文祥 MUN SIONG ENGINEERING LIMITED

50 Since 1969

GOING FORWARD

ANNUAL REPORT 2019

CONTENTS

VISION

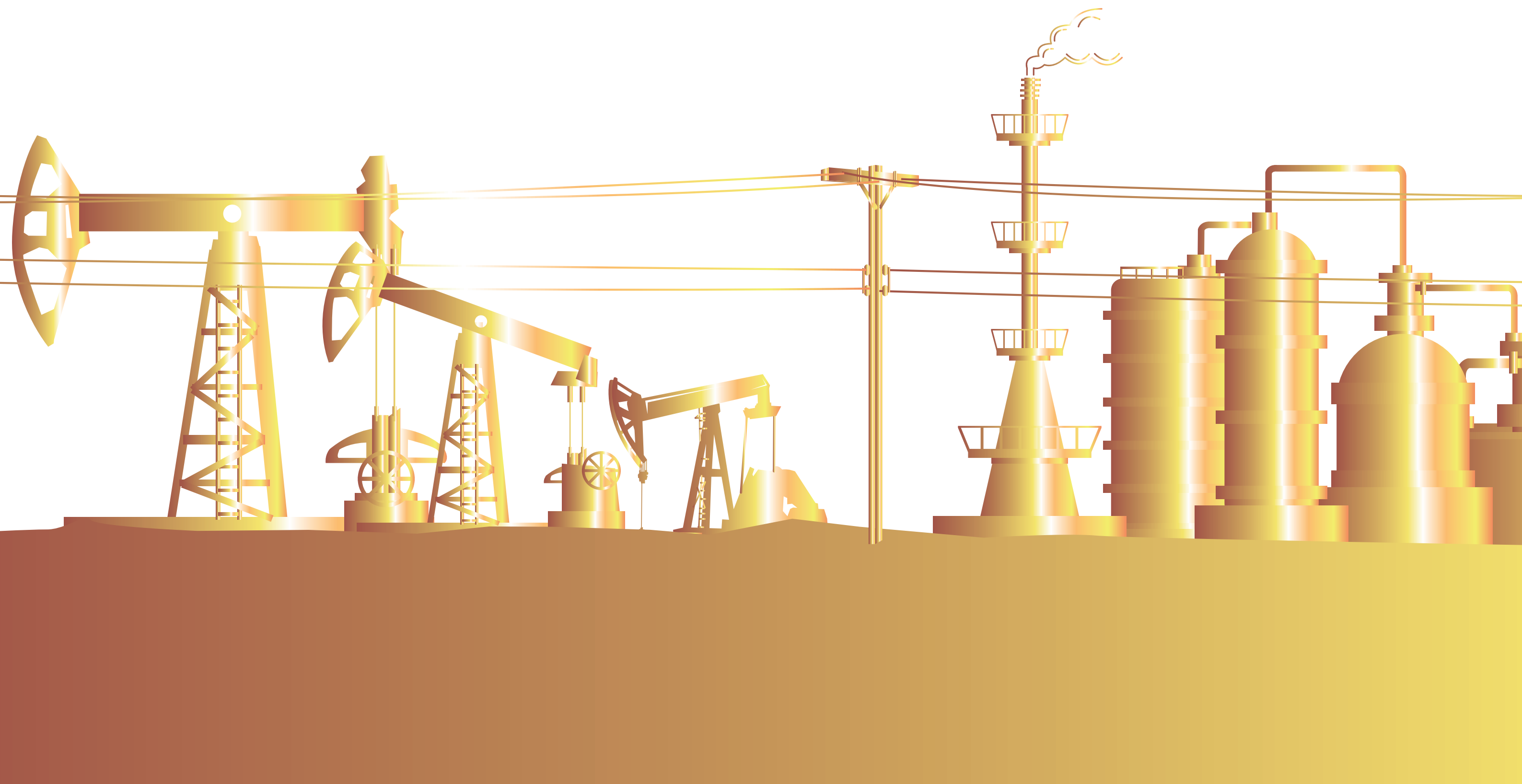
We dedicate ourselves to be the preferred engineering service provider that thrives on Safety, Quality and Competitive Solutions to achieve customer satisfaction.

MISSION

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.

CORE VALUES

- Safety
- Quality
- Customer
- Focus
- Leadership
- Teamwork



CORPORATE PROFILE

Mun Siong Engineering Limited ("Mun Siong Engineering") 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

1969

- Incorporated Mun Siong Engineering Pte Ltd

1980

- Expanded overseas to execute projects in Malaysia & Indonesia

2000

- Acquired OHM Engineering Pte Ltd to provide Electrical & Instrumentation Services

2010

- Mun Siong Engineering is Listed on the Singapore Stock Exchange as a Public Listed Company

2011

- Acquired Wing Wah Industrial Services Pte Ltd to strengthen and further enhance our Rotating Equipment Capablilities

2013

- Established Mun Siong Engineering Sdn. Bhd. in Malaysia
- Incorporated Pegasus Advance Engineering Pte Ltd to provide Scaffolding Services

2015

- Mun Siong Engineering Limited re-structured Senior Management Team & embarked on the Journey for digitisation and mechanisation

2017

- Established Pegasus Advance Engineering Co., Ltd in Myanmar
- Integrated Rotating Equipment and Scaffolding Services into Mun Siong Engineering Limited

2018

- Integration of OHM Engineering Pte Ltd into Mun Siong Engineering Limited. This facilitates transparency in streamlining of the operations

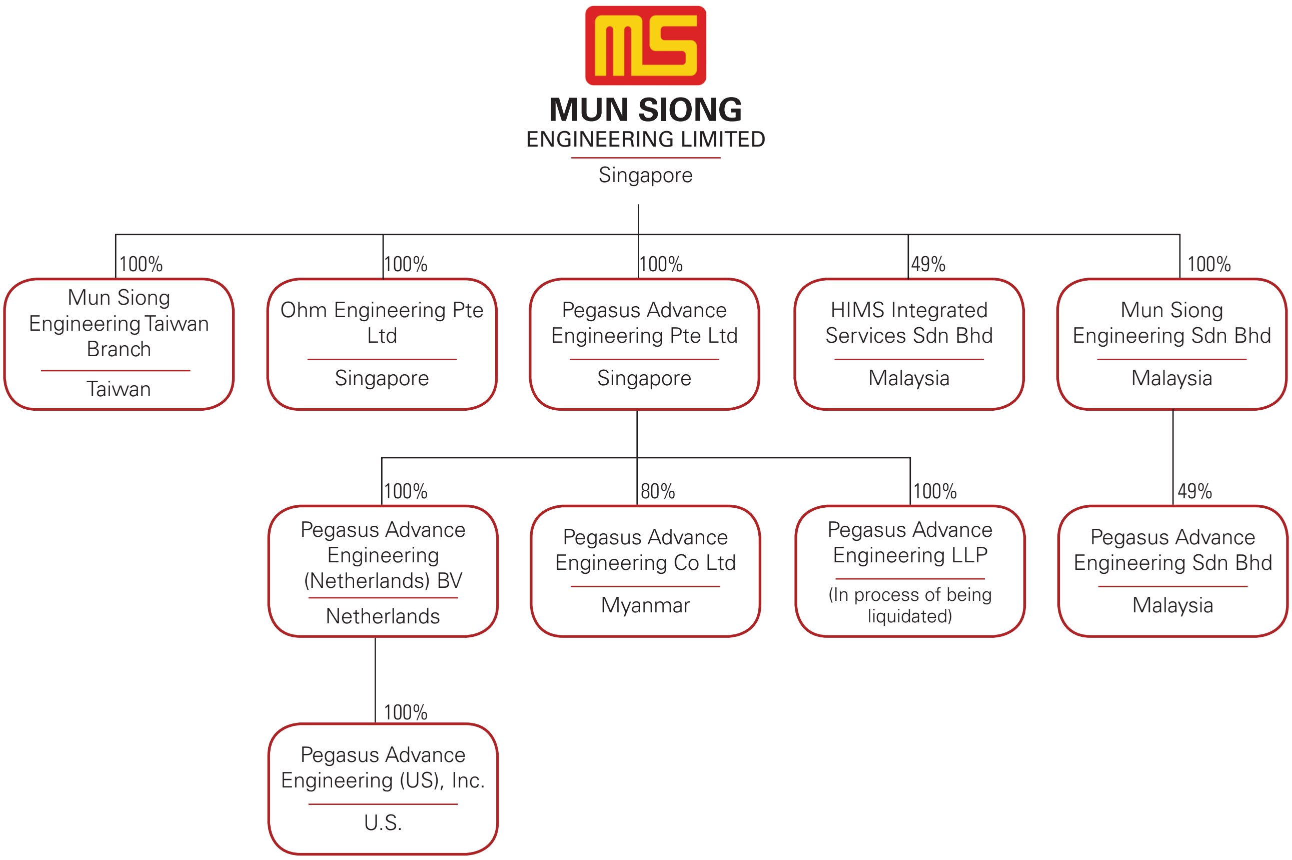
2019

- Incorporated a joint venture company in Malaysia – HIMS Integrated Services Sdn Bhd
- Incorporated a Taiwan branch office
- Completion of integration of OHM Engineering Pte. Ltd.

2020

- Incorporated a joint venture company in Malaysia – Pegasus Advance Engineering Sdn Bhd

CORPORATE STRUCTURE



OUR SERVICES

MECHANICAL ENGINEERING

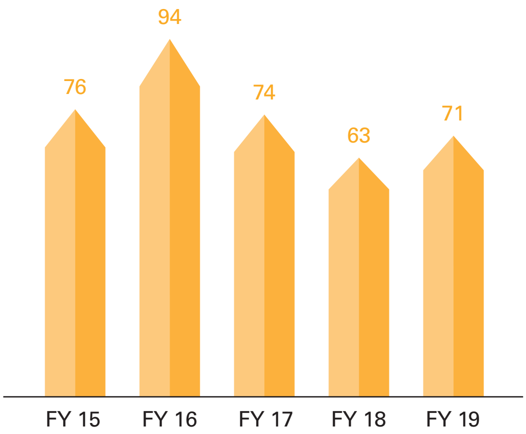
- Fabrication and Erection of Steel Structures; Fixed Equipment and Piping work
- Plant Shut-down / Turnaround Management
- Construction & Maintenance of Storage Tanks
- Exchanger Re-tubing
- Tube Shooting Services for Heat Exchangers (Conco Systems)
- On-site Flange Re-facing
- Ultra-high Pressure Abrasives 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)

ELECTRICAL & INSTRUMENTATION

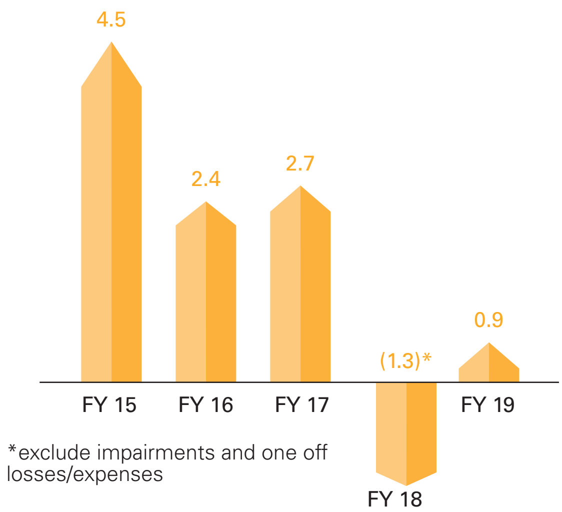
- Transformers, Switchgears and Control Panel Installation and Maintenance
- Electrical and Instrumentation Installation and Maintenance
- Calibration and Testing of Instruments
- Loop Check, Testing and Pre-Commissioning
- Excavation and Cable Laying
- Design and Fabrication of Instrumentation and Control Systems
- Installation of Distribution Control System & PLC Solutions

GROUP FINANCIAL HIGHLIGHTS

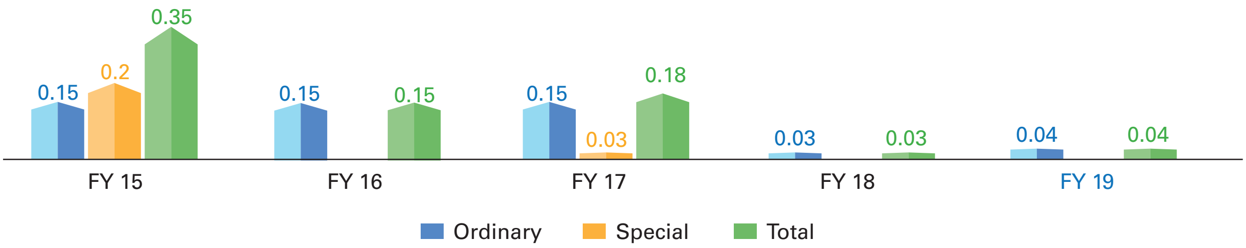
GROUP REVENUE S$ (M)



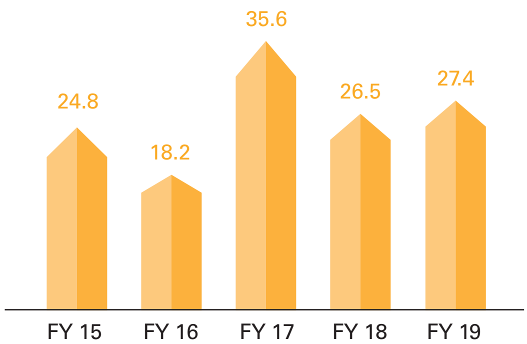
GROUP PROFIT / (LOSS) BEFORE TAX S$ (M)



DIVIDEND RATE PER SHARE (CENTS)



GROUP CASH AND CASH EQUIVALENTS S$ (M)



FINANCIAL CALENDAR FOR FY2020

20 February 2020	Announcement of FY2019 Results
30 April 2020	Annual General Meeting for 2019
6 August 2020 (tentative)	Announcement of half yearly results 2020
18 February 2021 (tentative)	Announcement of FY2020 Results

EXECUTIVE CHAIRLADY AND EXECUTIVE DIRECTOR'S MESSAGE

Quek Kian Hui
(Executive Director)

Cheng Woei Fen
(Executive Chairlady)

Dear Fellow Shareholders, Business Partners, Ladies and Gentlemen,

Year 2019 was a year we achieved another historical milestone, our 50th anniversary and a major leap forward at Mun Siong Engineering (the "Company").

