MUN SIONG ENGINEERING LIMITED
(Incorporated in the Singapore)
(Company Registration No 196900250M)
26 Gul Way, Singapore 629199
Tel. +65 64116570
Fax +65 68620218

GUIDANCE TO THE FINANCIAL PERFORMANCE AND POSITION OF THE GROUP FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2023

Mun Siong Engineering Limited (the "**Company**"), together with its subsidiaries and equity-accounted investee (the "**Group**"), wishes to provide guidance on its third quarter financial performance ended 30 September 2023.

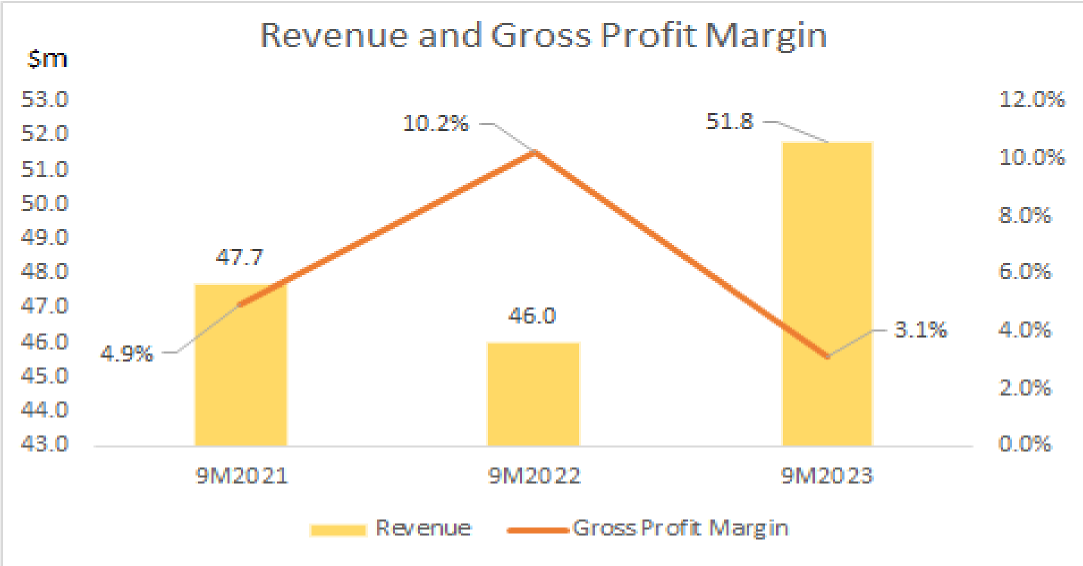
The Group had on 20 February 2020 announced that it will discontinue with quarterly reporting of the Company and the Group financial statements. The Company will now announce the financial statements of the Company and the Group on a half-yearly basis, in compliance with the amended listing rules, announced by the SGX-ST on 7 February 2020.

The Board of Directors would like to provide guidance on the Group's financial performance and position in view of the current uncertain economic environment. This guidance is part of our continuous engagement between the Board of Directors and the various stakeholders such as shareholders, investors, business partners and employees.

It should be noted that the information below is based on the Group's management accounts and they were prepared on the accounting principles described and consistent with the Group's Annual Report FY2022. The Group's auditors, Messrs KPMG LLP, have not reviewed these management accounts and the guidance statement given below. The statement contained in the paragraph "Updates" and "Financial Performance and Position Guidance" should not be construed as a forward-looking statement relating to the Group's future performance. In the event there are material changes in our business or the operating environment that we are working in, we will make the necessary announcement on the SGX-ST.

Shareholders and investors should consult their stockbrokers, bank managers, solicitors and other professional advisers if they have any doubt about the actions that they should take.

