



MUN SIONG ENGINEERING LIMITED
(Company Registration No 196900250M)
(Incorporated in the Republic of Singapore)

**UPDATE ON THE INVESTIGATION BY THE MINISTRY OF JUSTICE INVESTIGATION
BUREAU (TAIWAN) AND CALL FOR THE RETURN OF BID DEPOSIT AND
IMPOSITION OF PENALTIES BY TAIWAN CPC CORPORATION (“CPC”)**

The Board of Directors (the “**Board**”) of Mun Siong Engineering Limited (the “**Company**”) and together with its related companies (the “**Group**”) wishes to provide further update following the Company’s announcements dated 14 April 2021, 21 June 2022, 12 July 2022, 4 August 2022, 3 November 2022, 22 December 2022 and 28 February 2023.

Summary of Sequence of Key Events

Announcement dated 14 April 2021

On 13 April 2021, the Branch Office in Kaohsiung, Taiwan (the “**Branch Office**”) received a request from the Ministry of Justice Investigation Bureau to make available records and documents in connection with an on-going investigation, the nature of which was not disclosed to us. The records and documents relate mainly to tenders or jobs that the Company had undertaken and services rendered by certain suppliers. The Branch Office had duly complied with the request.

Announcement dated 21 June 2022

The prosecutors from the Qiaotou District Prosecutor’s Office in Kaohsiung, Taiwan (the “**Prosecutor**”) was investigating an individual. This individual was engaged by the Branch Office as a consultant (the “**Consultant**” or “**Ex-Consultant**”). The consultant was never an employee of the Branch Office. Based on the Prosecutor’s press release, dated 25 May 2022, the Consultant had allegedly paid bribes to certain employees within CPC. His service was terminated by the Branch Office on 30 May 2022 [Breach of contract agreement – consultant must not engage in illegal activities (bribery and corruption)]. The Group has zero tolerance towards bribery and corruption. Our Taiwan Legal Counsel (Messrs. Chen & Lin Attorneys-at-Law) also understands that the consultant has been indicted on bribery charges in Taiwan and at the date of this announcement, given that no judgement has been publicly disclosed, our Taiwan Legal Counsel has advised the Company that the case has not been concluded.

The Branch Office on 16 June 2022 and 17 June 2022 received two letters from Taiwan CPC Corporation (the “**CPC**”) (“collectively the “**Letters**”). In these letters, CPC, being a State-Owned Company, exercising their rights, under the Taiwan Procurement Act, for the return of the entire bid deposits relating to two integrated turnaround projects undertaken by the Branch Office. The two projects were (i) CPC Talin Integrated Turnaround project 2019, Kaohsiung (“**CPC Talin Project 2019**” or “**RFCC TA 2019**”), bid deposit of TWD2.29 million (equivalent to S\$111,000) and CPC Taoyuan

Integrated Turnaround Project, Taoyuan (“CPC Taoyuan Project”) , bid deposit of TWD1.08 million (equivalent to S\$51,000).

As part of the internal audit cycle, the Company’s Internal Auditors performed an internal audit on the Branch Office in 2022 where they reviewed and provided recommendations to enhance the existing tender and procurement policies. (The Internal Audit findings were announced on 3 November 2022 as part of our performance guidance for the period ended 30 September 2022 (“3rd Quarter Guidance Announcement”). The Internal Auditors verified that, since the commencement of the Branch Operations in 2019, payments made were supported by contract agreements and Value Added Tax invoices and they were properly authorised.

Announcement dated 12 July 2022

The Branch Office received four letters from CPC on 21 June 2022, 22 June 2022, 23 June 2022 and 24 June 2022. These letters were related to the CPC Talin Project 2019 and CPC Taoyuan Project. CPC wanted to impose monetary penalties and 3 years suspension on the Company and the Branch Office.

The monetary penalty against the Company/Branch Office in relation to the CPC Talin Project 2019 was TWD3.0 million (equivalent to S\$145,000) and in relation to the CPC Taoyuan Project was TWD 0.8 million (equivalent to S\$39,000) respectively.

The suspension is for a fixed period of 3 years in which the Company/Branch Office is not allowed to participate in government contracts under the Government Procurement Act of Taiwan. Note that CPC is considered a government entity as it is a State-owned Corporation.

A summary CPC’s claims:

	<u>CPC Talin Project 2019</u>	<u>CPC Taoyuan Project</u>
Refund of Bid deposits	TWD2.29 million	TWD1.08 million
Penalties	TWD3.0 million	TWD 0.8 million
Total	TWD5.29 million	TWD1.88 million
Suspension	3 years	3 years

The Company/ Branch Office had taken the following actions:

- (1) Applied to attend the Consultant’s indictment charges.

Our Taiwan Legal Counsel applied to the Court to attend the Consultant’s indictment charges, as a victim (the Taiwan Branch) of the alleged bribes on the basis that the actions taken by CPC was detrimental to the operations of the Group and impact the Group’s integrity.