We stood the test of time, overcoming numerous challenges and drawing on these valuable experiences to meet new ones head on. Equally as important, we have set a deep and lasting stamp in our history by forging new business relationships in key new markets – Taiwan and Malaysia. Many of our business partners have witnessed both our evolution and resilience and have built stronger ties with us over time. We believe that with time we will be able to forge deep and lasting relationships with our business partners in these new markets as well.

Having come thus far, it is an appropriate time to take stock and reflect on where the Group has been and where is its future directions. At this juncture, we would like to thank all shareholders for affording us your trust, patience and providing us with encouragement especially through the last few years when headwinds were strong and relentless. Your magnanimity and humility have aspired us throughout those difficult times.

Our Strategies

Our strategies are defensive in appearance but aggressive in capitalising on opportunities. The first is to strengthen our core fundamentals, providing us with a solid foundation to leverage upon. The second is to continuously expand into new markets, as well as diversification into new industries where our core competencies would provide an attractive value proposition. We firmly believe that these strategies will provide sustainable profitability and enhance shareholder's value.

Focus on Fundamentals

Our core fundamentals are rooted in our array of accumulated experience as well as our philosophies of meticulous resource management, commitment to quality, schedule, and cost competitiveness. These have proved to be valuable to our current business partners and are attractive propositions to future business partners as well.

We have been focusing on providing maintenance and turnaround services with the aim of achieving customer satisfaction with competitive solutions. To achieve that, a large piece of the puzzle is to retain our highly competent and experienced core team. It is always one of management's foremost priorities to build up a sustainable and young management team that can rise to challenges and respond to the needs of our business partners. Our human resource strategy is to seek out and develop young talent and develop them through the ranks with robust job rotation and succession planning.

In recent years, we have undertaken several initiatives to enhance and strengthen our operating capabilities. To reduce operational complexity, we did a complete integration across our business units. The Information Technology (IT) and Human Resource (HR) system landscapes were further harmonised and expanded, leading to a considerable improvement in efficiency and work transparency. Adding to that, we also integrated our rotating equipment division, scaffolding services as well as our electrical and instrumentation services (these services were each operating under separate wholly owned subsidiaries) to operate under the umbrella of the Company.

Over the last three financial years, we invested a total of $6.5 million in operating fixed assets that furthered our capabilities and increased our level

EXECUTIVE CHAIRLADY AND EXECUTIVE DIRECTOR'S MESSAGE

of mechanisation and automation in our processes. This has resulted in an increase in our capacity to take on more jobs (allowing us to maximise the yield from each relationships) and improving both our productivity as well as our quality of work.

Our commitment towards safety, quality, leadership, teamwork as well as customer focus has always been our core values and the cornerstones to our success. The aim of integration is to streamline our operations to enable us to remain sustainable in providing competitive solutions to our business partners, which in turn enhances shareholder's value.

We believe that with strong core fundamentals we can overcome the future headwinds that we may encounter.

Expansion into Overseas Market

Expansion and diversification carries significant risks and, in many instances, elevates the risk profile. Our guiding principle towards risk is to manage it and seek means to mitigate them.

The push to seek new markets and business partners have been driven by the constant threat arising from concentration risk – reliance on Singapore's process industry. We applied strict discipline towards managing our risk when structuring the joint venture in North America, announced on 29 January 2019. However, we had to abort the transaction when subsequent conditions imposed by our potential joint venture partner, including his lender, increased our financial risk significantly (announcement dated 7 October 2019). Despite our temporary setback, we continue to set our sights on the North American markets and will continue to seek like-minded partners.

We are successful in Malaysia and Taiwan.

Malaysia:

In March 2019, together with our Malaysian partner, we were awarded a five years maintenance and turnaround service contract by Petroliam Nasional Berhad ("Petronas") (with a further 5 years extension at the discretion of Petronas) (collectively the "Contract Award"). We are confident that we would make significant positive contributions and further enhance our relationship with Petronas.

Preparations are currently underway for us to assume the job sites from the previous contractors. We would see contributions from the Contract Award in FY2020. The first batch of work orders were received in January 2020.

While the Contract Award will be undertaken by HIMS Integrated Services Sdn Bhd (which we have a 49.0% interest), another joint venture, Pegasus Advance Engineering Sdn Bhd (which we have a 49.0% interest), has been incorporated to further our interest in the oil and gas industry as well as other industries. It will seek opportunities where our core competencies present a valuable proposition.

Taiwan:

We were awarded an integrated turnaround contract by CPC Corporation in June 2019. We have successfully completed this maiden project ahead of schedule and it has contributed positively to our profitability to the period under review.

Following this success, we intensified our sales and marketing efforts to leverage upon the credentials we have established, thus putting us in a stronger position with plant and facility owners.

We believe that expanding overseas is very much a balancing act between the risks and potential returns. As such, we have been cautious with our expansion strategy thus far to avoid an over exposure on risk. We will continue our cautious approach in expanding overseas to create more business opportunities.

Financial Performance and Position

We have ended the financial year on a high note, registering a profit compared to an operating loss in the previous financial year.

The revenue recorded in FY2019 was $70.5 million, representing an increase of $7.7 million or 12.2% against FY2018. Revenue contribution mostly came from Taiwan market registering a revenue of $7.9 million. Singapore market registered a revenue of $62.6 million; flat growth, an insignificant decline of 0.3% from the previous year.

Gross profit margin improved from 5.5% (FY2018) to 7.2% (FY2019). Improvement was mainly attributed from the Taiwan contract and overall better execution of jobs and effective deployment of work force.

Our strategy of integration, training and multi-tasking are steadily showing results. Although we saw better results in FY2019, we believe there is room for further improvement. We will continuously seek improvements, review and manage our cost structures, improve productivity and make investments in operating assets that can further automate our processes (reducing reliance on manpower and ensuring consistency in quality) or give us a greater access to jobs from our business partners.

Our Group's shareholders' funds stood at $55.1 million with a cash and cash equivalents of $27.4 million. Net working capital (current assets less current liabilities) was $42.2 million and comparable to $42.1 million in the previous financial year. Business operations generated positive cash flows of $2.3 million in the current year as compared to a negative cash flows of $6.8 million in previous year.

The operating challenges, described in the section "Challenges Ahead", are gathering strength daily and volatility continues to fog visibility. Under such circumstances, and in the interests of shareholders, the Group will continue to conserve cash. The Board of Directors will continue to scrutinize and prioritize the deployment of financial resources. It will continue to target applications that sustain and maintain stability to the Group's operations.

EXECUTIVE CHAIRLADY AND EXECUTIVE DIRECTOR'S MESSAGE

Challenges Ahead

As global economies are intertwined, the Covid-19 which first started in China and crippled its economy, is now moving steadily towards other major economies of North America and members of the European Union. With the mobility of goods and human traffic having been restricted to contain the spread of the virus across regions or borders, the disruptions to daily life are becoming evident.

In recent days, many governments (including Singapore) were quick to implement a combination of fiscal and monetary economic policies to shore up their economies. These measures are targeted at stimulating demand and investments to maintain employment and stability in anticipation of further deterioration. Global commodities markets, in anticipation of sluggish demand arising from slowdown in major economies have seen a downtrend in crude oil prices. Based on our experiences, under such circumstances, there are possibilities that global oil and gas companies will contemplate either deferring, cancelling or reducing their capital expenditures and/or investment commitments. As many of these companies are our business partners, we may experience negative impact to our profitability should such events materialise.

Additionally, in the recent budget speech, the Singapore Finance Minister has proposed a two-step reduction of the S Pass sub-dependency ratio ceiling. Therefore, we may face difficulties in retaining experienced competent middle management when this policy comes into effect. We will intensify our efforts to attract more Singaporeans to join us and be trained for work on job sites.

In Malaysia, we are in the process of taking over the daily maintenance work, pending the complete handover from the construction team of the plant to the maintenance team. Like any relationship, we expect a "warming up" period, during which operating issues will be attentively and quickly resolved.

Land and Building at 35 Tuas Road

As at the date of this report, we have signed a short term lease with Jurong Town Corporation ("JTC") to extend the existing premises for three more years.

We will intensify our search effort for an alternative site to house our operations. Besides waiting for JTC to allot a site to us, we are also considering other options including establishing a fabrication yard in Johor, Malaysia, alongside the yard catering to the Contract Award at Pengerang – Johor (Malaysia).

We will cautiously evaluate the cost and effectiveness of each option, including the impact it has on our workforce. We will keep the shareholders updated as soon as there is clarity on this matter.

Dividends

For FY2019, the Board of Directors will be recommending to shareholders, for their approval at the coming Annual General Meeting, a final exempt (one tier) dividend of $0.04 cents per share. Total dividends to be paid is $0.2 million and represents 46% of profit after tax for FY2019.

Sustainability

The Sustainability Report FY2019 summaries the key challenges we face and the many ways the Group is responding to them. While the report content will vary from year to year, our aim is for readers such as investors, business partners, suppliers and employees to understand our commitments and efforts put in for human, environmental, social and compliance governance. Everyone in the Group will work towards achieving these targeted objectives.

Please refer to our website at www.mun-siong.com to view our Sustainability Report, which will be available on 15th April 2020.

Appreciation

Mr Peter Sim Swee Yam, our non-executive independent director, will be retiring from our Board of Directors. He will not offer himself for re-election at the coming Annual General Meeting.

He has served with distinction on our Board of Directors for nine years and we have benefited from his active engagements, insights and perspectives. In his absence, we will miss his precise and direct comments and recommendations. The Board of Directors and management would like to record our utmost appreciation to Mr Peter Sim for his valuable contributions.

We are pleased to welcome Mr Mah Kai Leong to join our Board of Directors. When re-elected at the Annual General Meeting, he will be a non-executive independent director and subsequently appointed as Chairman of the Remuneration Committee. Mr Mah brings more than forty years of operational and management experience in the petroleum and petrochemical industries. His experience will be of great help to the Board of Directors as we widen our markets and business scope in the coming years.

In FY2019, the success in achieving our focus areas would not have been possible without the efforts of our employees, colleagues, suppliers, business partners and our shareholders. We would like to thank our non-executive independent directors for their unwavering contributions, valuable guidance and support. We would also like to express our sincere appreciation to our employees and our colleagues on the Executive Committee for their strong commitment and dedication that they have demonstrated, as well as the passion and confidence they have inspired. We would like to take this opportunity to express our sincere thanks to all of you.

Cheng Woei Fen
Executive Chairlady

Quek Kian Hui
Executive Director

BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE

BOARD OF DIRECTORS


Cheng Woei Fen


Quek Kian Hui


David Tan Chao Hsiung


Peter Sim Swee Yam


Lau Teik Soon


Mah Kai Leong

EXECUTIVE COMMITTEE


From Left to Right: Lin Yan, Quek Kian Hui, Cheng Woei Fen, John L. Parkinson, Teo Kheng Hock & Eugene Lim Poon Kheng

BOARD OF DIRECTOR'S PROFILE

CHENG WOEI FEN
Executive Chairlady

Ms Cheng was first appointed to the Board on 31 October 1981 and last re-elected as a director on 20 April 2018. 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 business. She also chairs the Executive Committee.

Ms 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 as well as member of the School Advisory Committee of Beacon Primary School.

QUEK KIAN HUI
Executive Director

Mr Quek has served as an Executive Director of the Group since being appointed by the Board on 16 June 2014, and is also a member of the Executive Committee. He was last re-elected on 20 April 2017. 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 Director 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 responsibility 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 company towards a process and data-driven system, suitable for the ever evolving needs of the Group's business partners.

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

DAVID TAN CHAO HSIUNG
Non-Executive and Lead Independent Director

Mr Tan was appointed a Director on 1 October 2012 and last re-elected on 23 April 2019. 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 an independent director with 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 the Institute of CPA (Australia).

PETER SIM SWEE YAM
Non-Executive and Independent Director

Mr Peter Sim Swee Yam, BBM, PBM was appointed a Director on 11 October 2010 and last re-elected as a director on 20 April 2018. He is the Chairman of the Remuneration Committee and is a member of the Audit Committee and the Nominating Committee. Mr Sim is a solicitor by profession and a director of the law firm: Sim Law Practice LLC.

Mr Sim is currently an independent director of Haw Par Corporation Ltd, Singapore Reinsurance Corporation Ltd, ST Group Food Industries Holdings Limited and Lum Chang Holdings Ltd. He also sits on the Board of the Singapore Heart Foundation. Mr Sim holds a degree in Law from the University of Singapore (now known as the National University of Singapore).

LAU TEIK SOON
Non-Executive and Independent Director

Dr Lau Teik Soon was first appointed a Director on 9 April 2013 and last re-elected on 23 April 2019. He is the Chairman of the Nominating Committee and a member of both the Audit Committee and the Remuneration Committee. Dr Lau is a retired lawyer. He was been involved in various areas of practice, including criminal and civil litigation, family law and arbitration.

