Mun Siong Engineering Limited

Condensed Interim Financial Statements for the six months ended 30 June 2023

MUN SIONG ENGINEERING LIMITED
(Incorporated in the Republic of Singapore)
(Company registration number: 196900250M)

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A. Condensed interim consolidated statement of profit or loss and other comprehensive income

	Group		
	6 months ended 30 June		Incr / (Decr)
	1H2023	1H2022	
	$'000	$'000	%
Revenue	33,587	30,592	9.8
Cost of sales	(32,938)	(27,881)	18.1
Gross profit	649	2,711	(76.1)
Other income and recoveries	1,136	295	285.1
Administrative expenses	(4,178)	(3,870)	8.0
Other operating expenses	(323)	(210)	53.8
Share of results of an equity-accounted investee	(22)	2	(1,200.0)
Results from operating activities	(2,738)	(1,072)	155.4
Finance income	92	49	87.8
Finance costs	(92)	(67)	37.3
Loss before tax	(2,738)	(1,090)	151.2
Tax expense	(129)	(330)	(60.9)
Loss after tax	**(2,867)**	**(1,420)**	101.9
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation difference from foreign operations	45	29	55.2
Total comprehensive income	**(2,822)**	**(1,391)**	102.9
Loss attributable to:			
Owners of the Company	**(2,867)**	**(1,420)**	101.9
Non-controlling interest	-	-	-
	(2,867)	**(1,420)**	101.9
Total comprehensive income attributable to:			
Owners of the Company	**(2,822)**	**(1,391)**	102.9
Non-controlling interest	-	-	-
	(2,822)	**(1,391)**	102.9

Earnings per share:		
Basic (SGD in cent)	(0.49)	(0.24)
Diluted (SGD in cent)	(0.49)	(0.24)

B. Condensed interim statements of financial position

	Group		Change	Company (Note 1)		Change
	30 June 23	31 Dec 22		30 June 23	31 Dec 22	
	$'000	$'000	%	$'000	$'000	%
Non-current assets						
Property, plant and equipment	36,665	22,139	65.6	24,251	13,215	83.5
Investment properties	1,300	1,300	-	1,300	1,300	-
Investment in an equity-accounted investee	294	323	(9.0)	323	323	-
Subsidiaries	-	-	-	4,223	4,223	-
Other receivables	-	-	-	13,367	12,793	4.5
Total non-current assets	**38,259**	**23,762**	61.0	**43,464**	**31,854**	36.4
Current assets						
Inventories	195	151	29.1	181	140	29.3
Contract assets	13,575	5,928	129.0	12,536	5,335	135.0
Trade and other receivables	16,198	15,535	4.3	17,722	15,854	11.8
Cash and cash equivalents	6,233	28,647	(78.2)	4,817	23,114	(79.2)
Total current assets	36,201	50,261	(28.0)	35,256	44,443	(20.7)
Total assets	**74,460**	**74,023**	0.6	**78,720**	**76,297**	3.2
Equity						
Share capital	26,254	26,254	-	26,254	26,254	-
Treasury shares	(2)	(42)	(95.2)	(2)	(42)	(95.2)
Share based compensation reserve	(58)	(55)	5.5	(58)	(55)	5.5
Translation reserve	124	79	57.0	81	88	(8.0)
Retained earnings	25,769	28,868	(10.7)	30,740	31,902	(3.6)
Equity attributable to owners of the Company	**52,087**	**55,104**	(5.5)	**57,015**	**58,147**	(1.9)
Non-controlling interests	-	-	-	-	-	-
Total equity	**52,087**	**55,104**	(5.5)	**57,015**	**58,147**	(1.9)
Non-current liabilities						
Loans and borrowings	3,172	2,642	20.1	3,172	2,624	20.9
Provisions	1,328	1,315	1.0	1,328	1,315	1.0
Deferred tax liabilities	1,410	1,410	-	1,410	1,410	-
Total non-current liabilities	5,910	5,367	10.1	5,910	5,349	10.5
Current liabilities						
Trade and other payables	11,148	11,222	(0.7)	10,530	10,534	(0.0)
Contract liabilities	461	-	NM	461	-	NM
Provisions	462	462	-	462	462	-
Loans and borrowings	4,276	1,784	139.7	4,262	1,754	143.0
Tax payable	116	84	38.1	80	51	56.9
Total current liabilities	16,463	13,552	21.5	15,795	12,801	23.4
Total liabilities	**22,373**	**18,919**	18.3	**21,705**	**18,150**	19.6
Total equity and liabilities	**74,460**	**74,023**	0.6	**78,720**	**76,297**	3.2

NM: Not meaningful

Note 1: The Company level includes Mun Siong Engineering Taiwan Branch's financial results.

C. Condensed interim statements of changes in equity

The Group	Share Capital $'000	Treasury Shares $'000	Share based Compensation Reserve $'000	Translation Reserve $'000	Retained Earnings $'000	Total $'000	Non-Controlling Interests $'000	Total Equity $'000
2023								
Balance at 1 January	26,254	(42)	(55)	79	28,868	55,104	-	55,104
Loss for the period	-	-	-	-	(2,867)	(2,867)	-	(2,867)
Other comprehensive income	-	-	-	45	-	45	-	45
Dividends paid	-	-	-	-	(232)	(232)	-	(232)
Grant of performance shares to employees	-	40	(3)	-	-	37	-	37
Balance at 30 June	**26,254**	**(2)**	**(58)**	**124**	**25,769**	**52,087**	**-**	**52,087**
2022								
Balance at 1 January	26,254	(65)	(39)	83	28,845	55,078	-	55,078
Loss for the period	-	-	-		(1,420)	(1,420)	-	(1,420)
Other comprehensive income	-	-	-	29	-	29	-	29
Dividends paid	-	-	-	-	(348)	(348)	-	(348)
Grant of performance shares to employees	-	56	(16)	-	-	40	-	40
Balance at 30 June	**26,254**	**(9)**	**(55)**	**112**	**27,077**	**53,379**	**-**	**53,379**

The Company	Share Capital $'000	Treasury Shares $'000	Share based Compensation Reserve $'000	Translation Reserve $'000	Retained Earnings $'000	Total Equity $'000
2023						
Balance at 1 January	26,254	(42)	(55)	88	31,902	58,147
Loss for the period	-	-	-	-	(930)	(930)
Other comprehensive income	-	-	-	(7)	-	(7)
Dividends paid	-	-	-	-	(232)	(232)
Grant of performance shares to employees	-	40	(3)	-	-	37
Balance at 30 June	**26,254**	**(2)**	**(58)**	**81**	**30,740**	**57,015**
2022						
Balance at 1 January	26,254	(65)	(39)	100	30,365	56,615
Loss for the period	-	-	-	-	(385)	(385)
Other comprehensive income	-	-	-	(13)	-	(13)
Dividends paid	-	-	-	-	(348)	(348)
Grant of performance shares to employees	-	56	(16)	-	-	40
Balance at 30 June	**26,254**	**(9)**	**(55)**	**87**	**29,632**	**55,909**

