,261 | 47,627 | 47,251 | 44,443 | 41,809 | 41,433 |
| Current Liabilities | 13,552 | 13,552 | 13,552 | 12,801 | 12,801 | 12,801 |
| Working Capital | 36,709 | 34,075 | 33,699 | 31,642 | 29,008 | 28,632 |
| Total Borrowings | 4,426 | 4,426 | 4,426 | 4,378 | 4,378 | 4,378 |
| Number of Shares excluding | | | | | | |
| Treasury Shares ('000) | 580,712 | 522,641 | 522,641 | 580,712 | 522,641 | 522,641 |
| Treasury Shares ('000) | 834 | 58,905 | 58,905 | 834 | 58,905 | 58,905 |
| Financial Ratios | | | | | | |
| NTA per Share (Cents) ¹ | 9.49 | 10.04 | 9.97 | 10.01 | 10.62 | 10.55 |
| Gearing (times) ² | 0.080 | 0.084 | 0.085 | 0.075 | 0.079 | 0.079 |
| Current Ratio (times) | 3.71 | 3.51 | 3.49 | 3.47 | 3.27 | 3.24 |
| EPS (Cents) ³ | 0.06 | 0.07 | 0.07 | 0.32 | 0.36 | 0.36 |
| ROE (%) ⁴ | 0.67 | 0.71 | 0.71 | 3.24 | 3.40 | 3.42 |

Notes:

- (1) NTA per Share equals NTA divided by number of Shares
- (2) Gearing equals total borrowings divided by Shareholders' equity
- (3) For illustrative purposes, EPS is calculated based on the number of Shares as at Latest Practicable Date excluding Treasury Shares
- (4) ROE equals profit attributable to Owners of the Company divided by Equity attributable to owners of the Company
- (5) Company level includes Mun Siong Engineering Taiwan Branch's financial results

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Scenario B: Purchases made entirely out of capital and cancelled

| (\$'000) | Group | | | Company ⁵ | | |
|--|-----------------------|--------------------------------------|---------------------|-----------------------|--------------------------------------|---------------------|
| | Before Share Purchase | After Share Purchase Market Purchase | Off Market Purchase | Before Share Purchase | After Share Purchase Market Purchase | Off Market Purchase |
| As at 31 December 2022 | | | | | | |
| Profit attributable to Owners of the Company | 371 | 371 | 371 | 1,885 | 1,885 | 1,885 |
| Share Capital | 26,254 | 23,578 | 23,202 | 26,254 | 23,578 | 23,202 |
| Translation Reserve | 79 | 79 | 79 | 88 | 88 | 88 |
| Retained Earnings | 28,868 | 28,868 | 28,868 | 31,902 | 31,902 | 31,902 |
| Capital Reserves | (55) | (55) | (55) | (55) | (55) | (55) |
| Treasury Shares | (42) | – | – | (42) | – | – |
| Equity attributable to owners of the Company | 55,104 | 52,470 | 52,094 | 58,147 | 55,513 | 55,137 |
| Non Controlling Interests | – | – | – | – | – | – |
| Total Equity | 55,104 | 52,470 | 52,094 | 58,147 | 55,513 | 55,137 |
| NTA | 55,104 | 52,470 | 52,094 | 58,147 | 55,513 | 55,137 |
| Current Assets | 50,261 | 47,627 | 47,251 | 44,443 | 41,809 | 41,433 |
| Current Liabilities | 13,552 | 13,552 | 13,552 | 12,801 | 12,801 | 12,801 |
| Working Capital | 36,709 | 34,075 | 33,699 | 31,642 | 29,008 | 28,632 |
| Total Borrowings | 4,426 | 4,426 | 4,426 | 4,378 | 4,378 | 4,378 |
| Number of Shares Excluding | | | | | | |
| Treasury Shares ('000) | 580,712 | 522,641 | 522,641 | 580,712 | 522,641 | 522,641 |
| Treasury Shares ('000) | 834 | – | – | 834 | – | – |
| Financial Ratios | | | | | | |
| NTA per Share (Cents) ¹ | 9.49 | 10.04 | 9.97 | 10.01 | 10.62 | 10.55 |
| Gearing (times) ² | 0.080 | 0.084 | 0.085 | 0.075 | 0.079 | 0.079 |
| Current Ratio (times) | 3.71 | 3.51 | 3.49 | 3.47 | 3.27 | 3.24 |
| EPS (Cents) ³ | 0.06 | 0.07 | 0.07 | 0.32 | 0.36 | 0.36 |
| ROE (%) ⁴ | 0.67 | 0.71 | 0.71 | 3.24 | 3.40 | 3.42 |