Dr Lau holds a few degrees including Doctor of Philosophy in International Relations (Australian National University) and Bachelor of Laws, Honours (University of London).

MAH KAI LEONG
Non-Executive and Independent Director

Mr Mah Kai Leong was first appointed on 4 March 2020. Upon his re-election at the forthcoming AGM, he will be subsequently appointed as the Chairman of the Remuneration Committee (currently he is member of the Remuneration Committee). He will also be a member of 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 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.

CORPORATE GOVERNANCE

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 Company had previously adopted the practices based on the principles as set out in the Code of Corporate Governance 2012. The Monetary Authority of Singapore ("MAS") issued the revised Code of Corporate Governance 2018 (the "2018 Code") on 6 August 2018 which is effective for financial years beginning on or after 1 January 2019. In this respect, 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 2019 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 aims, 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 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, including the release of financial results and announcements of material transactions; and
- Reviewing and endorsing corporate policies in keeping up with good corporate governance and business practices. The Board objectively discharges their duties and responsibilities at all times as fiduciaries in the interests of the Group.

CORPORATE GOVERNANCE

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 conflicts 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 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 (Cap 50).

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 FY2019, no Director had to abstain from voting in relation to the conflict-related matters.

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 programme 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 accounting, legal and industry knowledge. The Company will also arrange for the Director to attend the Listed Company Director Programme conducted by the Singapore Institute of Directors.

CORPORATE GOVERNANCE

A formal appointment letter was issued to Mr Mah Kai Leong when he was appointed as a Director on 4 March 2020. The Company has arranged for Mr Mah Kai Leong to attend the Listed Company Director Programme in FY2020 as well as to attend the Company's Orientation Programme.

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. The Company Secretary and the external auditors will also update and brief the Directors on the changes and new developments from the regulatory authorities. New releases issued by the SGX-ST and the Accounting and Corporate Regulatory Authority ("ACRA") and news articles/reports (including analyst reports) which are relevant to the Group's business are regularly circulated to all the Directors.

During the year, Management kept the Directors up to date on developments in the business, financial reporting standards and industry related matters. At each Board meeting, the respective business heads also update the Board on the business developments as well as performance of their respective business divisions.

Board Approval

The Group has adopted internal guidelines governing matters that require the Board's approval which has 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/investments;
- Corporate/financial structuring or corporate exercise;
- Incorporation of new entities;
- Issuance of 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 and the release of the Annual Report; and
- Any other matters as prescribed under the relevant legislations and regulations, as well as the provision of the Company's Constitution.

CORPORATE GOVERNANCE

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) (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 governance and legal environment. Any change to the terms of the reference for any Board Committee requires the specific written approval of the Board. During the year, the terms of reference for the respective Board Committees were revised to be aligned with the 2018 Code.

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 will meet at least four times a 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, videoconferencing 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 Chairman/Chairlady of the Board or the Board Committee 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**		
		No. of meetings			**No. of meetings**			**No. of meetings**			**No. of meetings**	
	Position	**Held**	**Attended**	**Position**	**Held**	**Attended**	**Position**	**Held**	**Attended**	**Position**	**Held**	**Attended**
Executive Directors												
Cheng Woei Fen	C	6	6	NA	4	4#	NA	1	1#	NA	1	1#
Quek Kian Hui	M	6	5	NA	4	4#	NA	1	1#	NA	1	1#
Non-Executive Directors												
David Tan Chao Hsiung	M	6	6	C	4	4	M	1	1	M	1	1
Peter Sim Swee Yam	M	6	6	M	4	4	M	1	1	C	1	1
Lau Teik Soon	M	6	6	M	4	4	C	1	1	M	1	1
Mah Kai Leong%	M	NA	NA	M	NA	NA	M	NA	NA	M	NA	NA

C: Chairman; M: Member
 # By invitation
% Appointed on 4 March 2020

CORPORATE GOVERNANCE

Multiple Board Representations

All Directors are required to declare their board representations. When a Director has multiple board representation, the NC 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 NC is satisfied that sufficient time and attention are being given by the Directors to the affairs of the Group, not withstanding 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 NC. At the same time, the NC has recommended to the Board as a guide that non-executive and 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.

Access to Information and Management and Company Secretary

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.

As part of good corporate governance, key matters requiring decision 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 and independent Directors have separate and independent access to the Group's senior Management, including the Chairlady, the Executive Director, the Finance Director, Company Secretary and other executive officers, 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 and 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.

All Directors have separate and independent access to the advice of the Company Secretary. The Company Secretary and his representatives are present at Board meetings and ensures that procedures are followed, and that applicable rules and regulations are complied with. The Company Secretary will also attend all meetings of the Audit Committee, Remuneration Committee and Nominating Committee.

CORPORATE GOVERNANCE

The Company Secretary assists to ensure good information flows within the Board and Board Committees, and between senior Management and non-executive and independent Directors, advising the Board on all 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 can only be taken by the Board as a whole.

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
Proportion of Non-Executive Independent Directors

Currently, the Board comprises of six members, four of whom are non-executive Directors. All the non-executive Directors are also independent as described in the 2018 Code (i.e. they have no relationship with the Company, its related companies, its 5% or more shareholders* or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment with a view to the best interests of the Group), and they are able to exercise objective judgment on corporate affairs independently from Management.

The Board Committees are chaired by the non-executive and independent Directors and comprise wholly of the non-executive and independent Directors.

The NC 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 and 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 and independent Directors have received payments in excess of $200,000 from a 5% or more shareholder*.

The nomination of Mr Mah Kai Leong was reviewed by the NC and the Board. Mr Mah Kai Leong was appointed as a consultant to the Company (period June to October 2019) for the Taiwan project. He was also appointed as an independent consultant for the period December 2019 to February 2020 to review work procedures undertook by the Company at a client's site in Singapore. A total consulting fees of $47,500 was paid to him. At the date of his appointment on 4 March 2020, the Company and the 5% or more shareholders* have no outstanding commercial contracts or business relationships with Mr Mah Kai Leong or his immediate family members. Taking guidelines from the 2018 Code and the total aggregate payments to him was less than the $50,000 threshold prescribed under the 2018 Code, the NC is of the view and concurred by the Board that Mr Mah Kai Leong is considered a non-executive independent Director.

SGX Mainboard Rule 210(5)

The Board recognises that independent Directors may over time develop significant insights in the Group's business and operations, and can continue to provide noteworthy and value 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 objectively, and not merely based on form, such as the number of years which they have served on the Board.

As at the end of FY2019, Mr Peter Sim Swee Yam will serve on the Board for more than 9 years from the date of his appointment. The Board has subjected his independence to a rigorous review by all Directors, with Mr Peter Sim Swee Yam abstaining from the review, before deciding if he should continue with the appointment.

* 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

After due consideration and with the concurrence of the NC, the Board is of the view that Mr Peter Sim Swee Yam has demonstrated strong independence character and judgement over the years in discharging his duties and responsibilities as 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 sought clarification and amplification as they deemed necessary, including direct access to Management.

Taking into account the above and also having weighed the need for Board's renewal, the Board has affirmed his independence status and resolved that Mr Peter Sim Swee Yam continue to be considered as independent Directors, notwithstanding he has served on the Board beyond nine years from the date of his first appointment.

Nonetheless, in view of the amendments to the SGX-ST Listing Rules, which will come into effect from 1 January 2022, requires the re-appointment of directors who have served the Board beyond nine years from the date of their first appointment to be subjected to a two-tier shareholders voting. Mr Peter Sim See Yam, who is due for retirement at the forthcoming Annual General Meeting ("AGM"), has decided not to seek for re-election.

Board Composition and Diversity

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 operations, accounting and finance (including mergers and acquisitions, and capital markets), business and management, and legal relevant to the Group and its industry.

The Board reviews the size and composition of the Board on an annual basis to ensure that both aspects continue to meet the needs of the Group and is of the view that the present Board size and composition is appropriate for the current scope and nature of the Group's operations. There is a strong independent element on the Board as all non-executive and independent Directors collectively comprise more than fifty percent (50%) of the Board of Directors as at the end of FY2019. With more than half of the Board made up of independent Directors, including independence from the substantial shareholders, the Board is capable of exercise independent and objective judgement on the corporate affairs of the Group.

The Board also has one female director in recognition of the importance and value of gender diversity.

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 because of the presence of non-executive and independent Directors of the calibre necessary to carry sufficient weight in Board's decisions. Although all the Directors have an equal responsibility for the Group's operations, the role of these non-executive and independent Directors is particularly important in ensuring that the strategies proposed by Management are constructively challenged, fully discussed and examined, and take account of the long term interests, not only of the shareholders, but also of employees, customers (or business associates), suppliers and the many communities in which the Group conducts its business. The non-executive and independent Directors also review the performance of Management in meeting agreed goals and objectives and monitor the reporting of performance.

The Company as at 25 March 2020, has 1,327 shareholders – for details on the spread of shareholdings please refer to page 105 of this report. The two largest shareholders, representing 63.04 per cent 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 and independent Directors, whom constitutes majority of the Board of Directors.

CORPORATE GOVERNANCE

Meeting of Independent Directors without Management

During the financial year, the non-executive and 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 and 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.

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")
Role of Chairman and CEO
Appointment of Lead Independent Director

The roles of the Chairman and Chief Executive Officer ("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), 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 function of the CEO has been shared between the two executive Directors, Cheng Woei Fen and Quek Kian Hui, who is the son of the Chairlady.

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. 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, constructive relations and dialogue amongst them. The Chairlady works to facilitate the effective contribution of non-executive and independent Directors.

The foregoing responsibilities of the Chairlady are included in the above mentioned guidelines endorsed by the Board.

The roles of the Chairman and CEO were either held by the same individual or related individuals. As the arrangement is a deviation from the principle, pursuant to the 2018 Code, the Board has appointed Mr David Tan Chao Hsiung, a non-executive and independent Director, as the Lead Independent Director. Mr David Tan Chao Hsiung is available to shareholders, when they have concerns, in which contact through the normal channels of the Chairlady or the Finance Director has failed to resolve or for which such contact is inappropriate.

The Board believes that there are sufficient strong and independent elements and adequate safeguards in place against an uneven concentration of power and authority in any single individual.

CORPORATE GOVERNANCE

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 and independent Directors:

Lau Teik Soon (Chairman)
Peter Sim Swee Yam
David Tan Chao Hsiung
Mah Kai Leong (appointed on 4 March 2020)

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

The Chairman of the Nominating Committee and all its members are considered independent pursuant to the definition of independent under the 2018 Code. 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 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; including the consideration for gender as well as the diversity in their nationalities. 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 go 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 Nominating Committee members to assess them, before a decision is reached;

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 Directors' contributions and performance (including, if applicable, his contribution and performance as a non-executive and 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;

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 set out in the 2018 Code and any other salient factors. Following its annual review, the Nominating Committee has endorsed the independent status of the non-executive and 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.

CORPORATE GOVERNANCE

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.

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, Mr Quek Kian Hui and Mr Peter Sim Swee Yam are the Directors retiring via rotation at the forthcoming AGM. As indicated on page 16, Mr Peter Sim Swee Yam has decided not to seek for re-election at the forthcoming AGM. The Nominating Committee, having considered Mr Quek Kian Hui's performance and contribution, has recommended the retiring Director 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. Mr Mah Kai Leong who was appointed on 4 March 2020 will be seeking re-election at the forthcoming AGM. The Nomination Committee, having considered Mr Mah Kai Leong's independence as indicated on page 15 has recommended the retiring Director for re-election at the forthcoming AGM.

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

(1) Mr Quek Kian Hui will remain as the Executive Director; and

(2) Mr Mah Kai Leong will remain as the non-executive independent Director and members of the AC, NC and RC.

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

Name of Director	**Quek Kian Hui**
Age	35
Country of principal residence	Singapore
Shareholding interest in the listed issuer and its subsidiaries	The Company 86,376,800 shares Subsidiaries of the Group 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	Son of Executive Chairlady, Cheng Woei Fen
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	Past (for the last 5 years) Nil Present Nil Other Principal Commitments Nil

CORPORATE GOVERNANCE

Name of Director	**Mah Kai Leong**
Age	67
Country of principal residence	Singapore
Shareholding interest in the listed issuer and its subsidiaries	The Company Nil Subsidiaries of the Group 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	Past (for the last 5 years) Nil Present Nil Other Principal Commitments Nil

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

Board Performance

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

The Board has implemented 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 assessment utilises a confidential questionnaire, covering areas such as Board's composition, Board's processes in managing the Group's performance and the effectiveness of the Board in its monitoring role. The questionnaire is completed by members of the Board. The completed qualitative assessment questionnaires are collated for deliberation. The results, conclusions and recommendations are then presented to the Board by the Nominating Committee.

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. New members may be appointed or resignation of Directors may be sought following the review of the aforesaid assessment.

CORPORATE GOVERNANCE

The assessments of the Board and the Directors (including Chairlady) are carried out annually. Following the review of the assessment of the Board and Board Committees, as well as of each Director, the Board is of the view that the Board and Board Committees have operated effectively and each Director has contributed to the overall effectiveness of the Board.

For FY2019, the NC has not engaged any external facilitator to assist in the assessment of the performance of the Board and Board Committees.

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 and independent Directors:

Peter Sim Swee Yam (Chairman)
David Tan Chao Hsiung
Lau Teik Soon
Mah Kai Leong (appointed on 4 March 2020)

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 include 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.

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 FY2019, the RC has not sought external advice nor appointed remuneration consultants in considering the remuneration of Directors.