In our 3rd Quarter Guidance Announcement on 3 November 2022, the Court rejected our application. The Court explicitly stated that the Taiwan Branch is not a victim in the Consultant’s bribery case. None of the officers in the Company and Taiwan Branch were named nor indicted as defendants. None of these officers were summoned as suspects in the bribery charges. Given all these, the Taiwan Branch did not and will not have the right to participate therein or to obtain the relevant Court documents.

- (2) Appealed to the Public Construction Commission (the “PCC”).

This is an avenue prescribed under the Government Procurement Act of Taiwan. The PCC is an independent committee comprising of professionals from different disciplines and is

formed when there is an appeal hearing. The PCC will make its independent enquiries and review statements from both CPC and the Branch Office on the above two projects.

Refer to announcement on the 22 December 2022 (see information below) pertaining to the PCC's findings.

Announcement dated 22 December 2022:

A summary of the PCC's final decision

	CPC Talin Project 2019	CPC Taoyuan Project
Bid Deposit -TWD3.37 million	Ruled in CPC's favour (TWD 2.29 (Note 1) million deducted by CPC from existing project)	Ruled in Taiwan Branch's favour (TWD 1.08 million (Note 2) – Taiwan Branch not liable)
3 years suspension	Ruled in CPC's favour – 3 years suspension (concurrent) commencing December 2022 from bidding Government contracts	
Penalties – TWD3.8 million	TWD 3.0 million (Note 1) deducted by CPC from existing project	TWD 0.8 million (Note 1) deducted by CPC from existing project

Note 1: these charges, totalling TWD6.09 million (equivalent to S\$294,000) were expensed off and reflected in the audited financial statements for financial year ended 31 December 2022.

Note 2: On grounds of prudence, we provided for this amount in the period ended 30 June 2022. We reversed out this provision based on PCC's findings- ruled in our favour. No provision was made for this amount in the audited financial statements for financial year ended 31 December 2022.

PCC ruled in favor of the Company/Branch Office for the CPC Taoyuan Project in relation to the bid deposit as the alleged bribery occurred after the project was awarded to the Branch Office. Hence, CPC has no right to claim the bid deposit from the Branch Office. It should be noted that CPC cannot object to PCC's final decision.

However, for the remaining charges, PCC ruled in CPC's favor. It deemed the Consultant as an agent of the Branch Office and is liable for his actions.

After discussion with the Taiwan Legal Counsel, considering PCC's explanations and decisions and the costs to be incurred, the Group decided not to appeal further to the Taiwan's civil and administrative courts.

Further claims by CPC against the Company/Branch Office

The Branch Office received two letters from CPC dated 14 August 2023 and 18 August 2023, claiming from the Branch the bid deposit of TWD1.08 million (equivalent to S\$47,000) and penalty of TWD 40,000 (equivalent to S\$2,000) for the CPC Taoyuan Project. This CPC Taoyuan Project is the same CPC Taoyuan project in which PCC (as mentioned above) ruled in our favour in 2022. The Branch Office did not carry out any new CPC project in Taoyuan in 2023.

Besides these two letters, the Branch Office received another letter dated 30 August 2023 from CPC, imposing monetary penalty of TWD24,000 (equivalent to S\$1,000) on the completed CPC Talin Project 2019 – the same one in which PCC ruled against us.

A summary of the claims made in the letters received in 2023:

	CPC Talin Project 2019	CPC Taoyuan Project
Bid Deposit	None (Note 3)	TWD 1.08 million
3 years suspension	None (Note 3)	None (Note 3)
Penalties – TWD 64,000	TWD24,000	TWD40,000

Note 3: at the date of this announcement, we have not received any letter from CPC on these. In aggregation, CPC is claiming TWD1.14 million (equivalent to S\$50,000).

After receipt of the above letters from CPC, our Taiwan legal counsel performed a legal search against the Consultant (as mentioned above, at the date of this announcement, his case has yet to be concluded), and confirmed that the recent monetary penalties imposed by CPC is in response to new charges laid by the Prosecutor against the Consultant. We understand that the new charges relate to the Consultant paying bribes to another CPC employee in exchange for past tender proposals/information for the CPC Talin Project 2019 and CPC Taoyuan Project. From the indictment document, one of the bribes took place in 2018 (to obtain information for CPC Talin Project 2019) even before the incorporation of the Branch office in 2019. The Company/Branch Office only engaged the Consultant in 2019 after it decided to enter the Taiwan market in that year.

It should also be noted that the Prosecutor did not make any press release for the new indictment charges. The Group also confirmed that none of the officers in the Company and Taiwan Branch were summoned, named nor indicted as defendant in this new bribery charge against the consultant.

The Consultant’s earlier bribery indictments (as mentioned above) and the current indictments are related to the same two contracts -CPC Talin 2019 and CPC Taoyuan Project.

Our Experiences on CPC’s selection and tendering process:

The scope of work, as determined by CPC, varies from each Turnaround project. For example, the CPC Talin Turnaround Project 2019, was different from the CPC Talin Turnaround Project 2021 even though the respective projects were executed on the same site. Both projects were undertaken by the Company/Branch Office. The Talin Turnaround Project 2021 value was significantly higher in value than CPC Talin Turnaround Project 2019 due to additional work scope required by CPC.