Review of Financial Performance



Summary of the Group Financial Performance:

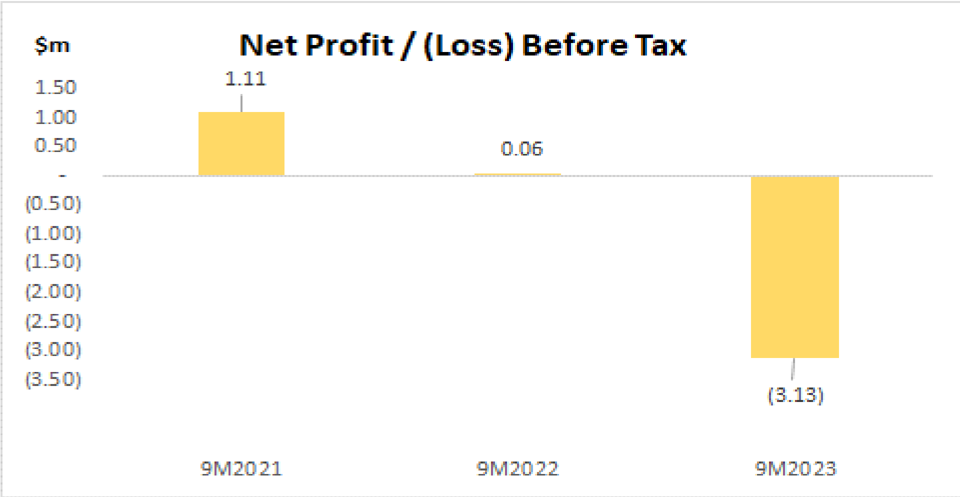
Revenue	Q32023	Q32022	Variances		9M2023	9M2022	Variances	
	$ million	$ million	$ million	%	$ million	$ million	$ million	%
Singapore	16.2	13.9	2.3	16.5%	45.5	39.5	6.0	15.2%
Taiwan	0.3	0.6	(0.3)	-54.5%	2.1	4.2	(2.1)	-50.0%
Malaysia	1.2	0.9	0.4	43.9%	2.8	2.2	0.6	27.3%
US	0.6	0.1	0.5	415.8%	1.4	0.1	1.3	1300.0%
Total Revenue	18.2	15.4	2.8	18.3%	51.8	46.0	5.8	12.6%
Cost of Sales	17.3	13.4	3.8	28.4%	50.2	41.3	8.9	21.5%
Gross Profit	1.0	2.0	(1.0)	-50.4%	1.60	4.7	(3.1)	-66.0%
Gross Profit margin	5.4%	12.8%			3.1%	10.2%		

9M2023

Revenue and Gross Profit Margin:

For the period ended 30 September 2023 (“9M2023”), the Group achieved a revenue of $51.8 million, an increase of $5.8 million or 12.6% against the corresponding period ended 30 September 2022 (“9M2022”). Gross profit margins for 9M2023 and 9M2022 (suffering a significant decline) were 3.1% and 10.2% respectively.

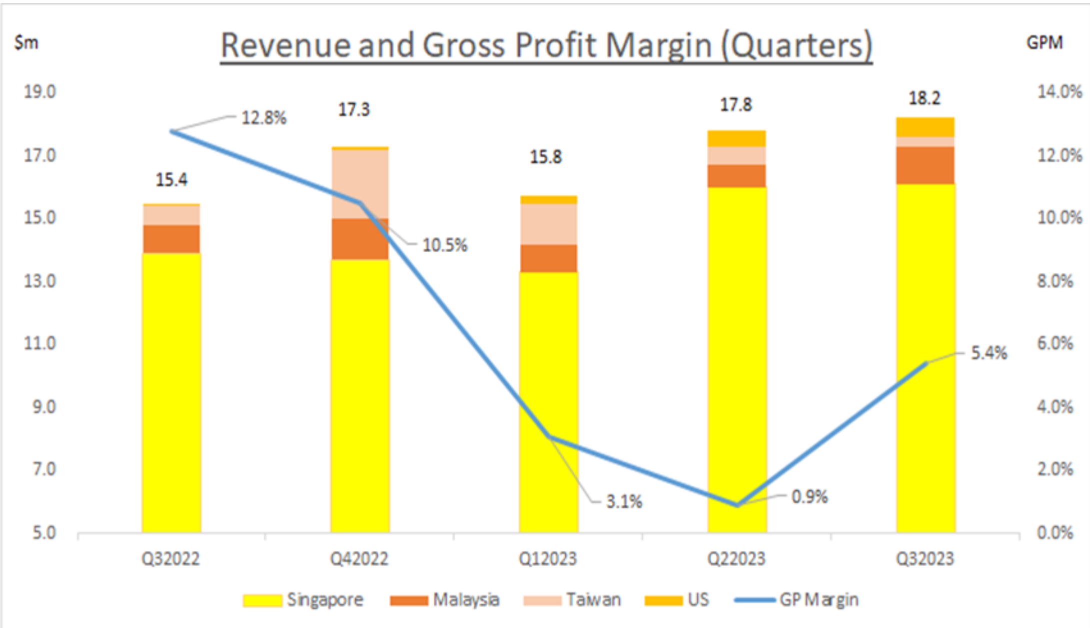
Net profit /(loss) before tax:



Operating losses:

The Group incurred a net loss before tax of $0.4 million in Q32023 (Q32022: net profit before tax was $1.15 million). The losses in the current quarter were attributed to the Taiwan and North America operations. Cumulatively, the Group achieved a net loss before tax of $3.1 million for 9M2023 as compared to a net profit before tax of $58,000 (9M2022).

The Earnings Before Interest, Tax, Depreciation and Amortization ("EBITDA") for 9M2023 was negative $0.3 million as compared to a positive EBITDA of $2.4 million for 9M2022.



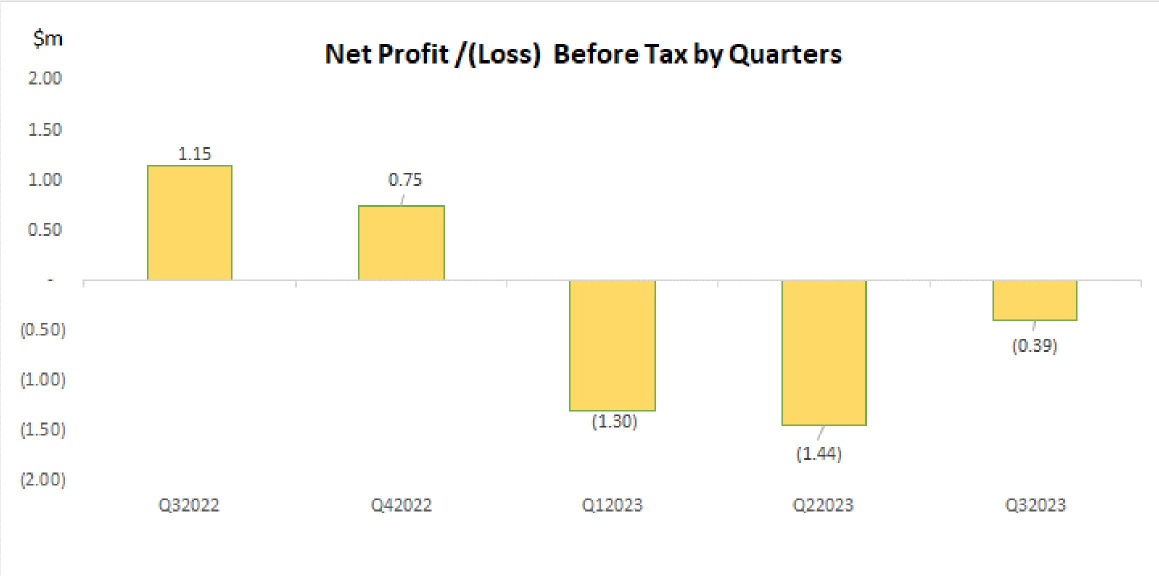
Q32023

Revenue and Gross Profit Margin:

The Group recorded a revenue of $18.2 million for the quarter ended 30 September 2023

("Q32023"), an increase of $2.8 million or 18.3% as compared to the corresponding quarter ("Q32022"). Gross profit margin in the current quarter (suffering a significant decline) was 5.4% as compared to a gross profit margin of 12.8% in the corresponding quarter.