Notes:

- (1) NTA per Share equals NTA divided by number of Shares
- (2) Gearing equals total borrowings divided by Shareholders' equity
- (3) For illustrative purposes, EPS is calculated based on the number of Shares as at Latest Practicable Date excluding Treasury Shares
- (4) ROE equals profit attributable to Owners of the Company divided by Equity attributable to owners of the Company
- (5) Company level includes Mun Siong Engineering Taiwan Branch's financial results

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Shareholders should note that the financial effects set out above are for illustrative purposes only. In particular, it is important to note that the above analysis is based on historical audited financial statements for the financial year ended 31 December 2022 and is not necessarily representative of future financial performance.

Although the Share Purchase Mandate would authorise the Company to purchase or acquire up to 10% of the issued Shares (excluding Treasury Shares), the Company may not necessarily purchase or acquire or be able to purchase or acquire the entire 10% of the issued Shares (excluding Treasury Shares). In addition, the Company may cancel all or part of the Shares repurchased or hold all or part of the Shares repurchased as Treasury Shares.

2.9 Take-over Implications

Appendix 2 of the Take-over Code contains the Share Buy-Back Guidance Note applicable as at the Latest Practicable Date. The take-over implications arising from any purchase or acquisition by the Company of its Shares are set out below.

2.9.1 Obligation to make a take-over offer

If, as a result of any purchase or acquisition by the Company of the Shares, the proportionate interest in the voting capital of the Company of a Shareholder and persons acting in concert with him increases, such increase will be treated as an acquisition for the purposes of Rule 14 of the Take-over Code. Consequently, a Shareholder or a group of Shareholders acting in concert with a director could obtain or consolidate effective control of the Company and become obliged to make an offer under Rule 14 of the Take-over Code.

2.9.2 Persons acting in concert

Under the Take-over Code, persons acting in concert comprise individuals or companies who, pursuant to an agreement or understanding (whether formal or informal), co-operate, through the acquisition by any of them of shares in a company to obtain or consolidate effective control of the company.

Unless the contrary is established, the following persons, *amongst others*, will be presumed to be acting in concert, namely: –

- (a) a company with its parent company, subsidiaries, its fellow subsidiaries, any associated companies of the foregoing companies, any company whose associated companies include any of the foregoing companies, and any person who has provided financial assistance (other than a bank in the ordinary course of business) to any of the foregoing companies for the purchase of voting rights;
- (b) a company with any of its directors, together with their close relatives, related trusts and any companies controlled by any of the directors, their close relatives and related trusts; and
- (c) an individual, his close relatives, his related trusts, any person who is accustomed to act according to his instructions, companies controlled by any of the foregoing persons and any person who has provided financial assistance (other than a bank in the ordinary course of business) to any of the foregoing persons and/or entities for the purchase of voting rights.

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For this purpose, ownership or control of at least 20% but not more than 50% of the voting rights of a company will be regarded as the test of associated company status.

The circumstances under which Shareholders, including directors and persons acting in concert with them respectively, will incur an obligation to make a take-over offer under Rule 14 of the Take-over Code after a purchase or acquisition of Shares by the Company are set out in Appendix 2 of the Take-over Code.

2.9.3 Effect of Rule 14 and Appendix 2 of the Take-over Code

In general terms, the effect of Rule 14 and Appendix 2 of the Take-over Code is that, unless exempted, directors and persons acting in concert with them will incur an obligation to make a take-over offer under Rule 14 if, as a result of the Company purchasing or acquiring the Shares, the voting rights of such directors and their concert parties would increase to 30% or more, or in the event that such directors and their concert parties hold between 30% and 50% of the Company's voting rights, the voting rights of such directors and their concert parties would increase by more than 1% in any period of six (6) months. In calculating the percentages of voting rights by such directors and their concert parties, Treasury Shares shall be excluded.