D. Condensed interim consolidated statement of cash flows

	Group	
	6 months ended 30 June	
	1H2023	1H2022
Cash flows from operating activities	**$'000**	**$'000**
Loss before tax	(2,738)	(1,090)
Adjustments for:		
Depreciation of property, plant and equipment	1,654	1,577
Interest expense	79	54
Equity-settled share-based payment transactions	37	40
(Reversal)/impairment loss on contract assets	(115)	884
Provisions for monetary penalties	-	342
Unwinding of discount on provision for restoration costs	13	13
Share of results of an equity-accounted investee	22	(2)
Interest income	(92)	(49)
Net gain on disposal of property, plant and equipment	(42)	(1)
Operating cash flow before working capital changes	(1,182)	1,768
Changes in inventories	(44)	(7)
Changes in contract assets	(7,481)	1,096
Changes in trade and other receivables	(2,478)	11,120
Changes in trade and other payables	101	(10,917)
Changes in contract liabilities	461	(377)
Cash (used in)/generated from operating activities	(10,623)	2,683
Tax paid	(97)	(231)
Net cash (used in)/generated from operating activities	**(10,720)**	**2,452**
Cash flows from investing activities		
Interest received	92	49
Proceeds from disposal of property, plant and equipment	99	20
Acquisition of property, plant and equipment (Note 1)	(13,405)	(389)
Net cash used in investing activities	**(13,214)**	**(320)**
Cash flows from financing activities		
Dividends paid	(232)	(348)
Proceeds from bank loan	2,600	-
Repayment of bank loans	(619)	(607)
Payment of lease liabilities	(382)	(276)
Interest paid	(74)	(70)
Net cash generated from/(used in) financing activities	**1,293**	**(1,301)**
Net (decrease)/increase in cash and cash equivalents	**(22,641)**	**831**
Cash and cash equivalents at beginning of period	28,647	35,077
Effect of exchange rate fluctuations on cash held	227	129
Cash and cash equivalents at end of period	**6,233**	**36,037**

Note 1: Total additions to fixed assets for the period under review was $15,040,000. The amount $13,405,000 refers to the transactions paid for the period from 1 January 2023 to 30 June 2023. The remaining balances of $1,635,000 have not been paid as at period ended 30 June 2023 or had been paid via downpayments in FY2022.

E. Notes to the condensed interim consolidated financial statements

1. Corporate Information

Mun Siong Engineering Pte Ltd (the "Company") was incorporated in Singapore in 1969. It was converted to a public limited company in 2010 when its shares are quoted and traded on the main board of the Singapore Exchange.

The principal activities of the Company, including that of its subsidiaries and equity-accounted investee, are provisions of mechanical engineering, electrical engineering, project management and provision of specialized services to the process industries. Besides this, it is also an investment holding company.

To further the Company's interest in Malaysia, the Group has three entities namely, HIMS Integrated Services Sdn Bhd ("HIMS") (an equity-accounted investee) and Mun Siong Engineering Sdn Bhd, which in turn holds equity interest in Pegasus Advance Engineering Sdn Bhd ("PAE M").

Its business interest in Taiwan started with a branch office ("Branch") located in Kaohsiung, Taiwan. The financials of the Company include the results of the branch office. The Group also has a wholly owned subsidiary in Taiwan, namely Pegasus Advance Industrial Company Limited ("PAI"). PAI is also located in Kaohsiung.

For its US business, the Group set up an entity namely Pegasus Industrial Midwest Limited Liability Company ("PIM") in the State of Illinois, USA. PIM is a wholly owned subsidiary of Pegasus Advance Engineering (US) Inc ("PAE US"). PAE US is wholly owned by Pegasus Advance Engineering (Netherlands) BV ("PAE Netherlands") and it is also wholly owned by Pegasus Advance Engineering Pte Ltd ("PAE S"). The Company owns 100% interest in PAE S. PAE S, PAE Netherlands and PAE US principal activities are investment holding companies.

These condensed interim consolidated financial statements as at and for the six months ended 30 June 2023 comprise the Company and its subsidiaries (collectively the "Group") and the Group's interest in an equity-accounted investee.

2. Basis of Preparation

The condensed interim financial statements for the six months ended 30 June 2023 have been prepared in accordance with SFRS(I) 1-34 *Interim Financial Reporting* issued by the Accounting Standards Council Singapore. The condensed interim financial statements do not include all the information required for a complete set of financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance of the Group since the last annual financial statements for the year ended 31 December 2022.

The accounting policies adopted are consistent with those of the previous financial year which were prepared in accordance with SFRS(I)s, except for the adoption of new and amended standards as set out in Note 2.1.

The condensed interim financial statements are presented in Singapore dollar which is the Company's functional currency.

2.1. New and Amended Standards Adopted by the Group

A number of amendments to the Standards have become applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

2.2. Use of judgements and estimates

In preparing the condensed interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2022.

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.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next interim period are:

- Revenue recognition: estimate of total contract costs used in determining the percentage of completion (refer to Note 4); and
- Impairment of property, plant and equipment (refer to Note 11).

3. Seasonal operations

The Group's businesses are not affected significantly by seasonal or cyclical factors during the financial period. However, it should be noted that shorter working days in a month due to public holidays, for example Chinese New Year and Christmas, do affect the Group's revenue and operating performance.

4. Revenue

	Group	
	6 months ended 30 June	
Revenue	**1H2023**	**1H2022**
	$'000	**$'000**
Revenue from contracts with customers	33,587	30,592

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

5. Segment and revenue information

The operating segments are reported in a manner consistent with internal reporting provided to the Group's Executive Committee who is responsible for allocating and assessing the performance of the operating segments. The Group's Executive Committee reviews internal management reports at least on a monthly basis.

Since 2021, the Group's Executive Committee has determined that the Group only has one reportable segment – Mechanical, electrical, instrumentation and others.

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 1H2023 and 1H2022.

