INDEPENDENT AUDITOR'S REPORT

To the members of Hiap Seng Engineering Ltd (under Judicial Management)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HIAP SENG ENGINEERING LTD (UNDER JUDICIAL MANAGEMENT)

Report on the Audit of the Financial Statements

Our Opinion

In our opinion, the accompanying consolidated financial statements of Hiap Seng Engineering Ltd (the "Company") and its subsidiaries (the "Group") and the balance sheet 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 March 2023, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

What we have audited

The financial statements of the Company and the Group comprise:

- the consolidated statement of comprehensive income of the Group for the year ended 31 March 2023;
- the balance sheet of the Group as at 31 March 2023;
- the balance sheet of the Company as at 31 March 2023;
- the consolidated statement of changes in equity of the Group for the year then ended;
- the consolidated statement of cash flows of the Group for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2.1 in the financial statements which indicates that the Group's and Company's current liabilities exceeded their current assets by $22,268,000 and $22,467,000 (2022: $21,588,000 and $21,109,000) respectively as at 31 March 2023. In addition, the Group's and the Company's total liabilities exceeded their total assets by $17,352,000 and $17,520,000 (2022: $15,561,000 and $15,187,000) respectively. It is further indicated that the Company was placed under judicial management since 15 September 2020. The ability of the Group and the Company to continue as going concerns is subject to the completion of the Restructuring Exercise as disclosed in Note 2.1 which is currently ongoing. These conditions indicate that a material uncertainty exists that may cast significant doubt on the ability of the Group and of the Company to continue as going concerns. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HIAP SENG ENGINEERING LTD (UNDER JUDICIAL MANAGEMENT) (continued)

Our Audit Approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the accompanying financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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 for the financial year ended 31 March 2023. 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. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key Audit Matter	How our audit addressed the Key Audit Matter
Accounting for revenue from maintenance services (Refer to Note 2.3, Note 3(a) and Note 4) During the financial year ended 31 March 2023, revenue from maintenance services amounted to $18.4 million (Note 4), which represented 99% of the Group's revenue. Revenue from maintenance services is recognised in the accounting period in which the services are rendered, and in the amounts to which the Group has a right to invoice. Due to administrative delays between the time when the maintenance services are rendered and the time when the amounts are approved by the customers and billed, the Group tracks and record these unbilled revenue amounts during period-end closing. We focused on this area due to the significance of revenue to the financial statements and the risk of revenue from maintenance services being recognised in the wrong accounting period.	We performed the following audit procedures relating to cut-off in recognition of revenue from maintenance services: (a) Understand and evaluate the appropriateness of revenue recognition accounting principles and practices applied by management; (b) Understand and evaluate the relevant controls relating to cut-off in recognition of revenue from maintenance services during period-end; (c) Tested billed invoices recorded one month before and after year-end on a sample basis by agreeing to the supporting documentation for the accounting period in which maintenance services are rendered (such as maintenance contracts, service reports, timesheets and delivery documents) and assess if revenue is recorded in the correct accounting period. (d) Test accrued revenue on a sample basis by agreeing to supporting documentation for the accounting period in which maintenance services are rendered and reconciling the accrued revenue amounts recorded to subsequent billed invoices amounts. Based on the audit procedures performed above, we found management's accounting for revenue from maintenance services to be appropriately supported, and the disclosure relating to revenue to be adequate.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HIAP SENG ENGINEERING LTD (UNDER JUDICIAL MANAGEMENT) (continued)

Other information

Management is responsible for the other information. The other information comprises the Directors' Statement (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the other sections of the annual report (the "Other Sections"), which are expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Other Sections, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and take appropriate actions in accordance with SSAs.

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.

Auditor's 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 auditor's 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HIAP SENG ENGINEERING LTD (UNDER JUDICIAL MANAGEMENT) (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional skepticism 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 control.

- Obtain an understanding of internal control 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 control.

- 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 auditor's 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 auditor's 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 control 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 to 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 auditor's report unless law or regulation precludes 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.

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To the members of Hiap Seng Engineering Ltd (under Judicial Management)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HIAP SENG ENGINEERING LTD (UNDER JUDICIAL MANAGEMENT) (continued)

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 those subsidiaries 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 auditor's report is Tham Tuck Seng.

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants
Singapore, 16 August 2023

1. General information

Hiap Seng Engineering Ltd (the "Company") is listed on the Singapore Exchange and incorporated and domiciled in Singapore. The address of its registered office is 28 Tuas Crescent, Singapore 638719.

The principal activities of the Company consist of the provision of building construction, engineering, procurement, construction and plant maintenance services for oil and gas and energy sectors and, provision of process and industrial plant engineering and consultancy services. The principal activities of the subsidiaries are set out in Note 30 to the financial statements.

On 15 September 2020, the Company was placed under Judicial Management. During this period, all powers conferred and duties imposed on the Directors of the Company by the Insolvency, Restructuring and Dissolution Act 2018 or the Companies Act 1967 or by the constitution of the Company, must be exercised and performed by the Judicial Managers and not by the Directors.

2. Significant accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with the Singapore Financial Reporting Standards (International) ("SFRS(I)") under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with SFRS(I) requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group and the Company will be able to meet its obligations as and when they fall due in the next twelve months from the date of this report.

As at 31 March 2023, the Group's and the Company's current liabilities exceeded their current assets by $22,268,000 and $22,467,000 (2022: $21,588,000 and $21,109,000) respectively. In addition, the Group's and the Company's total liabilities exceeded their total assets by $17,352,000 and $17,520,000 (2022: $15,561,000 and $15,187,000) respectively.

Judicial Management

On 15 September 2020, the Company was placed under judicial management.