Under Appendix 2 of the Take-over Code, a Shareholder who is not acting in concert with the directors will not be required to make a take-over offer under Rule 14 if, as a result of the Company buying back its own Shares, the voting rights of such Shareholder will increase to 30% or more, or, if such Shareholder holds between 30% and 50% of the Company's voting rights, the voting rights of such Shareholder would increase by more than 1% in any period of six (6) months. Such Shareholder need not abstain from voting in respect of the resolution authorising the Share Purchase Mandate.

Based on the shareholdings of the Directors in the Company as at the Latest Practicable Date, none of the Directors will become obligated to make a mandatory offer by reason only of the buying back of 10% of the Shares by the Company pursuant to the Share Purchase Mandate.

The directors are not aware of any Shareholder or group of Shareholders acting in concert who may become obligated to make a mandatory offer in the event that the directors exercise the power to repurchase Shares pursuant to the Share Purchase Mandate.

Shareholders who are in doubt as to their obligations, if any, to make a mandatory take-over offer under the Take-over Code as a result of Share Purchase by the Company are advised to consult their professional advisers and/or the Securities Industry Council and/or other relevant authorities at the earliest opportunity.

3 LISTING RULES

While the Listing Manual does not expressly prohibit the purchase of shares by a listed company during any particular time or times, the listed company would be considered an "insider" in relation to any proposed purchase or acquisition of its issued shares. In this regard, the Company will not purchase any Shares pursuant to the Share Purchase Mandate after a price-sensitive development has occurred or has been the subject of a consideration and/or a decision of the Board of Directors of the Company until such time as the price-sensitive information has been publicly announced. In particular, the Company will

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not purchase or acquire any Shares through Market Purchases and/or Off-Market Purchases during the following periods and at all times in compliance with Rule 1207(19) of the Listing Manual: –

- (a) one (1) month immediately preceding the announcement of the Company's half yearly or annual results; and
- (b) two (2) weeks immediately preceding the announcement of the Company's performance for each of the quarterly updates.

The Company is required under Rule 723 of the Listing Manual to ensure that at least 10% of its Shares are in the hands of the public. The "public", as defined under the Listing Manual, are persons other than the directors, chief executive officer, substantial shareholders or controlling shareholders of a company and its subsidiaries, as well as the associates of such persons.

Based on the register of Directors' shareholdings and the register of Substantial Shareholders maintained by the Company as at the Latest Practicable Date, approximately 168,704,600 Shares, representing 29.1% of the total number of issued Shares (excluding Treasury Shares), are in the hands of the public. Assuming that the Company purchases its Shares through Market Purchases up to the full 10% limit pursuant to the Share Purchase Mandate, the number of Shares in the hands of the public would be reduced to 110,633,360 Shares, representing 21.2% of the reduced total number of issued Shares (excluding Treasury Shares) of the Company. Accordingly, the Company is of the view that there is a sufficient number of issued Shares held in the hands of the public which would permit the Company to undertake purchases or acquisitions of its Shares to the full 10% limit pursuant to the proposed Share Purchase Mandate without affecting the listing status of the Shares on the SGX-ST, and that the number of Shares remaining in the hands of the public will not fall to such a level as to cause market illiquidity.

In undertaking any purchases or acquisitions of Shares through Market Purchases, the Directors will use their best efforts to ensure that, notwithstanding such purchases, a sufficient float in the hands of the public will be maintained so that the purchases or acquisitions of Shares will not adversely affect the listing status of the Shares on the SGX-ST, cause market illiquidity or adversely affect the orderly trading of the Shares.

4 PREVIOUS SHARE PURCHASES

In the last 12 months preceding the Latest Practicable Date, the Company acquire 700,000 Shares through Market Purchases pursuant to the share purchase mandate renewed at the AGM held on 22 April 2022. The average price paid per share was \$0.047 per share and the total consideration paid was S\$32,709. The shares purchased are kept as Treasury Shares.