	Group	
	6 months ended 30 June	
Reportable Segments	**1H2023**	**1H2022**
	$'000	**$'000**
External Revenue	33,587	30,592
Interest income	92	49
Miscellaneous income	163	23
Total other income	255	72
Total revenue and other income	33,842	30,664
Depreciation	1,654	1,577
Finance expense	79	54
Segment loss	(2,879)	(1,115)
Unallocated segment profits	163	23
Share of results of an equity-accounted investee	(22)	2
Consolidated loss before tax	(2,738)	(1,090)
Tax expense	(129)	(330)
Earnings for the interim period	(2,867)	(1,420)
Capital expenditures	15,040	389
Total assets for reportable segment	68,916	69,301
Investment properties	1,300	1,270
Investment in equity-accounted investee	294	7
Right-of-use assets	3,950	3,009
Consolidated total assets	74,460	73,587
Total liabilities for reportable segment	20,847	18,665
Current tax payable	116	184
Deferred tax liabilities	1,410	1,359
Consolidated total liabilities	22,373	20,208

Disaggregation of revenue	Group	
	6 months ended 30 June	
	1H2023	1H2022
	$'000	$'000
Types of services:		
Rendering of services	33,587	30,592
Timing of revenue recognition		
At a point in time	22,906	21,901
Over time	10,681	8,691
	33,587	30,592
Geographical information		
Singapore	29,005	24,933
Indonesia	-	340
Malaysia	1,946	1,736
US	778	-
Taiwan	1,858	3,583
	33,587	30,592

6. Financial Assets and Financial Liabilities

Set up below is an overview of the financial assets and financial liabilities of the Group as at 30 June 2023 and 31 December 2022.

	Group		Company	
	30-Jun-23	31-Dec-22	30-Jun-23	31-Dec-22
Financial Assets	$'000	$'000	$'000	$'000
At amortised cost				
Trade and other receivables (exclude prepayments)	15,037	13,657	30,235	26,883
Cash and cash equivalents	6,233	28,647	4,817	23,114
	21,270	42,304	35,052	49,997
Financial Liabilities				
At amortised cost				
Trade and other payables	11,148	11,222	10,530	10,534
Bank loans	5,421	3,440	5,421	3,440
	16,569	14,662	15,951	13,974

Provision for expected credit losses (“ECL”) or impairment loss on trade receivables and contract assets

ECLs are probability-weighted estimates of credit losses. Credit losses are measured at the present value of all cash shortfalls (ie 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.

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:

a) Significant financial difficulty of the debtor; and
b) A breach of contract such as default.

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

As at 31 December 2022, the total provision for the impairment on contract assets amount to $1,057,000 (equivalent to RM3,461,000). These contract assets relate to work orders issued by Petronas prior to 1 April 2022 and these work orders were completed by PAE M. PAE M is waiting for acceptance of work by Petronas before billing them.

During the period ended 30 June 2023, PAE M was able to bill and recovered back $115,000 for these completed work orders in which the Group had subsequently written back (or reversal of) the provision for impairment on contract assets. For the remaining amount, PAE M is still waiting for acceptance of work by Petronas before PAE M can proceed with billings. As at 30 June 2023, the remaining total provision for impairment on contract assets is $892,000 (equivalent to RM3,066,000).

7. Profit/(Loss) Before Income Tax

7.1. Significant Items

	Group		
	6 months ended 30 June		Incr/
	1H2023	1H2022	(Decr)
	$'000	$'000	%
Depreciation	1,654	1,577	4.9
Net gain on disposal of property, plant and equipment	(42)	(1)	4,100.0
Equity-settled share-based payment transactions	37	40	(7.5)
(Reversal)/impairment loss on contract assets	(115)	884	(113.0)
Provision for monetary penalties	-	342	(100.0)
Net foreign exchange loss	323	210	53.8
Finance (income)/expenses:			
Interest income	(92)	(49)	87.8
Interest on bank loans	37	44	(15.9)
Interest on lease liabilities	42	10	320.0
Unwinding of discount on provision for restoration costs	13	13	-
(Over)/under provision of tax in respect of prior years	53	73	(27.4)

7.2. Related Party Transactions

	Group	
	6 months ended 30 June	
	1H2023	1H2022
	$'000	$'000
Income/(expense)		
Equity-accounted investee		
Revenue from contract (rendering of services)	1,643	1,287
Management fees paid	(21)	(46)
Transactions with key management personnel		
- Directors' fees	(58)	(61)
- Short-term employee benefits	(1,145)	(1,036)

8. Taxation

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the condensed interim consolidated statement of profit or loss are:

	Group	
	6 months ended 30 June	
	1H2023	1H2022
	$'000	$'000
Current income tax expense	(76)	(229)
Underprovision in respect of prior years	(53)	(73)
Deferred income tax expense relating to origination and reversal of temporary differences	-	(28)
Tax expense	(129)	(330)

9. Dividends

No interim dividends for the first half ended 30 June 2023 (30 June 2022: $Nil) is recommended. No dividends have been declared or recommended, as in line with the previous financial year practice, proposed dividends are declared on a full financial year basis.

10. Net Asset Value

	Group		Company	
	30 June 2023	31 Dec 2022	30 June 2023	31 Dec 2022
Net asset value per ordinary share based on existing issued share capital as at the respective dates (cents)	8.96	9.49	9.80	10.01
Number of shares (issued and issuable) used in computing net asset value per ordinary share	581,512,400	580,712,400	581,512,400	580,712,400

11. Property, Plant and Equipment

During the six months ended 30 June 2023, the Group acquired assets amounting to $15,040,000 (30 June 2022: $389,000). During the six months ended 30 June 2023, it also recognised a rights of use assets of $1,436,000 (30 June 2022: $Nil). For the six months ended 30 June 2023, the Group also disposed assets amounting to $57,000 (30 June 2022: $19,000).

For the period under review, the Group's market capitalisation is lower than its net assets as at 30 June 2023. The Group performed an impairment assessment of its property, plant and equipment by determining the recoverable amount based on the value in use. This assessment requires significant judgement and takes into account past performances, management's expectation of market developments, future cash flows and discount rates. The recoverable amount could change significantly as a result of changes in market conditions and the assumptions used in determining the recoverable amount. Management assessed that no impairment losses were necessary for the period ended 30 June 2023.

Capital commitments:

	Group	
	30-Jun-23 $'000	31-Dec-22 $'000
Capital expenditure contracted for but not provided in the financial statements		
-Singapore - purchase (including renovation works) on 26 Gul Way	1,335	11,500
-Malaysia - construction of Malaysia Fabrication Yard	285	1,400
-US - setting up of PIM LLC (US operations)	897	2,100
	2,517	15,000

12. Investment Properties

The Group's investment properties consist of commercial properties, held for long-term rental yields and capital appreciation and are not occupied by the Group. They are leased to unrelated third parties under operating leases.