During the financial year, the Remuneration Committee has reviewed the proposed renewal to the employment terms and conditions (including remuneration) of key management personnel. The Remuneration Committee is satisfied that the terms and conditions (including remuneration) for the 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.

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 2017 AGM held on 20 April 2017 for a maximum duration of 10 years from the date of adoption. As at to date, awards in respect of 2,400,000 shares have been granted under the plan. Details of the plan are set out in the Directors' Statement on pages 36 to 37.

CORPORATE GOVERNANCE

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.

The Remuneration Committee's recommendations are submitted for endorsement by the entire Board.

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.

The Executive Directors have service agreements (a tenure of 3 years) that expired in FY2019. Their compensation consists of salary, bonuses and profit sharing arrangement which is based on the Group's financial performance. The profit sharing arrangement is to align their interests with those of the shareholders and link rewards to corporate's and individual's performance.

Upon the expiry of the service agreements, the Executive Directors' compensation will comprise 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.

(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

(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.

Directors' fees are subject to the approval of the shareholders at the AGM. Factors such as level of contribution, effort and time spent, and responsibilities and leadership of the non-executive and independent Directors are considered when determining their level of fees. The compensation should be appropriate and not excessive to the extent that his/their independence could be compromised.

The MSE Performance Share Plan was adopted and approved by the shareholders of the Company of the AGM held on 20 April 2017. The duration of the plan is a maximum period of 10 years commencing on the date of adoption. Details of the plan are set out in the Directors' Statement on pages 36 to 37.

A substantial portion of the Group's key customers (or business partners) are from the process industry that operates processing plants and facilities. This industry is currently facing strong headwinds (including uncertainty) arising from both low business activities caused by volatile and low crude oil prices and the Covid-19 virus. These have put strong challenges to the Management of the Group to maintain profitability.

The Board has recognised these challenges that the Group faces and have adopted the following stance:

- No increment in the salary for the Chairlady as per the last renewal of her service agreement which is correlated to the financial performance of the Group;

- No bonuses were paid to Chairlady and Executive Director in FY2019; and

- In financial year 2017, the non-executive and independent Directors on their own accord offered a reduction in their Directors' fees and since then, there was no increase in their directors' fees. For financial year 2020, similarly they have offered to maintain their directors' fees to that of financial year 2019.

The Board believes that in order to lead, they must first set an example.

Provisions allowing the Company to reclaim incentive components of remuneration from the executive Directors and senior 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 respective 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.

The RC is mindful that the remuneration for non executive Directors should not be excessive so as to compromise or reasonably be perceived to compromise their independence. No member of the RC is involved in deliberating and deciding in respect of any remuneration, compensation or any form of benefits to be granted to him. The Board concurred with the RC that the proposed fees for the year 31 December 2020 is appropriate and not excessive, taking into consideration the level of contributions by the directors and factors such as effort and time spent for serving on the Board and Board Committees as well as the responsibilities and obligations of the directors. Directors' fees of up to $129,000 for FY2020 ($122,000 for FY2019), are recommended by the Board to table for approval by the shareholders at the forthcoming AGM. The increase in Directors' fees was due to addition of new non-executive independent director, Mr Mah Kai Leong who was appointed on 4 March 2020.

CORPORATE GOVERNANCE

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.

The Group links its remuneration policy to 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 to customer's time schedule, achieving targeted profit margins and achieving safety standards set by customers (or business partners).

The service agreement of the Executive Chairlady (Madam Cheng Woei Fen) which expired in FY2019, was consistent with service contracts entered into between the Company and its Executive Directors, with a substantial portion of their remuneration (in dollar terms) in the form of variable or performance related bonuses. The variable or performance related bonuses are calculated as a percentage of the Group's profitability, with the percentage increasing along with profitability.

For the other executives 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 remuneration of Directors and key management personnel is 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

		Breakdown in percentage				
	Total Remuneration $'000	**Base/fixed salary %**	**Director's fees %**	**Variable or performance-related income/ bonuses %**	**Benefits in kind %**	**Total %**
Directors						
Cheng Woei Fen	231	96.4	–	–	3.6	100.0
Quek Kian Hui	149	96.0	–	–	4.0	100.0
David Tan Chao Hsiung	44	–	100.0	–	–	100.0
Peter Sim Swee Yam	39	–	100.0	–	–	100.0
Lau Teik Soon	39	–	100.0	–	–	100.0
Mah Kai Leong (#)	–	–	–	–	–	–

\# *Appointed on 4 March 2020*

CORPORATE GOVERNANCE

	Breakdown in percentage					
	Base/fixed salary %	Director's fees %	Variable or performance-related income/ bonuses %	Benefits in kind %	MSE PSP %	Total %
Top 4 key management personnel						
Below $250,000						
Lin Yan	95.3	–	–	4.7	–	100.0
Lim Poon Kheng, Eugene	83.5	–	–	0.5	16.0	100.0
Teo Kheng Hock	87.5	–	6.5	6.0	–	100.0
John Parkinson	85.7	–	7.1	7.2	–	100.0

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

Under the 2018 Code, the Company has to disclosure the remuneration of the top five key management personnel. It is a deviation from the 2018 Code as the Company has identified only the above four key management personnel who are considered key executives of the Company.

In line with the Group's financial performance for FY2019, based/fixed salary formed a substantial portion of the total remuneration of the Executive Directors (including that of the Executive Chairlady) and key management personnel.

The total remuneration for the above key management personnel was $770,660.

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 Group has an established process for the governance of risk management framework and policies. The framework is formulated in compliance to the Government policies and SGX-ST's continued listing guidelines and requirements. They are governed by the executive committee of the Group to ensuring the adequacy of risk management. The Audit Committee acts as an extra gate keeper to ensure governance of risk management.

The Company has an Enterprise Risk Management (the "ERM") manual which was developed by Management with the assistance from the internal auditor in 2017. Potential risks were identified and were assessed for its impact on the Group. Assessment was made to ensure that adequate internal control measures are in place to monitor and manage such risks. The Group recognises that such risk cannot be eliminated; rather it can only be mitigated.

CORPORATE GOVERNANCE

The 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.

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.

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 safety procedures of the Group are further audited periodically by an external body. The Group also provides training to its staff regularly on safety procedures.

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 any disruption, recovery is assured. This will minimise disruption to businesses and operations.

Foreign currency risk

The Group's exposure to foreign currency risk is minimal as the principal source of revenue and the costs incurred to generate the revenue are denominated in Singapore dollars. The Group however monitors the exchange rates of major currencies from time to time whenever revenue receivables and payments are not denominated in Singapore dollars.

Market concentration risk

The Group is currently dependent on Singapore for its main source of revenue. 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. 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). The Group also tries to reduce its market concentration risk by diversifying its source of revenue.

Over the past few years, the Group has undertaken a number of initiatives to diversify its revenue base and broaden its range of services. These include the acquisition of the business involving the overhauling and maintenance of rotating equipment, obtaining agency agreements for distributorship of several types of mechanical and electrical components, establishment of in-house scaffolding capabilities and providing specialised coating services.

CORPORATE GOVERNANCE

The Group will continue to seek business opportunities so as to widen its customer base and to reduce its dependence on the Singapore economy and the process industry based in Singapore. However, to avoid a substantial increase in the Group's business risk profile, it will continue to seek business opportunities within the area of its key competencies.

In FY2019, the Group entered into the Malaysia and Taiwan markets. For the Malaysia market, the Group entered into two joint ventures agreement with two Malaysian parties. (a) In August 2019, it entered into a joint venture agreement with a Malaysian partner to undertake a 10 years' service contract with Petroliam Nasional Berhad ("Petronas") and (b) In January 2020, it also entered into another joint venture with a Malaysian individual. This joint venture will spearhead its marketing effort in Malaysia that requires its core competencies. For the Taiwan market, the Group was awarded an integrated turnaround contract from CPC Corporation in June 2019. This contract was completed ahead of schedule and accounted for FY2019 improvement in revenue and profits. The Group will continue to seek business opportunities in Taiwan.

As for the North America, the Group will continue to seek business opportunities.

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 risk of not being able to retain its pool of human resource. In order to retain and attract new talents, it provides staff with essential training and transparent career succession planning map. In the recent years, the Group has looked beyond Singapore, Philippines and India in the recruitment of human capital, and has reached out to countries like North America, United Kingdom and Australia.

Assurances from the Chairlady and Finance Director

In addition, the Board has received assurances from the Executive 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.

Audit Committee

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

The Audit Committee comprises the following non-executive and independent Directors:

David Tan Chao Hsiung (Chairman)
Peter Sim Swee Yam
Lau Teik Soon
Mah Kai Leong (appointed on 4 March 2020)

None of the members of the Audit Committee are present or former director, partner or shareholder of the Group's external auditor.

The Audit Committee held four formal meetings during the financial year. These meetings were also attended by the Executive Directors, 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.

CORPORATE GOVERNANCE

The Board is of the view that all the members of the Audit Committee are appropriately qualified to discharge their responsibilities. Mr David Tan Chao Hsiung is an accountant by training and has working experience in mergers and acquisitions and capital markets transactions. He has in the past, served in a number of SGX-ST listed companies (both the Catalist and the main board) board of directors and holds offices of audit committee chairman, lead independent director and chairman of the executive committee. Peter Sim Swee Yam has relevant experience from his involvement in the various committees of SGX-ST listed companies that he held directorships as well as management experience from his own legal practice. Lau Teik Soon, a retired solicitor, and has relevant experience from his involvement in the board committees of listed companies. Besides this, he has in the past, served on the board of directors of three other SGX-ST listed companies. Mr Mah Kai Leong,is a qualified mechanical engineer, has vast operational and financial management experience in a petrochemical plant.

The Audit Committee has written terms of reference endorsed 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 risks and risk management systems;

- Reviewing the independence, adequacy resourced and effectiveness of the Group's internal audit functions;

- Reviewing the 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 assurance from the CEO 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.

CORPORATE GOVERNANCE

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 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 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 auditors without the presence of the Management to discuss the reasonableness of the financial reporting process and the significant comments and recommendations by the external auditors.

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.

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, half yearly and the audited annual financial statements, SGX Net 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 AC 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 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 for 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.

CORPORATE GOVERNANCE

Auditors' independence

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.

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$113,000	S$10,000

The non-audit fee related to tax filing services.

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

The Audit Committee is satisfied that the Group has complied with Rules 712, 715 and 716 of the Listing Manual of the SGX-ST in relation to its selection and appointment of auditing firms. The Audit Committee has recommended to the Board for the nomination of KPMG LLP for the re-appointment as external auditors at the forthcoming AGM.

Whistle-blowing programme

The Group is committed to a high standard of ethical conduct and adopts a zero tolerance approach to fraud. The Group undertakes to investigate complaints of suspected fraud 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.

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

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 Chapter 9 of the Listing Manual of the SGX-ST. There was also no general mandate for interested person transactions.

Material Contracts

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 will review its adequacy and effectiveness each year.

CORPORATE GOVERNANCE

Nexia TS Risk Advisory Pte Ltd is the internal auditor for the Group (the "Internal Auditor"). The Internal Auditor reports directly and primarily to the Chairman of the Audit Committee with administrative reporting to the Executive Chairlady. The appointment, removal, evaluation and compensation of the Internal Auditor is decided by the Audit Committee. 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 Auditor assists the Board and Audit Committee in monitoring 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.

One of the risks identified in the Enterprise Risk Management manual is safety risks. The Group operates in an industry where safety ranks as one of its top priorities by the customers (or business partners). For FY2019, the Audit Committee decided to commission an inhouse safety auditor to perform an internal audit on safety. The inhouse safety auditor is qualified under Occupational Health Safety Assessment Series (OHSAS) 18001, issued by Lloyd Mcgill. The Audit Committee is of the opinion, the inhouse safety auditor will be more qualified and experienced than the current internal auditor, Nexia TS Risk Advisory on safety matters. The inhouse safety auditor is independent of the activities it audits. The inhouse safety auditors reports directly to the Chairman of the Audit Committee.

The Audit Committee has reviewed the safety audit report issued by the inhouse auditor for the current year, considered the past internal control reports prepared by the internal auditor (Nexia TS), as well as discussions with Management and the external auditors (took into considerations their management letter), 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.

Based on the internal controls established and maintained by the Group, work performed by the Internal Auditors and 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 risks and the risk management systems.

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that cost effective internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

CORPORATE GOVERNANCE

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 as balanced and understandable assessment it its performance, position and prospects.

The Group believes in encouraging shareholder participation at general meetings. 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. 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.

Each item of special business included in the notice of the meeting will be accompanied by a full explanation of the effects of a proposed resolution. Separate resolutions will be set out as distinct issues for approval by the shareholders at the meeting.

At each AGM, the members of the Board avail themselves and encourage shareholders to participate in the question and answer session. 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 Chairman of the Audit, Nominating and Remuneration Committees, 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 operational questions from shareholders.

The Company also prepares minutes of general meetings which include substantial and relevant comments or queries from shareholders relating to the agenda of the meeting, and responses from the Board and Management. These minutes are available to shareholders upon their request.

Resolutions tabled for approval at the general meeting will be decided by poll in compliance with the Listing Rules for all companies listed on the SGX-ST (both the Catalist and the main board) and the outcome of the poll will be disclosed over the SGX website.

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 forthcoming year). 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 2019, the Board has proposed, subject to shareholders' approval at the AGM, a tax-exempt (one-tier) final dividend of 0.04 cents per ordinary share (2018:0.03 cents).

The payout for the dividend proposed for FY2019 is expected to be about $232,000 (based on the 579,524,400 ordinary shares outstanding excluding treasury shares) as compared to $174,000 paid in respect of FY2018.

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.

All shareholders of the Company receive the Annual Report and Notice of AGM yearly. 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. 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.