5 INTERESTED PERSONS

The Company is prohibited from knowingly buying Shares on the SGX-ST from an interested person, that is, a Director, the chief executive officer of the Company or Substantial Shareholder of the Company or any of their associates, and an interested person is prohibited from knowingly selling his Shares to the Company.

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6 DIRECTORS' AND SUBSTANTIAL SHAREHOLDER'S INTERESTS

6.1 Interests of Directors and Substantial Shareholders

Assuming (a) the Company purchases the maximum number of 10% of the issued Shares of the Company as at the Latest Practicable Date; and (b) there is no change in the number of Shares held or deemed to be held by the Directors and Substantial Shareholders, based on the Register of Directors' Shareholdings of the Company and the Register of Substantial Shareholders of the Company maintained pursuant to Section 164 and Section 88 of the Companies Act respectively, as at the Latest Practicable Date, the shareholdings of the Directors and the Substantial Shareholder before and after the purchase of Shares were/will be as follows: –

| | Before the Share Purchase (as at Latest Practicable Date) | | | After Share Purchase |
|---|--|------------|---|---|
| | Number of Shares | | Total Percentage Interest (%) ⁽¹⁾ | Total Percentage Interest (%) ⁽¹⁾ |
| | Direct | Deemed | | |
| Directors | | | | |
| Cheng Woei Fen | 278,997,600 | 36,167,400 | 54.27 | 60.30 |
| Quek Kian Hui | 86,376,800 | – | 14.87 | 16.53 |
| David Tan Chao Hsiung | – | – | – | – |
| Mah Kai Leong | – | – | – | – |
| Elaine Beh Pur-Lin | – | – | – | – |
| Substantial Shareholder (other than Directors) | | | | |
| Gabriel Quek Kian Teck | 33,516,000 | – | 5.77 | 6.41 |

Note:

(1) Based on 580,712,400 Shares excluding Treasury Shares before the Share Purchase and 522,641,160 Shares excluding Treasury Shares after the Share Purchase.

Save as disclosed above, none of the Directors and Substantial Shareholder or their respective Associates have any interest, direct or indirect, in the proposed renewal of the Share Purchase Mandate.

6.2 Limits on shareholdings

The Company does not have any limits on the shareholding of any Shareholder.

7 DIRECTORS' RECOMMENDATIONS

The Directors, having fully considered the rationale for the Share Purchase Mandate, are of the opinion that the proposed renewal of the Share Purchase Mandate is in the best interests of the Company. Accordingly, the Directors recommend that Shareholders vote in favour of the ordinary resolution relating to the proposed renewal of the Share Purchase Mandate to be proposed at the FY2022 AGM.

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8 ANNUAL GENERAL MEETING

The FY2022 AGM, notice of which is enclosed with the Annual Report will be held on Friday, 21 April 2023 at 2.00 pm, at 80 Jurong East Street 21, Devan Nair Institute for Employment and Employability, Singapore 609607, Event Hall 2, Level 1, for the purpose of considering and, if thought fit, passing the resolutions set out in the Notice of the AGM.

9 APPROVALS AND RESOLUTIONS

Shareholders' approval for the proposed renewal of the Share Purchase Mandate is sought at the FY2022 AGM. The respective resolutions relating to each of the proposed renewal of the Share Purchase Mandate is contained in the Notice of AGM as Ordinary Resolution 11 respectively.

10 DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Addendum and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Addendum constitutes full and true disclosure of all material facts about the proposed renewal of the Share Purchase Mandate, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Addendum misleading.

Where information in this Addendum has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this Addendum in its proper form and context.

11 DOCUMENTS FOR INSPECTION

The following documents are available for inspection at the registered office of the Company at 35 Tuas Road, Jurong Town Singapore 638496 during normal business hours for a period of three (3) months from the date of this Addendum: –

- (a) the Constitution of the Company;
- (b) the Annual Report of the Company for FY2022.

Yours faithfully
For and on behalf of the Board of Directors

MUN SIONG ENGINEERING LIMITED

Cheng Woei Fen
Executive Chairlady