	Group and Company	
	2023	2022
Investment Properties	$'000	$'000
At 1 January	1,300	1,270
Fair value gain/(loss)	-	-
At 30 June	1,300	1,270

Valuation

The Group engages an external independent and qualified valuers to determine the fair value of the Group's investment properties at the end of each financial year. The fair value measurement for all the investment properties has been categorized as a Level 2 fair value based on direct comparison method.

For the six months ended 31 December 2022, the Group recognized a fair value gain of $30,000 on the investment properties.

For the period ended 30 June 2023, the Group did not engage an independent valuer to determine the fair value. However, management had taken into considerations those underlying factors that would have made impact to the fair value of the investment properties since the last valuation done in December 2022, including any tenant changes, assessing market rentals etc. For the period ended 30 June 2023, management assessed that there were no changes in the fair value of the investment properties.

13. Loans and Borrowings

	Group		Company	
	30 June 2023	31 Dec 2022	30 June 2023	31 Dec 2022
	$'000	$'000	$'000	$'000
Amount repayable within one year				
Lease liabilities (secured)	419	540	405	510
Bank loans				
-secured	-	-	-	-
-unsecured	3,857	1,244	3,857	1,244
	4,276	1,784	4,262	1,754
Amount repayable after one year				
Lease liabilities (secured)	1,608	446	1,608	428
Bank loans				
-secured	-	-	-	-
-unsecured	1,564	2,196	1,564	2,196
	3,172	2,642	3,172	2,624
Total loans and borrowings	7,448	4,426	7,434	4,378

The secured borrowings (including lease liabilities) are secured against the respective operating assets and right-of-use assets.

In 2020, the Company undertook a loan amounting to $5.0 million, that was part of the Singapore government's support given to local enterprises in response to the Covid-19 pandemic. The loan is unsecured, for a tenor of 5 years (ending 2025) and repayable on a monthly basis. Interest payments which commenced in August 2020 and principal repayment commencing in August 2021. The loan carries an interest rate of between 2.0% and 2.1% per annum. This is significantly below the Group's current borrowing cost.

In June 2023, the Company took a one-month short term loan of $2.6 million to finance its working capital purpose. This loan is unsecured and bears interest rate at 5.27% per annum. This loan was fully repaid on maturity.

14. Share Capital

	Group and Company			
	As at 30 June 2023		As at 31 Dec 2022	
	Number of shares '000	Amount $'000	Number of shares '000	Amount $'000
Issued and paid-up share capital				
As at beginning and end	581,546	26,254	581,546	26,254
Treasury shares				
As at 1 January	834	42	934	65
Purchase of treasury shares	-	-	700	33
Reissuance of treasury shares pursuant to share plan	(800)	(40)	(800)	(56)
As at the end	34	2	834	42

The total number of issued shares excluding treasury shares as at 30 June 2023 was 581,512,400 (31 December 2022: 580,712,400).

The Company's subsidiaries do not hold any shares in the Company as at 30 June 2023 and 31 December 2022.

15. Subsequent Event

There are no known subsequent events, as at the date of this announcement, which have led to adjustments to this set of interim financial statements.

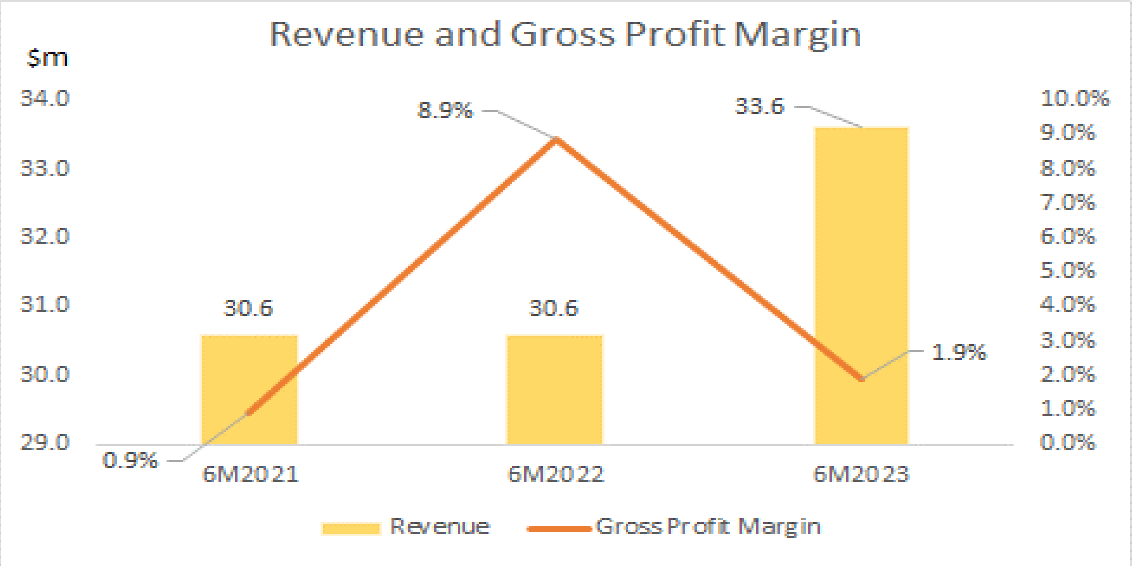
F. Other Information Required by Listing Rule Appendix 7.2