CORPORATE GOVERNANCE

During the AGM, the shareholders are invited to participate in the question-and-answer session. The Company Secretary, if required, will inform shareholders of the rules, including voting procedures, which govern general meetings of shareholders.

Besides the AGMs, the Group believes in regular, effective and fair communication with its shareholders and is committed to hearing shareholders' views and addressing their concerns where possible. The Group has an investor relations team which attends to their queries or concerns.

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 Group's investor relations team. Material information is published on SGXNet and on the Company's website www.mun-siong.com and where appropriate, through media releases.

The Group monitors the dissemination of material information to ensure that it is made publicly available on a timely and non-selective basis. Information relating to the 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.

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 Group 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 also 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, 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.

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.

CORPORATE GOVERNANCE

Other Corporate Governance Matters

DEALINGS 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 two weeks before the date of announcement of results for each of the first three quarters or half-yearly of the Group's financial year and one month before the date of announcement of the full year financial results, and ending on the date of the announcement. 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.

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.

Use of Proceeds from IPO

The proceeds raised from the Company's IPO, after deducting listing expenses of approximately $2.5 million was approximately $18.9 million. As at the date of this annual report, the unutilised balance brought forward from the previous financial year is $2,412,000 and the Company has utilised the full balance by 31 December 2019. The utilisation for the current year is as follow:

Purpose/Amount (S$'000)	Raised at IPO	Balance b/f	Utilised in FY2019	Balance c/f
To establish a regional presence	4,000	2,086	(2,086)	–
To establish an engineering design centre and upgrade of existing database management system	1,000	326	(326)	–
Widening the range of services available to our customers	12,500	–	–	–
Working capital	1,400	–	–	–
Total	**18,900**	**2,412**	**(2,412)**	**–**

Note: The Company has on 20 November 2012 announced on the SGXNet that it will defer its plans to further expand its range of services in light of the negative sentiments in the process industry.

DIRECTORS' STATEMENT

We are pleased to submit this annual report to the members of the Company together with the audited financial statements for the financial year ended 31 December 2019.

In our opinion:

(a) the financial statements set out on pages 46 to 104 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 2019 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 Singapore Companies Act, Chapter 50 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
Peter Sim Swee Yam
Lau Teik Soon
Mah Kai Leong (Appointed on 4 March 2020)

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, Chapter 50 (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:

	Direct interests		Deemed interests	
Name of director and corporation in which interests are held	**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				
Ordinary shares				
Cheng Woei Fen	278,997,600	278,997,600	36,167,400	36,167,400
Quek Kian Hui	86,376,800	86,376,800	–	–
Peter Sim Swee Yam	140,000	140,000	–	–

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 2020.

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.

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.

DIRECTORS' STATEMENT

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 David Tan Chao Hsiung, Peter Sim Swee Yam, Lau Teik Soon and Mah Kai Leong (appointed on 4 March 2020).

On 21 February 2019, an employee was awarded 2,400,000 shares. The first tranche of the Award in respect of 800,000 Shares has vested during the financial year ended 31 December 2019. The second tranche of the Award, in respect of 800,000 shares will vest after the financial year ended 31 December 2019 and the third tranche in respect of 800,000 shares will vest after financial year ending 31 December 2020. No vested shares were forfeited during the financial year.

DIRECTORS' STATEMENT

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
- Peter Sim Swee Yam, non-executive director
- Lau Teik Soon, non-executive director
- Mah Kai Leong, non-executive director (Appointed on 4 March 2020)

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 four 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.

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

DIRECTORS' STATEMENT

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 2020

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 2019, 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 46 to 104.

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 Singapore Companies Act, Chapter 50 (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 2019 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 majority of its contracts, 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.

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.

Findings

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

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 2019, the aggregate carrying values of the Group's and Company's property, plant and equipment (and right-of-use assets) totalled $14.3 million, representing 18% of the total assets of the Group and the Company.

An assessment is required of cash-generating units (CGUs) to determine if there are any indicators of impairment. Where it is determined that an indicator of impairment, the carrying values of all assets in the CGU are compared to the amounts expected to be recoverable from each CGU. This requires estimates to be made for each 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.

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 CGU taking into consideration changes in profitability, cashflow generation and outlook as compared to the previous reporting period. In addition, we considered the changes in market capitalisation of the Group. Where a CGU is required testing for impairment, 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.

Findings

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

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.

INDEPENDENT AUDITORS' REPORT

Members of the Company
Mun Siong Engineering Limited

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.

- 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.

INDEPENDENT AUDITORS' REPORT

Members of the Company
Mun Siong Engineering Limited

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 2020

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2019

	Note	Group 2019 $'000	Group 2018* $'000	Company 2019 $'000	Company 2018* $'000
Assets					
Property, plant and equipment	4	14,276	13,347	14,303	13,367
Intangible asset	5	–	–	–	–
Goodwill on consolidation	6	–	–	–	–
Investment properties	7	1,225	1,225	1,225	1,225
Subsidiaries	8	–	–	2,828	2,580
Non-current assets		15,501	14,572	18,356	17,172
Inventories	10	242	351	242	351
Contract assets	11	16,228	10,059	16,052	9,277
Trade and other receivables	12	18,820	15,681	18,839	15,622
Cash and cash equivalents	13	27,363	26,549	24,999	20,777
Current assets		62,653	52,640	60,132	46,027
Total assets		78,154	67,212	78,488	63,199
Equity					
Share capital	14	26,254	26,254	26,254	26,254
Translation reserve	15	(1)	(2)	4	–
Treasury shares	16	(138)	(193)	(138)	(193)
Share-based compensation reserve	17	(17)	–	(17)	–
Retained earnings		29,001	28,704	28,695	24,344
Equity attributable to owners of the Company		55,099	54,763	54,798	50,405
Non-controlling interests		10	5	–	–
Total equity		55,109	54,768	54,798	50,405
Liabilities					
Loans and borrowings	18	179	81	179	81
Provisions	19	374	355	374	355
Deferred tax liabilities	9	1,581	1,484	1,581	1,484
Non-current liabilities		2,134	1,920	2,134	1,920
Trade and other payables	20	19,718	10,247	20,368	10,773
Contract liabilities	11	144	82	144	82
Loans and borrowings	18	318	19	318	19
Provisions	19	462	–	462	–
Current tax payable		269	176	264	–
Current liabilities		20,911	10,524	21,556	10,874
Total liabilities		23,045	12,444	23,690	12,794
Total equity and liabilities		78,154	67,212	78,488	63,199

* See Note 2.5. The Group initially applied SFRS (I) 16 *Leases* on 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying SFRS(I) 16 is recognised in retained earnings at the date of initial application.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	Note	2019 $'000	2018* $'000
Revenue	21	70,540	62,878
Cost of sales		(65,474)	(59,392)
Gross profit		5,066	3,486
Other income	22	1,400	859
Administrative expenses		(5,836)	(7,473)
Other operating expenses		(95)	(813)
Results from operating activities		535	(3,941)
Finance income	23	377	424
Finance costs	23	(43)	(21)
Profit/(Loss) before tax	24	869	(3,538)
Tax expense	25	(368)	(229)
Profit/(Loss) for the year		501	(3,767)
Profit/(Loss) attributable to:			
Owners of the Company		496	(3,766)
Non-controlling interests		5	(1)
Profit/(Loss) for the year		501	(3,767)
Other comprehensive income			
Item that is or may be reclassified subsequently to profit or loss:			
Foreign currency translation difference from foreign operations		1	(4)
Total comprehensive income for the year		502	(3,771)
Total comprehensive income attributable to:			
Owners of the Company		497	(3,770)
Non-controlling interests		5	(1)
Total comprehensive income for the year		502	(3,771)
Earnings/(Loss) per share			
Basic earnings/(loss) per share (cents)	26	0.09	(0.65)
Diluted earnings/(loss) per share (cents)	26	0.09	(0.65)

* See Note 2.5. The Group initially applied SFRS (I) 16 *Leases* on 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying SFRS(I) 16 is recognised in retained earnings at the date of initial application.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

Group	Note	Share capital $'000	Translation reserve $'000	Treasury shares $'000	Retained earnings $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
		Attributable to owners of the Company						
At 1 January 2018*		26,254	2	(118)	33,513	59,651	–	59,651
Total comprehensive income for the year								
Loss for the year		–	–	–	(3,766)	(3,766)	(1)	(3,767)
Other comprehensive income								
Foreign currency translation difference from foreign operations		–	(4)	–	–	(4)	–	(4)
Total comprehensive income for the year		–	(4)	–	(3,766)	(3,770)	(1)	(3,771)
Transactions with owners, recognised directly in equity								
Contributions by and distributions to owners								
Share buy-back – held as treasury shares		–	–	(75)	–	(75)	–	(75)
Capital contribution by non-controlling interests		–	–	–	–	–	6	6
Dividends	14	–	–	–	(1,043)	(1,043)	–	(1,043)
Total transactions with owners		–	–	(75)	(1,043)	(1,118)	6	(1,112)
At 31 December 2018		26,254	(2)	(193)	28,704	54,763	5	54,768

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

		Attributable to owners of the Company							
Group	Note	Share capital $'000	Translation reserve $'000	Treasury shares $'000	Retained earnings $'000	Share-based compensation reserve $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 2019		26,254	(2)	(193)	28,704	–	54,763	5	54,768
Adjustment on initial application of SFRS(I) 16 (net of tax) (Note 2.5)		–	–	–	(25)	–	(25)	–	(25)
Adjusted balance at 1 January 2019		26,254	(2)	(193)	28,679	–	54,738	5	54,743
Total comprehensive income for the year									
Profit for the year		–	–	–	496	–	496	5	501
Other comprehensive income									
Foreign currency translation difference from foreign operations		–	1	–	–	–	1	–	1
Total comprehensive income for the year		–	1	–	496	–	497	5	502
Transactions with owners, recognised directly in equity									
Contributions by and distributions to owners									
Dividends	14	–	–	–	(174)	–	(174)	–	(174)
Share-based payment transactions	17	–	–	55	–	(17)	38	–	38
Total transactions with owners		–	–	55	(174)	(17)	(136)	–	(136)
At 31 December 2019		26,254	(1)	(138)	29,001	(17)	55,099	10	55,109

* See Note 2.5. The Group initially applied SFRS (I) 16 *Leases* on 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying SFRS(I) 16 is recognised in retained earnings at the date of initial application.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Note	2019 $'000	2018* $'000
Cash flows from operating activities			
Profit/(Loss) before tax		869	(3,538)
Adjustments for:			
Impairment on goodwill on consolidation		–	1,001
Depreciation of property, plant and equipment		3,254	2,904
Amortisation of intangible asset		–	149
Impairment of intangible asset		–	593
Loss on liquidation of a subsidiary		–	75
Net gain on disposal of property, plant and equipment		(77)	(57)
Unwinding of discount on site restoration provision		19	18
Property, plant and equipment written off		25	–
Provision for reworks		462	–
Equity-settled share-based payment transactions		38	–
Interest expense		24	3
Interest income		(377)	(424)
		4,237	724
Changes in inventories		109	252
Changes in contract assets		(6,169)	(4,387)
Changes in contract liabilities		62	(786)
Changes in trade and other receivables		(5,212)	(4,245)
Changes in trade and other payables		9,471	1,974
Cash generated from/(used in) operating activities		2,498	(6,468)
Tax paid		(178)	(339)
Net cash from/(used in) operating activities		2,320	(6,807)
Cash flows from investing activities			
Interest received		377	424
Acquisition of property, plant and equipment		(1,407)	(1,837)
Proceeds from disposal of property, plant and equipment		175	259
Net cash used in investing activities		(855)	(1,154)
Cash flows from financing activities			
Proceeds from contribution by non-controlling interests		–	6
Dividends paid		(174)	(1,043)
Payment of lease liabilities (2018: finance lease liabilities)		(455)	(19)
Share buy-back		–	(75)
Interest paid		(24)	(3)
Net cash used in financing activities		(653)	(1,134)
Net increase/(decrease) in cash and cash equivalents		812	(9,095)
Cash and cash equivalents at 1 January		26,549	35,648
Effect of exchange rate fluctuations on cash held		2	(4)
Cash and cash equivalents at 31 December	13	27,363	26,549

* See Note 2.5. The Group initially applied SFRS (I) 16 *Leases* on 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying SFRS(I) 16 is recognised in retained earnings at the date of initial application.

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

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 2020.

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 2019 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

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 are set out in Note 8 to the consolidated financial statements.

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)").

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2 BASIS OF PREPARATION (Continued)

2.4 Use of estimates and judgements (continued)

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 within the next financial year are included in the following notes:

- Note 4 – Impairment of property, plant and equipment; 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 7 – Valuation of investment properties;
- Note 17 – Share-based payment arrangements; and
- Note 29 – Determination of fair values.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

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 2019:

- SFRS(I) 16 *Leases*
- SFRS(I) INT 23 *Uncertainty over Income Tax Treatments*
- *Long-term Interests in Associates and Joint Ventures* (Amendments to SFRS(I) 1-28)
- *Prepayment Features with Negative Compensation* (Amendments to SFRS(I) 9)
- *Previously Held Interest in a Joint Operation* (Amendments to SFRS(I) 3 and 11)
- *Income Tax Consequences of Payments on Financial Instruments Classified as Equity* (Amendments to SFRS(I) 1-12)
- *Borrowing Costs Eligible for Capitalisation* (Amendments to SFRS(I) 1-23)
- *Plan Amendment, Curtailment or Settlement* (Amendments to SFRS(I) 1-19)

Other than SFRS(I) 16, the application of these amendments to standards and interpretations does not have a material effect on the financial statements.