However, gross margin in Q32023 of 5.4% was an improvement to gross profit margins of 3.1% in Q12023 and 0.9% in Q22023.



The Group incurred a net loss before tax of $0.4 million in Q32023 (Q32022: net profit before tax of $1.15 million). The net loss in the current quarter was substantially from the Taiwan and North America Operations, the latter a start-up and commenced operations in late FY2022. .

In the current quarter, the income and recoveries increased by $0.1 million or 59.9% to $0.2 million, mainly due to sales of scrap. The 9M2023 other income and recoveries stood at $1.4 million (9M2022: $0.4 million).

Administration costs increased by $0.5 million or 52.4% in the current quarter to $1.5 million (Q32022: $1.0 million). The increase was due to:

(1) Increase in depreciation costs of $0.2 million;

(2) Reinstatement expenses of $0.1 million (Q32022: $nil) for the buildings at 35 Tuas Road; and

(3) A decline of $0.1 million in the write back of impairment. In the current quarter, we had written back $0.5 million (Q3022: $0.6 million – write back on impairment on trade receivables) on the impairment of contract assets for work completed for Petronas. As at 31 December 2022, the total impairment amount was $1.1 million (equivalent to RM3.5 million). As at 30 September 2023, we have written back $ 0.6 million (equivalent to RM2.0 million) or 56.8% of the total impairment amount. Write backs are made only after we have received payments.

CPC claims for refund of bid deposit and penalties in their letters to the Company/Branch Office dated 14 August 2023 and 18 August 2023, totaling TWD1.1 million (equivalent to $50,000), was accounted for in the current quarter. For details please refer to our announcement dated 6 October 2023.

Review and Updates by Operations:

Singapore Operations:

Review - It registered an increase in revenue of $2.3m or 16.5% to $16.2 million. This increase was due to more work activities undertaken in Q32023, finalization of amount for work done in previous quarters and a major business partner (whom we are a long-term maintenance service provider) agreeing to revise our rates upward due to increase in operating costs. It registered positive gross profit margins in both quarters and periods.

Comparing Q32023 to Q32022, the cost of sales had increased by 26.5%, outpacing the increase in revenue of 16.5%. The higher operating costs were due to an increase in direct labor costs arising from government levies and higher dormitories costs (significant increases in both occupancies and rates).

In anticipation for the award and commencement of a major job by a long-time business partner, who have contributed significantly to past profitability, the Singapore Operations increased its direct employed workforce significantly from 2H2022 to Q12023 (increasing occupancies level at dormitories and higher government levies). However, due to changes in its business strategies for their Singapore assets, they held back further investment commitments. The delays in releasing redundant manpower (arising from this development) to other ongoing job sites that needed additional manpower resulted in the engagement of subcontractors, consequently eroding profit margins. Consequently, the Singapore operations achieved a significantly lower gross profit margin in the current quarter (Q32023) of 7.3%, a decline of 7.3% compared to corresponding quarter (Q32022:GPM:14.6%).

Updates - To better utilize both our manpower and equipment resources, certain functions will be centralized. We are further strengthening our engineering and procurement capabilities as some of our business partners are exploring possibilities that we provide such services to them.

JTC is currently reviewing our waterfront reinstatement plans. Due to years of erosion caused by tides and currents the waterfront at 35 Tuas Road needs significant reinstatement works. Although we have returned the 35 Tuas Road premise back to JTC in August 2023, we will still need to return to reinstate the waterfront. As at 30 September 2023, the provision for reinstatement is $1.3 million. In the event that the current provision is insufficient, additional costs (provision) incurred would increase operating costs.