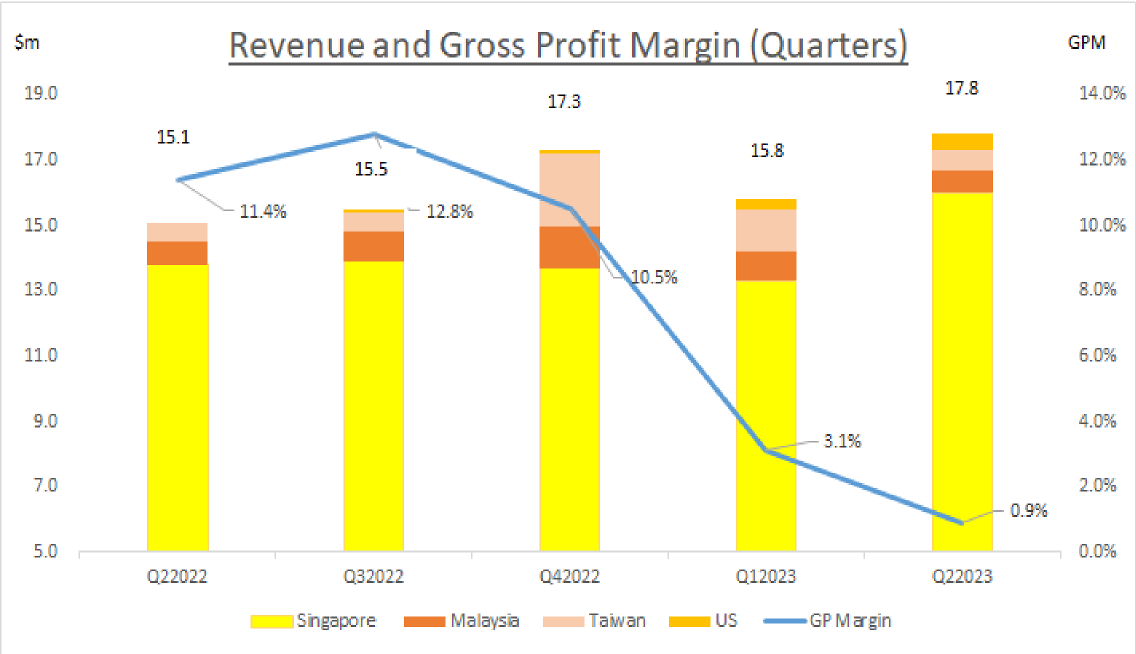
1. Whether the figures have been audited or reviewed

The condensed consolidated statement of financial position of Mun Siong Engineering Ltd and its related companies as at 30 June 2023 and the related condensed consolidated profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and certain explanatory notes have not been audited or reviewed.

2. Review of performance of the Group

<u>Revenue and Profitability</u>





<u>Group</u>

Comparing the 6 months ended 30 June 2023 ("1H2023" or "6M2023") and 30 June 2022 ("1H2022" or "6M2022"), there was an increase in revenue from $30.6 million (1H2022) to $33.6 million (1H2023). An increase of revenue by $3.0 million or 9.8%.

Both Singapore operations (increased by $3.6 million or 14.2%) and Malaysia operations (increased by $0.3 million or 24.1%) registered increase in revenue. The US operation, which commenced its cleaning and repairs of heat exchanger operations ("cleaning and repairs") in March 2023, recorded a revenue of $0.8 million (1H2022: $Nil) in the current period. As for the Taiwan operations, there was absence of high dollar value projects in the current period, revenue declined by $1.7 million or 48.4%.

Cost of sales increased by $5.0 million or 18.1% to $32.9 million (1H2022: $27.9 million) for the current period. The higher costs of sales were mainly due to:

(i) Higher labour costs incurred by the Singapore operations (due to increase in direct employed workforce in 2H2022 in anticipation to be awarded major project works from a key business partner) and higher government levies on our foreign direct workers;
(ii) During Q22023, a number of turnaround projects were undertaken with tight schedules and timely completion would require subcontractors to be engaged. At the tender stage, the cost of engaging subcontractors was included in the costing. This attributed to the increase in subcontracting cost from $1.1 million (Q22022) to $2.8 million (Q22023);
(iii) Dormitory costs increased by 37.5% arising from an increase in the direct employed workforce and higher dormitory rental rates and
(iv) US operations incurred operating costs, recruitment of direct employed workers, as it commenced accepting work orders for its cleaning and repairs. Productivity from the direct employed workforce will remain low until they complete the job training.

The Group registered gross profit and margin of $0.6 million (1H2022: $2.7 million) and 1.9% (1H2022: 8.9%) respectively for the current period. The significantly lower gross profit and margin in 1H2023 was due to the following:

i. A number of completed work orders, including turnaround projects during the current period, are awaiting our business partners to finalise the contract value. Marginal profits are recognized for this completed work orders during the period as variations and claims are recognized on a contract-by-contract basis when the Group's negotiations have reached a stage such that is probable that the business partner will accept the claim and the amount can be measured reliably. Further, unlike 1H2022, for the Singapore Operations, the current period did not have the benefit of recognizing variation orders upon finalization of contract value for periods completed in prior period.
ii. Rising operating costs (as explained above) in the current period; and
iii. Losses from the US operations (which commenced cleaning and repairs operations in March 2023), arising from undertaking jobs (small work volume), to satisfy potential business partners' due diligence processes, enabling it to qualify as an approved vendor.

The low gross margin of 0.9% in Q22023 (Q22022: 11.4%) was also due to (i) escalation in operating costs (ii) recognition of marginal profits for jobs pending our business partners agreeing the final contract value and (iii) gross losses from the US operations.

Singapore Operations

The Singapore operations registered revenue of $29.3 million (1H2022: $25.7 million) in the current period. An increase of $3.6 million or 14.2%. We registered positive gross profits and margins in both periods.

However, gross margin declined by 9.5% in the current period due to factors mentioned earlier.

Malaysia Operations

The Malaysia operations continued to show a consistent gradual improvement in revenue, achieving a revenue of $1.6 million in the current period (1H2022: $1.3 million), an increase of $0.3 million or 24.1%. It generated positive gross profits and margins in both periods. Improvement in productivity has been the main factor for the higher gross profit margin in the current period.

Taiwan Operations

Revenue declined by $1.7 million to $1.9 million (48.4%) due to the absence of high dollar value projects in the current period.

The Taiwan operations registered positive gross profit in the current period as compared to gross loss in the corresponding period. The gross loss incurred in 1H2022 was due to provision of penalties imposed by CPC on the Taiwan Branch. (refer to financial statements announcement dated 4 August 2022).

US Operations

It registered a revenue of $0.8 million since commencing its cleaning and repairs operations in March 2023 (1H2022: Nil). Potential business partners have awarded a number of small jobs to assess our cleaning and repairs capabilities. A satisfactory outcome would qualify us as one of their approved vendors. Due to this, cost of goods (operating cost) exceeded our revenue giving rise to gross losses. As at the date of this announcement, the US operations is an approved vendor to six business partners.

Other income and recoveries

Comparing 1H2023 ($1.1 million) and 1H2022 ($0.3 million), other income and recoveries increased by $0.8 million or 285.1%. This significant improvement was mainly due to sales of scrap (increased by $0.5 million), higher grant received (increased by $0.1 million) and rental income of $0.1 million from the existing sub-tenant at 26 Gul Way. The lease was terminated in mid-June 2023 to free up space for our operations.