SFRS(I) 16 *Leases*

The Group applied SFRS(I) 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under SFRS(I) 1-17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in SFRS(I) 16 have not generally been applied to comparative information.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under SFRS(I) INT 4 *Determining whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in SFRS(I) 16.

On transition to SFRS(I) 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied SFRS(I) 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under SFRS(I) 1-17 and SFRS(I) INT 4 were not reassessed for whether there is a lease under SFRS(I) 16. Therefore, the definition of a lease under SFRS(I) 16 was applied only to contracts entered into or changed on or after 1 January 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2 BASIS OF PREPARATION (Continued)

2.5 Changes in accounting policies (continued)

As a lessee

As a lessee, the Group leases many assets including a piece of land from Jurong Town Corporation and office equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under SFRS(I) 16, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

Leases classified as operating leases under SFRS(I) 1-17

Previously, the Group classified property leases as operating leases under SFRS(I) 1-17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the lessee entity's incremental borrowing rates applicable to the leases as at 1 January 2019. Right-of-use assets are measured at their carrying amount as if SFRS(I) 16 had been applied since the commencement date, discounted using the applicable incremental borrowing rate at the date of initial application.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying SFRS(I) 16 to leases previously classified as operating leases under SFRS(I) 1-17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application; and
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. office equipment).

Leases classified as finance leases under SFRS(I) 1-17

The Group leases a number of items of office equipment. These leases were classified as finance leases under SFRS(I) 1-17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under SFRS(I) 1-17 immediately before that date.

As a lessor

The Group leases out its investment property. The Group is not required to make any adjustments on transition to SFRS(I) 16 for leases in which it acts as a lessor.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2 BASIS OF PREPARATION (Continued)

2.5 Changes in accounting policies (continued)

Impact on financial statements

Impact on transition*

On transition to SFRS(I) 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

	1 January 2019 $'000
Right-of-use assets – property, plant and equipment	827
Lease liabilities	(852)
Retained earnings	25

* For the impact of SFRS(I) 16 on profit or loss for the period, see Note 31. For the impact of SFRS(I) 16 on segment information, see Note 27. For the details of accounting policies under SFRS(I) 16 and SFRS(I) 1-17, see Note 3.7.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 2.8%.

	1 January 2019 $'000
Operating lease commitments at 31 December 2018 as disclosed under SFRS(I) 1-17 in the Group's financial statements	887
Discounted using the incremental borrowing rate at 1 January 2019	852

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as explained in Note 2.5, which addresses changes in accounting policies.

The accounting policies have been applied consistently by Group entities.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 fair value of the consideration transferred; 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 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.

NCI 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 NCI'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 on a transaction-by-transaction basis. All other NCI 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 NCI 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 NCI in a subsidiary are allocated to the NCI even if doing so causes NCI to have a deficit balance.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of consolidation (continued)

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.

Subsidiaries in the separate financial statements

Investments in subsidiaries 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

For the financial year ended 31 December 2019

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.

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

For the financial year ended 31 December 2019

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	Over the remaining lease term of 1 year (2018: 2 years)
• Machinery, tools and equipment	12 to 15 years
• Furniture and office equipment	5 to 10 years
• Motor vehicles	7 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 Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in goodwill on consolidation. For the measurement of goodwill at initial recognition, see Note 3.1.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 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.

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.

3.7 Leases

The Group has applied SFRS(I) 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under SFRS(I) 1-17 and SFRS(I) INT 4. The details of accounting policies under SFRS(I) 1-17 and SFRS(I) INT 4 are disclosed separately.

Policy applicable from 1 January 2019

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. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in SFRS(I) 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Leases (continued)

Policy applicable from 1 January 2019 (continued)

(i) As a lessee (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Leases (continued)

Policy applicable from 1 January 2019 (continued)

(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'.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from SFRS(I) 16.

Leases – Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Leases (continued)

Leases – Policy applicable before 1 January 2019 (continued)

(i) As a lessee

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease.

(ii) As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

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

Rental income from investment property is recognised as "other income" on a straight-line basis over the term of the lease.

3.8 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.

3.9 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (continued)

(i) Recognition and initial measurement (continued)

Non-derivative financial assets and financial liabilities (continued)

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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Non-derivative financial assets (continued)

Financial assets: Business model assessment (continued)

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).

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (continued)

(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.

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. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when the 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.

(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 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 one month 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, net of any tax effects.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 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.

3.10 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.

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

For the financial year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 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 borrower/customer 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, borrower or issuer;
- 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

For the financial year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 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. For goodwill, the recoverable amount is estimated each year at the same time. 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 to sell. 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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

For the financial year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 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.

3.12 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.

(i) 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 the 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Revenue

Services sold

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.

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".

3.14 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that they relate 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*.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, 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 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.

The measurement of deferred tax reflects the consequences that would follow the manner in which the Group expects, at the end of 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 presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted. 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.

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 income 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

For the financial year ended 31 December 2019

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 treasury shares. Diluted earnings per share is determined by adjusting profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for treasury shares and 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, interpretations and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards and interpretations in preparing these financial statements. The following new SFRS(I)s, interpretations and 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.

- *Conceptual Framework for Financial Reporting*
- *Amendments to References to Conceptual Framework in SFRS(I) Standards*
- *Definition of a Business* (Amendments to SFRS(I) 3)
- *Interest Rate Benchmark Reform* (Amendments to SFRS(I) 7 and SFRS(I) 9)
- *Definition of Material* (Amendments to SFRS(I) 1-1 and SFRS(I) 1- 8)
- SFRS(I) 17 *Insurance Contracts*

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

4 PROPERTY, PLANT AND EQUIPMENT

Group	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 2018	7,689	27,751	2,556	7,525	541	46,062
Additions	–	1,400	–	437	–	1,837
Disposals	(13)	(1,409)	(60)	(540)	(14)	(2,036)
At 31 December 2018	7,676	27,742	2,496	7,422	527	45,863
At 1 January 2019	7,676	27,742	2,496	7,422	527	45,863
Recognition of right-of-use asset on initial application of SFRS(I) 16	3,744	–	229	–	–	3,973
Adjusted balance at 1 January 2019	11,420	27,742	2,725	7,422	527	49,836
Additions	–	1,345	–	62	–	1,407
Transfers (Note 12)	–	2,073	–	–	–	2,073
Disposals	–	(1,320)	(871)	(583)	(4)	(2,778)
At 31 December 2019	11,420	29,840	1,854	6,901	523	50,538
Accumulated depreciation						
At 1 January 2018	5,880	17,722	1,710	5,635	499	31,446
Depreciation	574	1,611	394	311	14	2,904
Disposals	(13)	(1,234)	(60)	(513)	(14)	(1,834)
At 31 December 2018	6,441	18,099	2,044	5,433	499	32,516
Accumulated depreciation						
At 1 January 2019	6,441	18,099	2,044	5,433	499	32,516
Recognition of right-of-use asset on initial application of SFRS(I) 16	3,120	–	27	–	–	3,147
Adjusted balance at 1 January 2019	9,561	18,099	2,071	5,433	499	35,663
Depreciation	1,070	1,573	317	282	12	3,254
Disposals	–	(1,269)	(862)	(520)	(4)	(2,655)
At 31 December 2019	10,631	18,403	1,526	5,195	507	36,262
Carrying amounts						
At 1 January 2018	1,809	10,029	846	1,890	42	14,616
At 31 December 2018	1,235	9,643	452	1,989	28	13,347
At 31 December 2019	789	11,437	328	1,706	16	14,276

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

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 2018	7,824	27,272	2,876	6,664	517	45,153
Additions	–	1,407	–	499	–	1,906
Disposals	–	(971)	–	(375)	–	(1,346)
At 31 December 2018	7,824	27,708	2,876	6,788	517	45,713
At 1 January 2019	7,824	27,708	2,876	6,788	517	45,713
Recognition of right-of-use asset on initial application of SFRS(I) 16	3,744	–	229	–	–	3,973
Adjusted balance at 1 January 2019	11,568	27,708	3,105	6,788	517	49,686
Additions	–	1,345	–	62	–	1,407
Transfers (Note 12)	–	2,073	–	–	–	2,073
Disposals	–	(1,320)	(871)	(583)	(4)	(2,778)
At 31 December 2019	11,568	29,806	2,234	6,267	513	50,388
Accumulated depreciation						
At 1 January 2018	5,868	17,259	2,043	4,861	464	30,495
Depreciation	696	1,606	392	288	14	2,996
Disposals	–	(796)	–	(349)	–	(1,145)
At 31 December 2018	6,564	18,069	2,435	4,800	478	32,346
Accumulated depreciation						
At 1 January 2019	6,564	18,069	2,435	4,800	478	32,346
Recognition of right-of-use asset on initial application of SFRS(I) 16	3,120	–	27	–	–	3,147
Adjusted balance at 1 January 2019	9,684	18,069	2,462	4,800	478	35,493
Depreciation	1,070	1,573	310	282	12	3,247
Disposals	–	(1,269)	(862)	(520)	(4)	(2,655)
At 31 December 2019	10,754	18,373	1,910	4,562	486	36,085
Carrying amounts						
At 1 January 2018	1,956	10,013	833	1,803	53	14,658
At 31 December 2018	1,260	9,639	441	1,988	39	13,367
At 31 December 2019	814	11,433	324	1,705	27	14,303

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

4 PROPERTY, PLANT AND EQUIPMENT (Continued)

In 2019, following OHM Engineering Pte Ltd's integration into the Company, the management has combined the Mechanical and Electrical & Instrumentation ("E&I") CGUs as one CGU. In the previous financial year, Mechanical and E&I were two separate CGUs.

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:

	2019 %	2018 %
Post-tax discount rate	9.7	9.0

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.

Leased motor vehicles and machinery, tools and equipment (classified as finance lease under SFRS(I) 1-17)

The Group and the Company leases motor vehicles and machinery, tools and equipment under a number of finance lease agreements. At 31 December 2019, the net carrying amount of leased motor vehicles and machinery, tools and equipment secured under these facilities was $94,000 (2018: $116,000).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

5 INTANGIBLE ASSET

Group and Company	Licensing rights $'000
Cost	
At 1 January 2018, 31 December 2018 and 31 December 2019	1,487
Accumulated amortisation	
At 1 January 2018	745
Amortisation	149
Impairment loss	593
At 31 December 2018 and 31 December 2019	1,487
Carrying amounts	
At 1 January 2018	742
At 31 December 2018 and 31 December 2019	–

Amortisation of intangible asset

In the previous financial year, the amortisation of intangible asset was included in 'administrative expenses'.

Impairment of intangible asset

For the purpose of impairment testing, the intangible asset is allocated to the tube coating CGU. In the previous financial year, the tube coating CGU was separated out from the Mechanical CGU.

In the previous financial year, following the significant decline in demand for the product under the Group's licensing rights, management estimated the recoverable amount of the CGU (the licensing rights) based on its value in use. The estimate of value in use was determined using a post-tax discount rate of 9.0%. At 31 December 2018, the recoverable amount of the CGU was $Nil. Impairment loss amounting to $593,000 was recognised as "other operating expenses" in profit or loss.

In 2019, the management assessed that there were no indicators of reversal of impairment.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

6 GOODWILL ON CONSOLIDATION

	Group $'000
Cost	
At 1 January 2018, 31 December 2018 and 31 December 2019	1,636
Accumulated impairment	
At 1 January 2018	635
Impairment loss	1,001
At 31 December 2018 and 31 December 2019	1,636
Carrying amounts	
At 1 January 2018	1,001
31 December 2018 and 31 December 2019	–

Impairment testing for cash-generating unit ("CGU") containing goodwill

For the purpose of impairment testing in the previous financial year, goodwill was allocated to the E&I CGU.

In the previous financial year, the recoverable amount of the E&I CGU was $Nil. Impairment loss amounting to $1,001,000 was recognised as "other operating expenses" in profit or loss.

The recoverable amount of the E&I CGU was based on its value in use. The key assumptions used in the estimation of the recoverable amount were set out as below. The values assigned to the key assumptions represented management's assessment of future trends in the relevant industries and had been based on historical data from both external and internal sources.

	2018 %
Group	
Budgeted revenue growth rate (average of next 5 years)	–
Budgeted EBITDA growth rate	–
Discount rate	9.0

Average annual revenue growth rate and EBITDA growth rate were estimated based on existing and newly secured projects and maintenance contracts as well as historical trend for a one-year time horizon.

The cash flow projections included specific estimates for 5 years. Management believed that the forecast periods were justified due to the short to medium-term nature of the projects and the average growth levels experienced over the last five years.

The discount rate was a post-tax measure estimated based on the historical industry average weighted-average cost of capital, with a possible range of debt leveraging of 10% at a market interest rate of 3.6% per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

7 INVESTMENT PROPERTIES

	Group and Company	
	2019	2018
	$'000	$'000
At 1 January and 31 December	1,225	1,225

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 leasee. No contingent rents are charged.

Changes in fair values are recognised as gains in profit or loss and included in 'other income'. All gains 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 $1,225,000 (2018: $1,225,000) has been categorised as a Level 2 fair value based on the inputs to the valuation technique used (see Note 2.4).

(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.