The objectives of the judicial management order are to achieve one or more of the following purposes:

(a) Survival of the Company, or the whole or part of its undertaking as a going concern;

(b) The approval under Section 210 of the Companies Act 1967 or Section 71 of the Insolvency, Restructuring and Dissolution Act 2018 of a compromise or arrangement between the Company and any such persons as mentioned in those sections; and/or

(c) A more advantageous realisation of the Company's assets than on winding up.

During the judicial management period, there was a stay on all suits, proceedings, claims etc. against the Company, except with the consent of the Judicial Managers ("JMs") or with the leave of the Court. The borrowings owing to the principal lender and unsecured claims from creditors (collectively, the "Creditors") prior to 15 September 2020 would be addressed/restructured via a Scheme of Arrangement ("Scheme").

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern (continued)

Judicial Management (continued)

On 7 January 2022, the Company entered into a Conditional Subscription Agreement ("CSA") with a group of investors (the "Investors"), in which the Investors will subscribe for S$8 million ordinary shares (the "Proposed Subscription") and up to $8 million in unlisted and freely transferable share options ("Options Shares") in the Company (collectively, the "Proposed Transaction"). The details of the Proposed Transaction was announced on the same day via SGX-Net.

On 29 August 2022 and subsequently on 7 March 2023, the High Court of Singapore (the "Court") granted the extension of the judicial management order for the Company till 4 September 2023 to allow the Company to complete the Proposed Transaction with the Investors. An application for further extension of the judicial management order for the Company to 2 March 2024 has been made and is subject to the Court's approval during the hearing on 4 September 2023.

On 29 August 2022, the Court had granted an order to sanction the Scheme, which was duly approved by the creditors, allowing the Company to restructure the debts and liabilities of the Company owing to the Creditors prior to 15 September 2020. The aforesaid Scheme is one of the conditions precedent referred to in the CSA, and the approval of the Scheme fulfils one of the anticipated steps to complete the restructuring exercise of the Company.

The Company had on 31 May 2023 entered into a supplemental agreement to the CSA with the Investors to extend the longstop date to 30 November 2023 as the Company continues to seek approval from the relevant authorities in relation to the Proposed Transaction and further time is required for the satisfaction of the condition precedent.

As of the date of this report, the Company is in the final stage of fulfilling the conditions precedent referred to in the CSA, which is to obtain the approval of a regulatory authority and the shareholders on the Proposed Transaction.

Borrowings from the Creditors

The Company has current secured borrowings of $14,696,000 as at 31 March 2023 (Note 19). As at the date of this report, the Company also has outstanding amounts due to unsecured creditors prior to 15 September 2020 of approximately $19,646,000.

On 18 August 2022, the Company entered into a restructuring deed with the principal lender and the Investors (the "Restructuring Deed"). The Restructuring Deed prescribes how the Company's liabilities due to the principal lender will be discharged or provided for. Upon successful completion of the Proposed Transaction, the Company will utilise the proceeds from the investments by the Investors for the partial settlement of the principal amounts and interests under the loans owing to the principal lender prior to 15 September 2020.

The remaining secured amounts of the principal lender will be restructured together with the other unsecured creditors who had filed Proofs of Debt (together the "Scheme Debt") via the Scheme, which was sanctioned on 29 August 2022 by the Court.

Under the Scheme, the Scheme Debt will be partially settled by way of a cash distribution and issuance of settlement shares. The remaining Scheme Debt shall be irrevocably and forever released, discharged and extinguished upon the successful completion of the Proposed Transaction and Scheme implementation post-restructuring.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern (continued)

Cash flows from operating activities

The Management has taken the following steps and measures to sustain and improve the Group's operational performance and financial position:

- Continue to source for upcoming shutdown and maintenance contracts;
- Implement cost containment measures;
- Renew relationships with past customers and the provision of comprehensive scale of services to clients, including supporting their green initiatives;
- Close down/divest the Company's non-core investments to reduce overheads; and
- Explore available options in utilising any part of the premises/assets for value.

The Directors/JMs and the management believe that the Group will be able to generate sufficient cash flows from its operating activities to meet its liabilities upon successful completion of the Proposed Transaction and the Scheme, and execution of the Restructuring Deed (collectively, the "Restructuring Exercise"). Accordingly, the Group believes that its liabilities and working capital needs can be met as and when they fall due in the next 12 months from the date of this report. The Group also plans to undertake a rights issue exercise to raise up to S$3.3 million upon completion of the Proposed Transaction.

On the above basis, the financial statements for the financial year ended 31 March 2023 is prepared on a going concern basis.

Notwithstanding the Directors/JM and management's belief that the use of going concern assumption in the preparation of the financial statements is appropriate, there are material uncertainties which may cast significant doubt on the ability of the Group and the Company to continue as going concerns as the completion of the Restructuring Exercise is subject to certain conditions precedent to be fulfilled, being mainly the approvals from a regulatory body and shareholders.

If for any reason the Group and the Company are unable to continue as a going concern, this could impact the Company's ability to realise its assets at book values and adjustments may have to be made to provide for any potential/future losses and liabilities which might arise, and to classify the non-current assets and liabilities as current assets and liabilities, respectively. The accompanying financial statements do not include the effect of any of these adjustments.

2.2 Interpretations and amendments to published standards effective in 2023

On 1 April 2022, the Group adopted the new or amended SFRS(I) and Interpretations to SFRS(I) ("INT SFRS(I)") that are mandatory for application for the financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective SFRS(I) and INT SFRS(I).

The adoption of these new or amended SFRS(I) and INT SFRS(I) did not result in substantial changes to the accounting policies of the Group and the Company and had no material effect on the amounts reported for the current or prior financial years.

2.3 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the rendering of services in the ordinary course of the Group's activities. Revenue is presented, net of goods and services tax, rebates and discounts, and after eliminating sales within the Group.