Malaysia Operations:

Review - Revenue has continued to show continuous improvement, $1.2 million in Q32023, an increase of $0.3 million or 43.9% against the corresponding quarter. It registered positive gross profit margins in Q32023 and 9M2023 as compared to a gross loss in Q22022 and 9M2022. Despite these improvements, its contribution to Group's revenue and profitability continues to be insignificant.

Updates – Tenaga Nasional Berhad has begun to supply electricity to the fabrication yard. We have received the Certificate of Completion and Compliance ("CCC") from the building authorities on 31 October 2023. We will submit this CCC to the other relevant authorities for them to issue the relevant licences for us to operate the fabrication yard. Once commencement of operation, it will serve both the Singapore and Malaysia markets.

As part of the review on the deployment of operating assets, our auto welding machine (including ancillary machines) is redeployed from Singapore to Malaysia. We believe that its frequency for deployment will be higher in Malaysia.

Taiwan Operations:

Review – It achieved revenue of $0.3 million in the current quarter, which is a decline of $0.3 million or 54.5% from the corresponding quarter. Despite a gross loss in Q30223 (Q32022: gross loss), it registered a gross profit for 9M2023 (9M2022: a gross loss).

The Company/Branch Office is currently serving out a 3 year suspension (effective December 2022), preventing us from tendering for government contracts under the Taiwan Procurement Act. The project works from CPC (a Taiwan government linked entity), through its various related entities, have contributed significantly to our profitability in the last 3 financial years. This suspension has a significant negative impact on the Group's profitability.

Our Taiwan legal counsel has advised the Company that the suspension does not apply to other entities in the Group. Pegasus Advance Industrial Company Limited ("PAI"), a wholly owned subsidiary, is currently tendering and executing small dollar value projects. PAI, however, will not be able to benefit from the past operating track records achieved by the Company/Branch Office.

Updates – PAI has been intensifying its marketing efforts to reach out to potential business partners. We are currently working towards qualifying PAI as an approved vendor for one such potential business partner. However, we do not foresee this relationship will yield immediate financial results as their review process is long and stringent. Their prominence position in the industry that they serve will be valuable to PAI in the longer term.

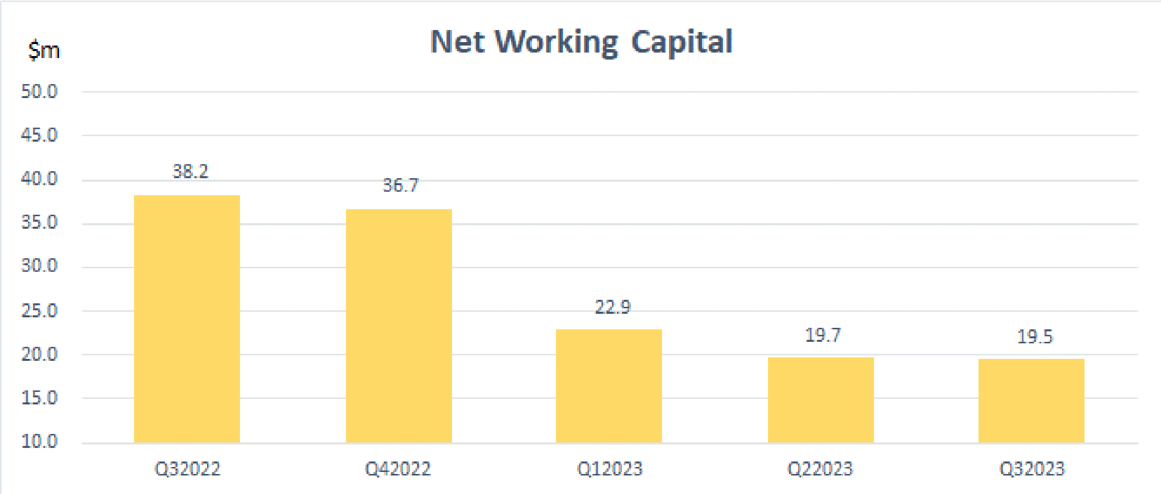
North America Operations:

Review - It registered a revenue of $0.6 million for Q32023. Both existing and potential business partners (who have placed small orders as part of their due diligence process) have provided positive feedback on the work done. The current revenue is significantly lower than the operating cost (fixed cost such as salaries related and depreciation).