Administration expenses

	1H2023	1H2022	Variance
	$'000	$'000	$'000
Administration	4,293	2,986	1,307 (43.8%)
(Reversal) /Impairment of contract assets	(115)	884	(999) (-113.0%)
Total	4,178	3,870	308 (8.0%)

In 1H2022, PAE M (an associate company in Malaysia) provided for impairment for contract assets of $884,000. As at 31 December 2022, PAE M's total impairment for contract assets completed for Petronas amounted to $1,057,000 (equivalent to RM3,461,000). This impairment since then has been reduced when payments were received. In 1H2023, write back (reversal) of impairment of contract assets amounted to $115,000. Further write backs or reversals (due to collections) are expected in 2H2023.

The increase in administration expenses (excluding impairment for contract assets) of $1.3 million was primarily due to (i) the increase in administration expenses of $0.8 million for the US operations. It consists mainly of staff costs, insurance, depreciation for the property, audit fees, property tax and upkeep of property (ii) higher maintenance upkeep costs of $0.1 million, part of the reinstatement work for 35 Tuas Road and (iii) higher salary costs (excluding US operations) of $0.2 million due to salary adjustments made in 2H2022 and hiring of senior management in the current period.

Other operating expenses

We incurred exchange losses in both periods. The exchange losses rose from $210,000 (1H2022), increased by $113,000 or 53.8%, to $323,000 (1H2023). This was due to the continued weakening of the Malaysia Ringgit against the Singapore Dollars (our base currency) in the current period.

Finance income

With higher interest rates on our fixed deposits, finance income increased by $43,000 in the current period.

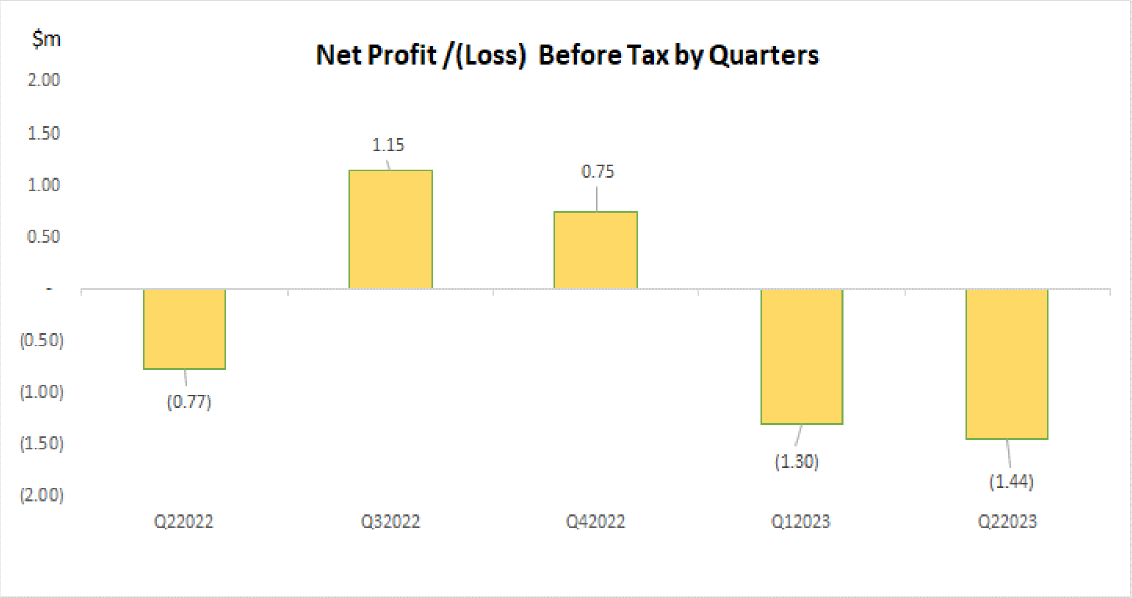
Finance costs

The increase in finance costs of $25,000 or 37.3% was due to (i) the Group utilizing $2.6 million (1H2022: $Nil) of one-month short term loan in mid-June 2023 to bridge its working capital needs and (ii) higher finance lease costs incurred on the recognition of leasehold property at 26 Gul Way. The short-term loan was repaid on maturity.

Tax expense

Despite 1H2023 recording a significant higher operating loss ($2.7 million) compared to a lower operating loss in 1H2022 ($1.1 million), the tax expense of $129,000 for 1H2023 was significantly lower (by $201,000) as compared to 1H2022.

Current Period Performance



The Group incurred operating losses before tax of $2.7 million in the current period as compared to an operating losses before tax of $1.1 million in the corresponding period. The higher operating losses in the current period were due to (i) escalating operating costs (ii) marginal profit recognized for completed works that business partners have yet to agree to the contract value and (iii) operating losses arising from the US operations.

Review of statements of financial position

(i) Property, plant and equipment (Group level increased by $14.6 million / Company level increased by $11.0 million)

The property, plant and equipment include right of use assets. The increase was mainly due to additions of fixed assets amounting to $16.5 million, offset by depreciation costs of $1.65 million and disposal of fixed assets of $0.1 million. There was also a translation difference (deficit) of $0.2 million.

Breakdown of additions to fixed assets of $16.5 million during the period were:

	$ million
Purchase of Singapore leasehold property at 26 Gul Way including stamp duties. Transaction completed on 28 February 2023. (announcement dated 2 February 2023)	11.3
Recognition of leasehold property at 26 Gul Way (classified as rights of use assets)	1.4
Renovation works carried out at 26 Gul Way	0.3
Construction costs pertaining to the Malaysia fabrication yard	1.1
Purchased of equipment for the US operation	1.2
Other additions by the various operations	1.2
Total additions for the period January to June 2023	16.5

The increase at Company level is attributable to the purchase of 26 Gul Way (including renovation works).

(ii) Non-current other receivables (Company level: increased by $0.6 million)

The Company's other non-current receivables are amounts due from wholly owned subsidiaries within the Group and are used by these entities for working capital and capital expenditure – as shareholder loans.

The increase of $0.6 million was to finance PIM LLC (US operations). The shareholder loan was extended to PIM LLC through various wholly owned intermediate holding companies. Loans extended are unsecured, interest bearing and tenor of 3 years.

(iii) Contract assets (Group level increased by $7.6 million / Company level increased by $7.2 million)
Contract liabilities (both Group and Company levels increased by $0.5 million)

	30 June 2023	31 December 2022	Variance
	$'000	$'000	$'000
Contract assets	14,467	6,985	7,482
Less: impairment for contract assets	(892)	(1,057)	165 (note1)
Net contract assets	13,575	5,928	7,647

Note 1: write back (or reversal) of impairment of $115,000 to profit and loss and translation difference of $50,000.