8 SUBSIDIARIES

	Company	
	2019	2018
	$'000	$'000
Unquoted equity investments, at cost	4,584	4,336
Allowance for impairment loss	(1,756)	(1,756)
	2,828	2,580

During the year, the Company subscribed additional ordinary shares in a wholly-owned subsidiary, Mun Siong Engineering Sdn Bhd, for a cash consideration of $248,000.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

8 SUBSIDIARIES (Continued)

Details of the subsidiaries are as follows:

Name of subsidiaries	Principal activities	Country of incorporation	Effective equity held by the Company 2019 %	2018 %
OHM Engineering Pte Ltd	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 Engineering Pte. Ltd. and its subsidiaries				
Pegasus Advance Engineering LLP	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	Provision of engineering, procurement and construction services as well as contractor to the process industries in Myanmar	Myanmar	80	80
Pegasus Advance Engineering (Netherlands) BV[(3)]	Investment holding company	Netherlands	100	–
Pegasus Advance Engineering (US) Inc[(4)]	Investment holding company	United States	100	–

(1) Audited by KPMG LLP.
(2) Audited by KPMG PLT.
(3) Incorporated on 9 September 2019 with issued and paid up capital of US $1.
(4) Incorporated on 2 April 2019 with issued and paid up capital of US $1.

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2019

8 SUBSIDIARIES (Continued)

Liquidation of subsidiaries

In the previous financial year, the Group liquidated its wholly-owned dormant subsidiary, Wing Wah Industrial Services Pte. Ltd. ("WWH"). In view of the Group's plan to liquidate Pegasus Advance Engineering LLP ("PAE LLP"), now a dormant company, the Group recognised a loss on liquidation of $75,000 in "other operating expenses" in profit or loss.

Impairment loss

In the previous financial year, the Company assessed the carrying amount of its investments in subsidiaries for indicators of impairment. Based on this assessment, the Company recognised a net impairment loss of $1,161,000 on its investments. The recoverable amounts of the subsidiaries were estimated taking into consideration the fair values of the underlying assets of the companies and the liabilities to be settled.

In 2019, the Company did not identify any indicator of impairment or reversal of impairment.

9 DEFERRED TAX LIABILITIES

Movements in temporary differences during the year are as follows:

	At 1 January 2018 $'000	Recognised in profit or loss (Note 25) $'000	At 31 December 2018 $'000	Recognised in profit or loss (Note 25) $'000	At 31 December 2019 $'000
Group and Company					
Deferred tax assets					
Unutilised tax losses and capital allowances	–	(122)	(122)	122	–
Provisions	(59)	7	(52)	4	(48)
	(59)	(115)	(174)	126	(48)
Deferred tax liabilities					
Property, plant and equipment	1,494	164	1,658	(29)	1,629
	1,435	49	1,484	97	1,581

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 and Company 2019 $'000	2018 $'000
Deferred tax liabilities	1,581	1,484

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

10 INVENTORIES

	Group and Company	
	2019	2018
	$'000	$'000
Consumables, at cost	242	351

In 2019, changes in consumables recognised as cost of sales amounted to $634,000 (2018: $1,554,000).

11 CONTRACT ASSETS/(CONTRACT LIABILITIES)

		Group		Company	
	Note	2019	2018	2019	2018
		$'000	$'000	$'000	$'000
Contract assets	(i)	16,228	10,059	16,052	9,277
Contract liabilities	(ii)	(144)	(82)	(144)	(82)
		16,084	9,977	15,908	9,195

(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 2019 and 2018 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:

	2019	2018
	$'000	$'000
Revenue recognised that was included in contract liabilities at the beginning of the year	82	868

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

12 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Trade receivables (net)	15,960	11,741	15,960	11,540
Amounts due from subsidiaries (non-trade)	–	–	183	197
Deposits	997	756	985	726
Other receivables	267	138	249	115
	17,224	12,635	17,377	12,578
Prepayments	1,596	3,046	1,462	3,044
	18,820	15,681	18,839	15,622

The non-trade amounts due from subsidiaries are unsecured, interest-free and are repayable on demand. There is no allowance for doubtful debts arising from these outstanding balances as the ECL is not material.

In the previous financial year, prepayments included costs of machinery that had yet to be commissioned of $2,073,000. During the year, following the commissioning of this machinery, this amount was transferred to Property, Plant and Equipment (Note 4).

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.

13 CASH AND CASH EQUIVALENTS

	Group		Company	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Cash at bank and on hand	12,777	11,411	12,140	10,293
Fixed deposits	14,586	15,138	12,859	10,484
Cash and cash equivalents in the consolidated statement of cash flows	27,363	26,549	24,999	20,777

Fixed deposits placed with financial institutions have maturity period within one month (2018: one month) from the financial year end and interest rates ranging from 1.63% to 2.90% (2018: 1.54% to 3.00%) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

14 SHARE CAPITAL

	Ordinary shares	
	2019 Number of shares '000	2018 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	
	2019 $'000	2018 $'000
Paid by the Company to owners of the Company		
0.03 cents per ordinary share (2018: 0.18 cents), comprising a final dividend of 0.03 cents per ordinary share (2018: 0.15 cents) and a special dividend of Nil cents per ordinary share (2018: 0.03 cents)	174	1,043

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

	Group and Company	
	2019 $'000	2018 $'000
A final dividend of 0.04 cents per ordinary share (2018: 0.03 cents)	232	174

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

15 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.

16 TREASURY SHARES

Treasury shares comprises the cost of the Company's shares held by the Group. As at 31 December 2019, the Group held 2,022,000 (2018: 2,822,000) of the Company's shares.

17 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 has vested during the financial year ended 31 December 2019;
(b) The second tranche of the Award, in respect of 800,000 Shares will vest after the financial year ended 31 December 2019; and
(c) The third tranche of the Award in respect of 800,000 Shares will vest after financial year ending 31 December 2020.

As the pre-determined performance conditions were met in 2019, the first tranche of the Award in respect of 800,000 Shares were vested 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 $38,000 in relation to the MSE PSP.

18 LOANS AND BORROWINGS

	Group and Company	
	2019	**2018**
	$'000	**$'000**
Non-current liabilities		
Lease liabilities (2018: Finance lease liabilities)	179	81
Current liabilities		
Lease liabilities (2018: Finance lease liabilities)	318	19
Total loans and borrowings	497	100

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

18 LOANS AND BORROWINGS (Continued)

Finance lease liabilities are payable as follows:

Group and Company	Future minimum lease payments $'000	Interest $'000	Principal $'000
2019			
Within one year	332	14	318
Between one and five years	196	17	179
	528	31	497
2018			
Within one year	22	3	19
Between one and five years	87	12	75
Over five years	7	1	6
	116	16	100

Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings are as follows:

Group and Company	Currency	Nominal interest rate %	Year of maturity	Face value $'000	Carrying amount $'000
2019					
Lease liabilities (2018: Finance lease liabilities)	SGD	2.3 to 2.9	2020-2024	528	497
2018					
Lease liabilities (2018: Finance lease liabilities)	SGD	2.3 to 2.9	2020-2024	116	100

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

For the financial year ended 31 December 2019

18 LOANS AND BORROWINGS (Continued)

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

	Finance lease liabilities $'000
Group and Company	
At 1 January 2018	119
Changes from financing cash flows	
Repayment of loans and borrowings	(19)
Interest paid	(3)
Total changes from financing cash flows	(22)
Other changes	
Liability-related	
Interest expense	3
Total liability-related other changes	3
At 31 December 2018	100

	Lease liabilities $'000
Group and Company	
At 1 January 2019	100
Recognition of right-of-use asset on initial application of SFRS(I) 16	852
Restated balance at 1 January 2019	952
Changes from financing cash flows	
Payment of lease liabilities	(455)
Interest paid	(24)
Total changes from financing cash flows	(479)
Other changes	
Liability-related	
Interest expense	24
Total liability-related other changes	24
At 31 December 2019	497

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

19 PROVISIONS

(i) Provision for restoration costs

	Group and Company 2019 $'000	Group and Company 2018 $'000
Balance at 1 January	355	337
Unwinding of discount	19	18
Balance at 31 December	374	355

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 2019 $'000
Balance at 1 January	–
Provisions made during the year	462
Balance at 31 December	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.

	Group and Company 2019 $'000
Provisions	
Non-current	374
Current	462
	836

20 TRADE AND OTHER PAYABLES

	Group 2019 $'000	Group 2018 $'000	Company 2019 $'000	Company 2018 $'000
Trade payables	7,916	4,043	7,848	4,035
Amounts due to subsidiaries				
– trade	–	–	379	479
– non-trade	–	–	930	430
Other payables and accruals	11,802	6,204	11,211	5,829
	19,718	10,247	20,368	10,773

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

21 REVENUE

	Group	
	2019	2018
	$'000	$'000
Revenue from contracts with customers	70,540	62,878

As at 31 December 2019, the Group has revenue of $15,782,000 (2018: $782,000) which is expected to be recognised over the next year as the Group completes the work under contract.

On adoption of SFRS(I) 15, in the previous financial year, the Group applied the practical expedient in 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.

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	
	2019	2018
	$'000	$'000
Primary geographical markets		
Singapore	60,578	62,081
Indonesia	1,024	165
India	254	202
Malaysia	795	430
Taiwan	7,889	–
	70,540	62,878

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

22 OTHER INCOME

	Group 2019 $'000	Group 2018 $'000
Rental income	47	47
Gain on disposal of property, plant and equipment	77	57
Government grants	117	22
Sale of scraps and pinnacle pigs	848	567
Others	311	166
	1,400	859

23 FINANCE INCOME AND FINANCE COSTS

	Group 2019 $'000	Group 2018 $'000
Finance income		
Interest income	377	424
Finance costs		
Financial liabilities measured at amortised costs – interest expense	(24)	(3)
Unwinding of discount on site restoration provision	(19)	(18)
	(43)	(21)

24 PROFIT/(LOSS) BEFORE TAX

The following items have been included in arriving at profit/(loss) before tax:

	Group 2019 $'000	Group 2018 $'000
Staff costs	36,438	33,343
Contribution to defined contribution plans included in staff costs	1,014	1,087
Equity-settled share-based payment transactions	38	–
Depreciation of property, plant and equipment	3,254	2,904
Amortisation of intangible asset	–	149
Impairment of intangible asset	–	593
Impairment of goodwill on consolidation	–	1,001
Operating expenses arising from rental of investment properties	14	14
Audit fees paid to:		
– auditors of the Company	113	115
– other auditors	8	3
Non-audit fees paid to auditors of the Company	10	12
Impairment losses recognised on trade receivables	155	52
Loss on liquidation of a subsidiary	–	75
Provision for reworks	462	–
Net foreign exchange loss/(gain)	70	(232)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

25 TAX EXPENSE

	Group	
	2019	2018
	$'000	$'000
Current tax expense		
Current year	260	86
Under-provision in respect of prior years	11	94
	271	180
Deferred tax expense		
Origination and reversal of temporary differences	97	49
Total tax expense	368	229
Reconciliation of effective tax rate		
Profit/(Loss) before tax	869	(3,538)
Tax using the Singapore tax rate of 17% (2018: 17%)	148	(602)
Effect of tax rates in foreign jurisdictions	19	–
Non-deductible expenses	282	829
Tax exempt income	(82)	(76)
Tax incentives	(10)	(10)
Under-provision in respect of prior years	11	94
Others	–	(6)
	368	229

26 EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 31 December 2019 was based on the profit/(loss) attributable to ordinary shareholders and a weighted-average number of ordinary shares outstanding less treasury shares as follows:

Profit/(Loss) attributable to ordinary shareholders

	Group	
	2019	2018
	$'000	$'000
Profit/(Loss) for the year	496	(3,766)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

26 EARNINGS PER SHARE (Continued)

Basic earnings per share (continued)

Weighted-average number of ordinary shares

	Number of shares 2019 '000	Number of shares 2018 '000
Issued ordinary shares at 1 January	579,089	579,908
Effect of treasury shares	404	(819)
Weighted-average number of ordinary shares during the year	579,493	579,089

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.

27 OPERATING SEGMENT

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

Following the integration of OHM Engineering Pte Ltd.'s operations into the Company, management has determined that the Group has a 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 2019 and 2018.

This represents a change to the operating segments reported in the previous corresponding period. The previously reported segment results for the year ended 31 December 2018 have been restated to be comparable with the revised segment approach, as required by SFRS(I) 8.

Information regarding the results of the reportable segment is included below. Performance is measured based on segment profit/(loss) before tax, as included in the internal management reports that are reviewed by the Group's Executive Committee. Segment profit/(loss) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

27 OPERATING SEGMENT (Continued)

Information about reportable segment

31 December 2019	2019 $'000	2018 (Restated) $'000
External revenues	70,540	62,878
Inter-segment revenue	739	1,527
Total revenue	71,279	64,405
Interest income	377	424
Interest expenses	24	3
Depreciation of property, plant and equipment	3,254	2,904
Amortisation of intangible asset	–	149
Reportable segment profit/(loss) before tax	1,058	(4,374)
Impairment losses on intangible asset and goodwill	–	1,594
Reportable segment assets	76,523	65,785
Capital expenditure	3,480	1,837
Reportable segment liabilities	21,195	10,467

The Group initially applied SFRS(I) 16 at 1 January 2019, which requires the recognition of right-of-use assets and lease liabilities for lease contracts that were previously classified as operating leases (see note 2.5). As a result, the Group recognised $826,000 of right-of-use assets and $852,000 of liabilities from those lease contracts. The assets and liabilities are included in the Mechanical, electrical, instrumentation and others segment as at 31 December 2019.