In any of our project proposal submission to CPC, we have to explain our execution strategy on the work scope specified by CPC, the organization/reporting structure of the execution team, execution schedule, safety highlights and our bid price. CPC will perform a score ratings on each vendors’ proposals. CPC will rank the vendors and those with the highest score will be invited to make a presentation to a panel comprising of CPC staff and external professionals (appointed by CPC). The panel will seek explanations and clarifications. Vendors are then ranked by the panel and the one with the highest score will be selected and commence price negotiations with CPC. In the event this vendor is unable to meet CPC’s cost estimates (or pricing), CPC will commence price negotiation with the next highest scoring vendor.

Based on our observations, CPC’s tendering processes focus primarily on the vendor’s execution processes and pricing (guided by their internal costing estimates). Obtaining information on past tender proposals, which we understand to be the reason the Consultant is currently being indicted for bribery, provides no advantage to us (bidders). Like all tenders we participated in, our accumulated experience (more than 50 years) is the advantage we believe we have over many of our competitors.

Company/Branch Office response to CPC's claim

Our Taiwan legal counsel, on behalf of the Company/Branch Office, had written to CPC on 23 August 2023 and 28 August 2023 (relating to CPC Taoyuan Project) and 5 September 2023 (regarding CPC Talin 2019) disagreeing with their claims. CPC had responded back on 5 September 2023 and 12 September 2023 respectively, disagreeing with our defense.

Taiwan Legal Counsel has advised the Company that the previous PCC's ruling (received on 7 October 2022) that the consultant was regarded as an agent of the Branch Office despite him not holding any executive role or being delegated any executive powers may prevail. The Company/Branch Office is still liable for the consultant's actions. On this basis, the Company/Branch Office has decided not to proceed with PCC's appeal hearing on the refund deposit of TWD1.08 million (equivalent to S\$47,000) for CPC Taoyuan Project and will refund it. The Branch Office will also pay for the two penalties amount of TWD40,000 (equivalent to S\$2,000) and TWD24,000 (equivalent to S\$1,000) for CPC Taoyuan Project and CPC Talin Project 2019 respectively.

CPC has informed us that the penalty amount of TWD24,000 will be deducted from the existing CPC projects. For the penalty amount of TWD40,000 and the refund of bid deposit of TWD1.08 million, we will be remitting cash to CPC Taoyuan as no deduction can be made without any existing project with CPC Taoyuan. If we do not pay CPC Taoyuan, they are likely to initiate a civil lawsuit against the Company/Branch Office to demand payments. To avoid a further increase in costs to the Group, we have decided to make the payments.

Company/Branch Office exposures

Legal exposure:

As at the date of the announcement, none of the Group's employees (save for a non-management staff who was interviewed by the Prosecutor on 14 July 2021) has been interviewed by the Prosecutor or relevant authorities in Taiwan in relation to the Consultant's case. The Company/Branch Office (including its related companies) and its officers have never been named as a defendant in the indictments against the Consultant.

Compliance exposure:

The Branch Office's finance operations (accounting and treasury) and project management functions are supported by the Singapore operations. The Singapore finance operations are subject to statutory audit review by its auditors Messrs KPMG Singapore. Beside this, the internal auditors (reporting to the Audit Committee) performed a review of the Branch Office operations (finance and tendering process) in 2022. They reported to the Audit Committee in November 2022 that payments made were in accordance to contract agreements, supported by Value Added Tax invoices and were properly authorized.

Financial exposure:

As mentioned above, the Group had taken a charge (refund of deposits and penalties) amounting to TWD 6.09 million (equivalent to S\$294,000) in its Group audited financial statements for the financial year ended 31 December 2022.

For the current claims made by CPC in their letters dated 14 August 2023, 18 August 2023 and 30 August 2023, we will recognize the refund of bid deposits of TWD1.08 million (equivalent to S\$47,000) and penalties, aggregating TWD 64,000 (equivalent to S\$3,000), as an expense in the 3rd quarter ending 30 September 2023.

As mentioned above, the Company/Branch Office is suspended for 3 years (the suspension will end in December 2025) and is unable to participate/undertake any government tenders or projects. However, as guided by our Taiwan Legal Counsel based on the relevant Taiwan laws, other legal entities within the Group are excluded from this suspension.

Business Strategy for Taiwan market

Pegasus Advance Industrial Company Limited (the “PAI”) was incorporated on 20 October 2022 to further the Group’s business interests in Taiwan. New business opportunities in this market will be undertaken by this legal entity, a wholly owned subsidiary with a paid-up capital of TWD30.0 million (equivalent to S\$1.395 million).

To-date, we have been awarded a job by a US technology conglomerate.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company. The Company will make the necessary announcements when there are material developments on this matter. Shareholders of the Company and potential investors are advised to read all further announcements by the Company carefully and to consult their stockbrokers, bank managers, solicitors or other professional advisers if they have any doubt about the actions they should take.

By Order of the Board

Cheng Woei Fen
Executive Chairlady
6 October 2023