The increase of contract assets (before impairment of contract assets) of $7.5 million (Company: $7.2 million) was due to an increase in work activities in Q22023. Further, we are awaiting our business partners to accept the work done and finalise the contract value before we can proceed with billings. In the period under review, our business partners were taking a slightly longer time to approve our completed works. This resulted in slower billings by us (higher debtor turnover days) and consequently an increase in contract assets in the current period.

The impairment for contract assets for work completed for Petronas was $892,000 (equivalent to RM3,066,000) as at 30 June 2023 and will continue to be further reduced through write backs (reversal to profit and loss) when payments are received.

The Group and Company received advances from customers (contract liabilities) of $0.5 million for its current projects as at 30 June 2023.

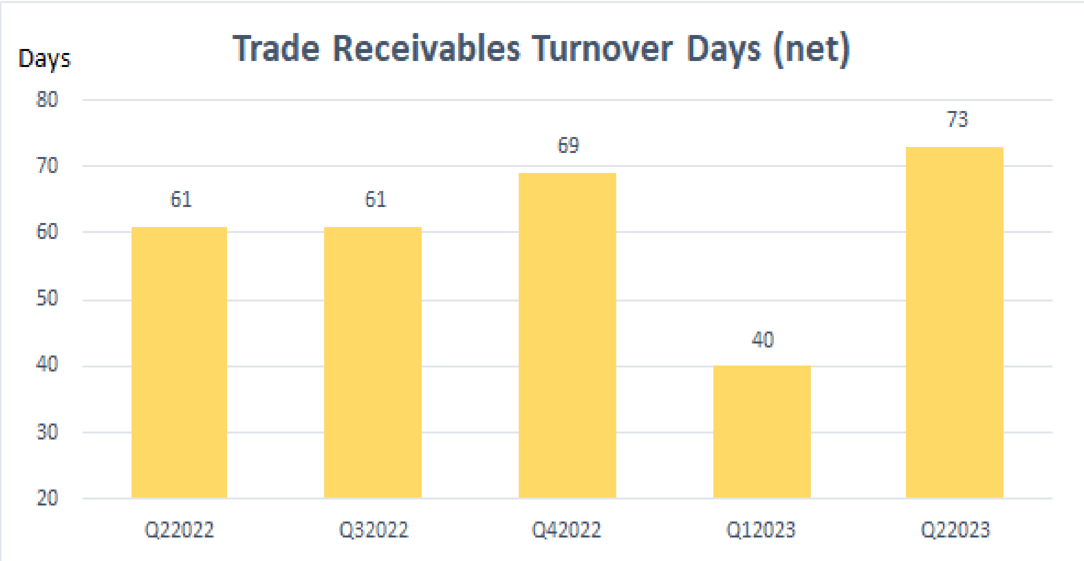
(iv) Trade and other receivables (Group level increased by $0.7 million and Company level increased by $1.9 million)

The Group's trade receivables, as at 30 June 2023 and 31 December 2022, were $13.5 million and $12.0 million respectively – an increase of $1.5 million. The other receivables (deposits and prepayments) as at 30 June 2023 and 31 December 2022 were $2.7 million and $3.5 million respectively (a decrease of $0.8 million).

The Company's trade receivables, as at 30 June 2023 and 31 December 2022, were $12.8 million and $11.3 million respectively – an increase of $1.5 million. Other receivables (amount due from subsidiaries, deposits and prepayments) as at 30 June 2023 and 31 Dec 2022 were $4.9 million and $4.5 million respectively (an increase of $0.4 million).

The trade receivables increase at Group and Company was attributed to an increase in billings due to more work activities.

As at 31 July 2023, $6.3 million of trade receivables has been realized. This represents 47.0% of that recorded as at 30 June 2023.



The higher trade receivables turnover days of 73 days (30 June 2022: 61 days) was a result of slower billings as some of our business partners are taking a slightly longer time to approve the completed job orders (including the finalization of contract value).

At the Group and Company levels, deposits and prepayments decreased by $0.8 million and $0.7 million respectively. The decrease was due mainly due to reclassification of deposits (down payments for the purchase of 26 Gul Way property and delivery of equipment for the US operations) to fixed assets.

At the Company level, there was also an increase in billings of $1.1 million of amount due from our subsidiaries for intercompany transactions incurred during the period under review.

(v) Loans and Borrowings (increased by $3.0 million)

Loans and Borrowings (current and non-current) as at 30 June 2023 and 31 December 2022 was $7.4 million and $4.4 million respectively for both Group and Company levels. Both the Group and Company levels saw an increase of $3.0 million.

In the month of June 2023, the Company utilized its short-term facilities (one month) to bridge its working capital needs. The amount of $2.6 million was fully repaid on maturity. Beside this, repayment of $1.0 million of existing borrowings (including lease liabilities) were also repaid during the period under review.

The Group also recognized a lease liability (and a corresponding rights of use assets) of $1.4 million being the recognition of the lease at 26 Gul Way.

As at 30 June 2023, our gross debt to shareholders' fund ratio was 14.3% (31 December 2022: 8.0% and 30 June 2022: 8.8%).

(vi) Treasury shares (decreased by $40,000) and share based compensation reserve (increased by $3,000)

Reissuance of 800,000 treasury shares ($40,000) during the year under the Group's Performance Share Plan. The Group recognized $37,000 of share-based compensation expense for the period ended 30 June 2023.

The Group did not purchase any treasury shares in the open market for the period under review.