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

	2019 $'000	2018 $'000
Revenues		
Total revenue for reportable segment	71,279	64,405
Elimination of inter-segment revenue	(739)	(1,527)
Consolidated revenue	70,540	62,878
Profit/(Loss)		
Total profit/(loss) for reportable segment	1,058	(4,374)
Elimination of inter-segment profit	(235)	790
Unallocated segment profits	46	46
Consolidated profit/(loss) before tax	869	(3,538)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

27 OPERATING SEGMENT (Continued)

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

	2019 $'000	2018 $'000
Assets		
Total assets for reportable segment	76,523	65,785
Investment properties	1,225	1,225
Others	406	202
Consolidated total assets	78,154	67,212
Liabilities		
Total liabilities for reportable segment	21,195	10,467
Current tax payable	269	176
Deferred tax liabilities	1,581	1,484
Others	–	317
Consolidated total liabilities	23,045	12,444

Major customers

During the financial year ended 31 December 2019, revenue from three major customers of the Group totalled approximately $44,723,000 (2018: $48,215,000), representing 63% (2018: 77%) 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:

	2019 $'000	2018 $'000
Customer 1	27,886	32,404
Customer 2	8,584	10,736
Customer 3	8,253	5,075
	44,723	48,215

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

For the financial year ended 31 December 2019

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 $14,288,000 (2018: $15,477,000) of the carrying value of trade receivables and contract assets as at 31 December 2019. 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 also tries to reduce its market concentration risk by diversifying its source of revenue.

The Group does not require collateral in respect of trade receivables. The Group does not have trace 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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

28 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

Exposure to credit risk

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

	Group	
	2019	**2018**
	$'000	**$'000**
Not credit-impaired		
External credit ratings from S&P at least A+	14,288	16,371
Other customers:		
– Four or more years' trading history with the Group	8,424	5,472
– Less than four years' trading history with the Group	9,660	9
Total gross carrying value	32,372	21,852
Loss allowance	(184)	(52)
	32,188	21,800

	Company	
	2019	**2018**
	$'000	**$'000**
Not credit-impaired		
External credit ratings from S&P at least A+	14,288	16,371
Other customers:		
– Four or more years' trading history with the Group	8,424	4,489
– Less than four years' trading history with the Group	9,484	9
Total gross carrying value	32,196	20,869
Loss allowance	(184)	(52)
	32,012	20,817

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

28 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

Exposure to 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:

	2019 $'000	2018 $'000
Group and Company		
Individual impairments		
At 1 January as per SFRS(I) 9	52	–
Amount written off	(23)	–
Impairment loss recognised	155	52
At 31 December as per SFRS(I) 9	184	52

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

28 FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (continued)

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 2019					
Non-derivative financial liabilities					
Loans and borrowings	497	(528)	(332)	(196)	–
Trade and other payables	19,718	(19,718)	(19,718)	–	–
	20,215	(20,246)	(20,050)	(196)	–
31 December 2018					
Non-derivative financial liabilities					
Loans and borrowings	100	(116)	(22)	(87)	(7)
Trade and other payables	10,247	(10,247)	(10,247)	–	–
	10,347	(10,363)	(10,269)	(87)	(7)
Company					
31 December 2019					
Non-derivative financial liabilities					
Loans and borrowings	497	(528)	(332)	(196)	–
Trade and other payables	20,368	(20,368)	(20,368)	–	–
	20,865	(20,896)	(20,700)	(196)	–
31 December 2018					
Non-derivative financial liabilities					
Loans and borrowings	100	(116)	(22)	(87)	(7)
Trade and other payables	10,773	(10,773)	(10,773)	–	–
	10,873	(10,889)	(10,795)	(87)	(7)

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

28 FINANCIAL RISK MANAGEMENT (Continued)

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) and Taiwanese dollar (TWD).

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

	USD $'000	TWD $'000
Group and Company		
31 December 2019		
Trade and other receivables	1,491	1
Cash and cash equivalents	9,342	162
Trade and other payables	(367)	(2,167)
Net exposure	10,466	(2,004)
31 December 2018		
Trade and other receivables	58	
Cash and cash equivalents	9,350	
Trade and other payables	(128)	
Net exposure	9,280	

Sensitivity analysis

A 10% strengthening of the Singapore dollar, as indicated below, against USD and TWD 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 2018.

	Group and Company Profit or loss $'000
2019	
USD	(1,047)
TWD	200
2018	
USD	(928)

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

28 FINANCIAL RISK MANAGEMENT (Continued)

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 2019 $'000	Nominal amount 2018 $'000
Group		
Fixed rate instruments		
Cash and cash equivalents	14,586	15,138
Finance lease liabilities	(497)	(100)
	14,089	15,038
Company		
Fixed rate instruments		
Cash and cash equivalents	12,859	10,484
Finance lease liabilities	(497)	(100)
	12,362	10,384

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. Further, for the current year the fair value disclosure of lease liabilities is also not required.

	Note	Amortised cost $'000	Other financial liabilities $'000	Total carrying amount $'000	Fair value $'000
Group					
31 December 2019					
Trade and other receivables*	12	17,224	–	17,224	17,224
Cash and cash equivalents	13	27,363	–	27,363	27,363
		44,587	–	44,587	44,587
Trade and other payables	20	–	19,718	19,718	19,718

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

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
Group					
31 December 2018					
Trade and other receivables*	12	12,635	–	12,635	12,635
Cash and cash equivalents	13	26,549	–	26,549	26,549
		39,184	–	39,184	39,184
Finance lease liabilities	18	–	100	100	92
Trade and other payables	20	–	10,247	10,247	10,247
		–	10,347	10,347	10,339
Company					
31 December 2019					
Trade and other receivables*	12	17,377	–	17,377	17,377
Cash and cash equivalents	13	24,999	–	24,999	24,999
		42,376	–	42,376	42,376
Trade and other payables	20	–	20,368	20,368	20,368
31 December 2018					
Trade and other receivables*	12	12,578	–	12,578	12,578
Cash and cash equivalents	13	20,777	–	20,777	20,777
		33,355	–	33,355	33,355
Finance lease liabilities	18	–	100	100	92
Trade and other payables	20	–	10,773	10,773	10,773
		–	10,873	10,873	10,865

* *Excludes prepayments.*

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, and based on the prevailing rates at the reporting date plus an adequate credit spread, are as follows:

	2018 %
Finance lease liabilities	2.38%

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

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 7.

(b) Loans and borrowings

Fair value, which is determined for disclosure purposes for finance lease liabilities, 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.

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 are considered to be the key management personnel of the Group.

Key management personnel compensation included in staff costs comprises:

	Group	
	2019	**2018**
	$'000	**$'000**
Directors' fees	122	122
Directors' remunerations	360	566
	482	688

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

31 LEASES

Leases as lessee (SFRS(I) 16)

The Group leases a piece of land from Jurong Town Corporation for a term of 30 years with effect from August 1980 with an option to renew the lease for another 10 years.

The Group leases office equipment from Fuji Xerox and Ethoz for a term of 5 years from 2016, 2017 and 2018 respectively.

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
2019			
Balance at 1 January	624	202	826
Depreciation charge for the year	(374)	(46)	(420)
Balance at 31 December	250	156	406

Amounts recognised in profit or loss

	$'000
2019 – Leases under SFRS(I) 16	
Interest on lease liabilities	24
2018 – Operating leases under SFRS(I) 1-17	
Lease expense	3

Amounts recognised in statement of cash flows

	2019 $'000
Total cash outflow for leases	479

Extension option

The existing lease of land from Jurong Town Corporation ("JTC") will expire on 15 August 2020. Subsequent to year end, the Group has accepted the offer letter from JTC to extend the current premise at 35 Tuas Road for another three years (Note 32(c)).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

31 LEASES (Continued)

Leases as lessor

The Group leases out its investment properties consisting of its owned commercial properties (see Note 7). All leases are classified as operating leases from a lessor perspective.

Operating lease

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 2019 was $47,000 (2018: $47,000). Note 7 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 $'000
2019 – Operating leases under SFRS(I) 16	
Less than one year	47
2018 – Operating leases under SFRS(I) 1-17	
Less than one year	47
Between one and five years	47
Total	94

32 SUBSEQUENT EVENTS

(a) On 21 August 2019, the Company entered into a Shareholders' Agreement with a Malaysian Partner, Highbase Strategic Sdn Bhd to set up a joint venture company, HIMS Integrated Services Sdn Bhd ("HIMS"). Total paid up capital of this joint venture is $327,000 (RM1,000,000). The Company will own 49% of HIMS. On 4 March 2020, the Company injected $80,000 (RM245,000) as share capital into HIMS.

(b) On 16 January 2020, a wholly-owned subsidiary, Mun Siong Engineering Sdn Bhd ("MSE (M)") entered into a Shareholders' Agreement with Mohamed Ridza Bin Mohamed Abdulla ("MRA") to set up a joint venture company, Pegasus Advance Engineering Sdn Bhd ("PAE (M)"). MSE (M) will own 49% equity of PAE (M). The total paid up capital of this joint venture is $245,000 (RM750,000). On 4 March 2020, MSE(M) injected $120,000 (RM367,500) as share capital into PAE (M).

(c) On 9 March 2020, the Group accepted the offer from Jurong Town Corporation ("JTC") to extend the current premises at 35 Tuas Road for another 3 years, expiring on 16 August 2023. The rental will be based on the existing JTC market rental rates. The Group has estimated that the potential future lease payments would result in an increase in right-of-use assets and lease liability of $1,152,000.

STATISTICS OF SHAREHOLDINGS

As at 25 March 2020

TOTAL NUMBER OF ISSUED SHARES	:	581,546,400
TOTAL NUMBER OF ISSUED SHARES EXCLUDING TREASURY SHARES AND SHARES HELD BY A SUBSIDIARY (IF ANY)	:	579,524,400
TOTAL NUMBER AND PERCENTAGE OF TREASURY SHARES	:	2,022,000 (0.35%)
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	192	14.47	2,306	0.00
100 – 1,000	187	14.09	178,974	0.03
1,001 – 10,000	270	20.35	1,677,399	0.29
10,001 – 1,000,000	654	49.28	67,093,018	11.58
1,000,001 AND ABOVE	24	1.81	510,572,703	88.10
TOTAL	**1,327**	**100.00**	**579,524,400**	**100.00**

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	CHENG WOEI FEN	278,997,600	48.14
2	QUEK KIAN HUI (GUO JIANHUI)	86,376,800	14.90
3	GABRIEL QUEK KIAN TECK	33,516,000	5.78
4	PHILLIP SECURITIES PTE LTD	18,735,847	3.23
5	OCBC SECURITIES PRIVATE LIMITED	13,757,800	2.37
6	DBS NOMINEES (PRIVATE) LIMITED	11,915,446	2.06
7	UOB KAY HIAN PRIVATE LIMITED	9,530,000	1.64
8	SINGAPORE WAREHOUSE CO PTE LTD	9,400,000	1.62
9	LIN YAN	7,266,000	1.25
10	GLOBAL TRADE INVESTMENT MANAGEMENT PTE LTD	7,095,000	1.22
11	ABN AMRO CLEARING BANK N.V.	7,074,500	1.22
12	NG HIAN CHOW	3,888,000	0.67
13	KOH SER KIONG	3,500,000	0.60
14	QUEK KENG SIONG	2,651,400	0.46
15	MAYBANK KIM ENG SECURITIES PTE. LTD.	2,433,910	0.42
16	CHEN ENG SHEE	2,000,000	0.35
17	KHOO SWEE JIN	2,000,000	0.35
18	TEO SOON HOCK	1,901,000	0.33
19	TAY HWA LANG @TAY AH KOU	1,870,000	0.32
20	TAN HAI PENG MICHEAL	1,800,000	0.31
	TOTAL	**505,709,303**	**87.24**

STATISTICS OF SHAREHOLDINGS

As at 25 March 2020

RULE 723 COMPLIANCE

Based on the information available to the Company as at 25 March 2020, approximately 29.3% 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	48.14%	36,167,400	6.24%
GABRIEL QUEK KIAN TECK	33,516,000	5.78%	0	0
QUEK KIAN HUI	86,376,800	14.90%	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 25 March 2020, the Company held 2,022,000 treasury shares, representing 0.35% of the total issued shares excluding treasury shares.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Cheng Woei Fen
Executive Chairlady

Quek Kian Hui
Executive Director

David Tan Chao Hsiung
Non-executive and Lead Independent Director

Peter Sim Swee Yam
Non-executive and Independent Director

Lau Teik Soon
Non-executive and Independent Director

Mah Kai Leong
Non-executive and Independent Director
(appointed on 4 March 2020)

AUDIT COMMITTEE

David Tan Chao Hsiung
Chairman

Peter Sim Swee Yam

Lau Teik Soon

Mah Kai Leong
(appointed on 4 March 2020)

REMUNERATION COMMITTEE

Peter Sim Swee Yam
Chairman

David Tan Chao Hsiung

Lau Teik Soon

Mah Kai Leong
(appointed on 4 March 2020)

NOMINATING COMMITTEE

Lau Teik Soon
Chairman

David Tan Chao Hsiung

Peter Sim Swee Yam

Mah Kai Leong
(appointed on 4 March 2020)

EXECUTIVE COMMITTEE

Cheng Woei Fen
Executive Chairlady

Quek Kian Hui
Executive Director

John L. Parkinson
Technical Director

Lin Yan
Senior Director

Teo Kheng Hock
Specialised Services Director

Lim Poon Kheng
Finance Director

COMPANY SECRETARY

Chew Kok Liang

REGISTERED OFFICE

35 Tuas Road, Jurong Town
Singapore 638496

SHARE AND WARRANT REGISTRAR

Boardroom Corporate & Advisory Services Pte Ltd
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623

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
50 Raffles Place #09-01
Singapore Land Tower
Singapore 048623

AUDITORS

KPMG LLP
Public Accountants and Chartered Accountants
16 Raffles Quay
#22-00 Hong Leong Building
Singapore 048581
(Appointed Engagement partner since financial year ended 31 December 2018:
Ms Voo Poh Jee)

MUN SIONG ENGINEERING LIMITED
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