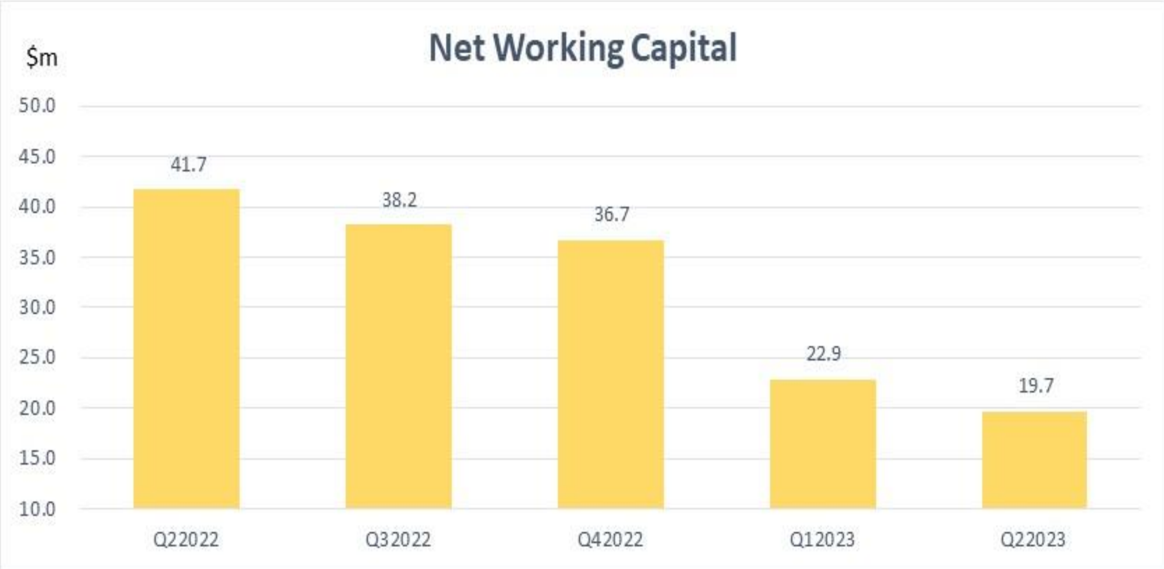
<u>Review of cash flow statement</u>

The Group reported a decline in cash balances of $22.4 million to $6.2 million as at 30 June 2023 (31 December 2022: $28.6 million).

	$ million
Net cash used in operating activities	(10.7)
Net cash used in investing activities	(13.2)
Net cash generated from financing activities	1.3
Effect of exchange rate fluctuation	0.2
Net decrease in cash balances	(22.4)

At the Company level, there was a decline of $18.3 million to $4.8 million as at 30 June 2023. The decrease in cash balances was mainly due to the purchase of 26 Gul Way, payment of shareholders' loan (to entities within the Group) to finance both their working capital/capital expenditures and increase in contract assets and trade receivables (as explained above).

The bank and cash balances as at 31 July 2023 for the Group and Company were $6.7 million and $5.2 million respectively.



Net working capital (current assets less current liabilities) was $19.7 million as at 30 June 2023. Comparing this against that of $36.7 million (as at 31 December 2022) and $41.7 million (as at 30 June 2022), the decline was $17.0 million and $22.0 million respectively. The decline is mainly attributed to capital expenditures (26 Gul Way and fabrication yard in Johor, Malaysia) and investment (for the US operations).

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

No forecast was previously provided.

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

Despite numerous interest rate increases over the last 12 months, the battle to reduce inflation continues. Central bankers have yet to achieve their targeted inflation rate.

The high interest rates have increased both the cost of capital and borrowings. This works against the Group as our revenue are dependent on capital expenditures and investments. Geopolitical tension between China and the US and Europe over trade, defense and technologies pose further challenges to many economies recovering from Covid19.

Further increase in interest rates – the US Federal Reserve hints of a possible increase in interest rates, which may move major global economies closer to the risk of entering into a recession.

Singapore Operations

Towards the end of FY2022, in anticipation to the award of major project works from a major customer, we expedited to increase our direct employed workforce. However, this major customer subsequently held back its investments. The excess manpower will be deployed to other job sites. Their full deployment would be important to improve the margin.

The revised dependency ratio (reduction in foreign workers quota) will come into effect in January 2024 and we will not further increase our manpower. We have been training some of the workers to be multi-skilled, which is part of our workforce transformation plan.

The majority of our 5-year long-term maintenance contracts are in the mid-term (average remaining tenure of 2 years). In view of escalating operating costs (inflation and changes in government regulations) management have commenced renegotiating our contract rates with our business partners in the second half of 2022. We were able to revise the contract rates for a major business partner. The revised rates will be effective from 1 July 2023. As for the other business partners, discussions/negotiations are on-going.

Shifting of operations from 35 Tuas Road to 26 Gul Way is substantially completed with minimum disruption to the operations. The former will be returned to JTC when the reinstatement is completed in August 2023. Reinstatement cost has been substantially accrued over the years. However, due to sea erosion, the cost of reinstating the waterfront may cost more than expected. The provision for reinstatement as at 30 June 2023 is $1.3 million.

Malaysia Operations

Construction of the yard at Tanjung Surat, District of Kota Tinggi, State of Johor, is substantially completed and will be inspected by the relevant local authorities. We are scheduled to occupy the premise at the end of 2023. The fabrication yard will serve both Singapore and Malaysia business partners. Efforts are on-going to extend our reach to potential business partners in Malaysia.

Taiwan Operations

Pegasus Advance Industrial Company Limited ("PAI") following its incorporation has assumed the operations of the Branch Office. The Branch Office will discharge its existing contractual obligations fully. The legal entity (PAI), as opposed to the Branch Office, affords better risk management.

The Taiwan operations has recently been awarded a job by a US corporation with major footprint in Information and Communication Technology, our first footprint outside of the process industries.

US Operations

Marketing activities have commenced in late FY2022 and step up significantly when the facility is ready to accept cleaning and repairs orders towards end of March 2023. A number of large and medium capacity processing plants and facilities are located within the reach of our facility – within a radius of 300 miles. The close proximity offers quicker turnaround time, which we believe is one of our value propositions.

At the date of this announcement, PIM LLC has been pre-qualified by six of these plants after they have assessed our cleaning and repair capabilities. Currently, PIM LLC is actively seeking job orders from these plants. At the same time, PIM LLC is working aggressively on the other plant facilities who have yet to pre-qualified us.

Working Capital

As at 30 June 2023, committed capital expenditure pending disbursement is $2.5 million (refer to page 13).

In the event that the conversion of contract assets into trade receivables are delayed (arising from business partners taking longer time to agree to the contract values) or trade receivables turnover (days) deteriorate (increases) – the Group will have to utilize credit facilities to meet its short term financial obligations. Profitability will be eroded.

5. Dividend Information

No dividend has been declared or recommended for the period ended 30 June 2023. This is in line with previous financial year practice that proposed dividends are declared on a full financial year basis.

6. Interested person transactions

The Group has not obtained a general mandate from shareholders of the Company for Interested Person Transactions.

7. Confirmation that the issuer has procured undertaking from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1)

The Company has received undertaking from all its directors and executive officers in the format as set out in Appendix 7.7 under Rule 720(1) of the Listing Manual of the SGX-ST.

8. Confirmation by the Board

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the financial statements for the six-month period ended 30 June 2023 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Cheng Woei Fen **Executive Chairlady**	**Quek Kian Hui** **Executive Deputy Chairman**

4 August 2023