Updates - The US operations have performed works for ten business partners including two from Canada. Another ten business partners are currently performing due diligence before qualifying us as one of their approved vendors. Efforts are made to solicit a greater volume of work from those who have already qualified us.

Review of financial position of the Group as at 30 September 2023

As at 30 September 2023, the Group's shareholders' funds stood at $51.5 million (31 December 2022: at $55.1 million and 30 September 2022: at $54.6 million). The net tangible assets per share as at 30 September 2023 was at 8.9 cents per share (31 December 2022: at 9.5 cents per share; 30 September 2022: at 9.4 cents per share). The decline in both the shareholders' funds and net tangible assets per share is attributed to the operating losses incurred for the 9 months ended 30 September 2023.

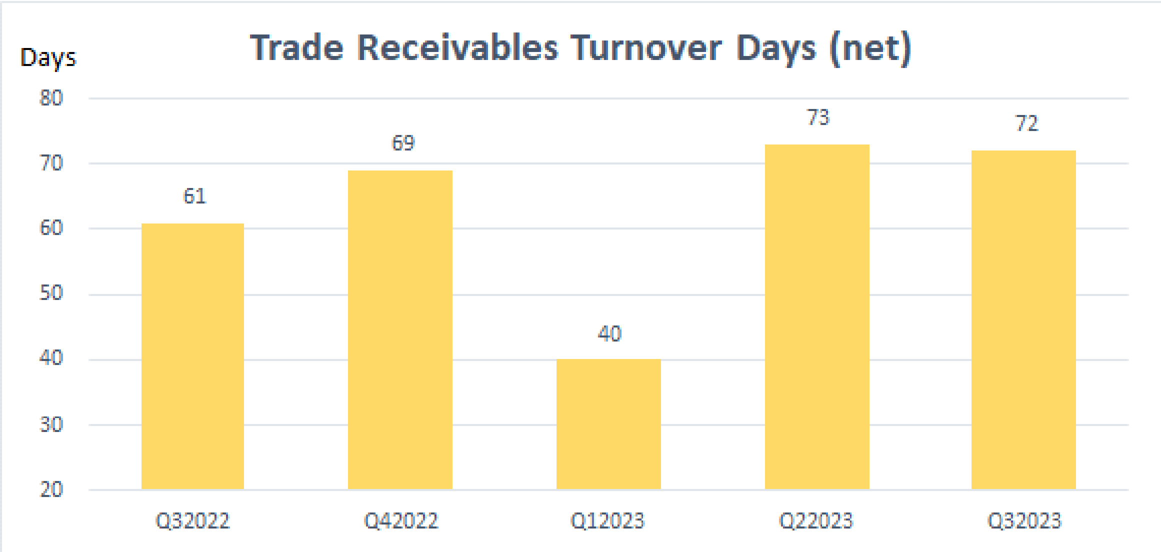


Net working capital (current assets less current liabilities) as at 30 September 2023 was $19.5 million (31 December 2022: $36.7 million; 30 September 2022: $38.2 million). Comparing 30 September 2023 and 31 December 2022, the decline in net working capital was $17.2 million or 46.8%. Please see table for explanations:

Changes in net working capital between 30 September 2023 and 31 December 2022			
		$' million	Explanations
Contract assets (net of impairment and contract liabilities)	↑	4.8	There was an increase in job activities in Q32023. We are waiting for our business partners to accept the completed job orders before we can proceed with billings. Our business partners are taking a slightly longer time to approve our completed works. This resulted in slower billings by the Group (resulting in higher debtor turnover days – please see below) and consequently an increase in contract assets balances in the current quarter under review.
Trade receivables	↑	1.7	The increase was due to higher billings as we finalized our contract value for the completed works.
Prepayments, deposits and other receivables	↓	(1.2)	Mainly due to the reclassification of deposits (for the purchase of 26 Gul Way and purchased of equipment for the US operations) to fixed assets.
Bank and cash	↓	(20.4)	The significant decline was due to payments of fixed assets (amounting to $14.2 million), net cash outflow from repayment of net borrowings ($0.8 million) and net cash outflow arising from operating activities (net working capital) of $5.7 million. The payments of fixed assets relate to the purchase of 26 Gul Way ($9.9 million), renovation costs of $0.3 million for 26 Gul Way, construction of the fabrication yard in Malaysia of $1.9 million, purchase of equipment for the US facility ($1.7 million) and other fixed assets.
Trade and other	↑	1.2	The increase was due to more activities in Q32023 in which more trade payables and accruals of expenses

payables and accruals			were recognized.
Borrowings (current liabilities)	↑	0.9	The increase was mainly due to the outstanding short-term loan of $1.0 million as at 30 September 2023. Please see below.
Net changes	↓	(17.2)	

Trade receivables as at 30 September 2023 was $13.7 million (31 December 2022: $12.0 million and 30 September 2022: $10.2 million). As at 27 October 2023, the Group realized $7.0 million or approximately 50.9% of its outstanding trade receivables as at 30 September 2023. No impairment was deemed necessary for the remaining outstanding trade receivables.



The higher debtor turnover days of 72 days (Q32022: 61 days) was the result of slower billings as some of our business partners are taking a slightly longer time to approve the completed works.

The bank and cash balances as at 30 September 2023 stood at $8.2 million (31 December 2022: $28.6 million and 30 September 2022: $29.5 million). Refer to the above table for the explanation in the decline of cash balances of $20.4 million between 30 September 2023 and 31 December 2022.

Comparing the bank and cash balances as at 30 June 2023, there was an increase in bank and cash balances of $2.0 million to $8.2 million as at 30 September 2023. The bank and cash balances as at 31 October 2023 stood at $9.7 million. As the major planned capital commitments are substantially completed, the Group will focus to shore up its bank and cash balances. As at 30 September 2023, the Group outstanding capital commitments stood at $1.0 million (31 December 2022: $15.0 million).

Total borrowings including lease liabilities as at 30 September 2023 was $5.4 million (31 December 2022: $4.4 million and 30 September 2022: $4.2 million). The Group has been bridging its working capital needs with short-term loans. During the quarter (between July and

September), a total of short-term loans of $3.0 million were utilized and these were repaid on the average of 30 days. The average interest rate on these short terms was 5.31% pa. As at 30 September 2023, outstanding short-term loan was $1.0 million. This loan was fully repaid on 31 October 2023.

Excluding the above outstanding short-term loan of $1.0 million, the Group remaining long-term loans outstanding (including lease liabilities) as at 30 September 2023 was $4.4 million. Included in the long-term loans, is the Singapore's government temporary bridging loan of $2.5 million at interest rates between 2.0% pa and 2.1% pa. This loan is repaid on a monthly basis and repayment to be completed in 2025.

Financial Performance and Position Guidance

The current high interest rate environment, besides escalating operating costs, poses major challenges to the Group's financial performance. Capital commitments undertaken by the Group over the past 12 months were necessary to sustain both its operations and viability. The Group has been using its internal cash reserves to fund its capital commitments. As at 30 September 2023, the total additions to fixed assets amount were $15.3 million (excluding rights of use assets of $1.4 million) in which $14.2 million was disbursed. As at 30 September 2023, the Group's outstanding capital commitments stood at $1.0 million.

Gross debt to shareholders' fund ratio was 10.4% as at 30 September 2023 (31 December 2022: 8.0% and 30 September 2022: 7.7%) – on an uptrend. As at 30 September 2023, the Group had utilized 16.8% (31 December 2022: 10.8%; 30 September 2022: 10.8 %) of its available banks' credit facilities. Our credit facilities comprise short-term loans, banker's guarantees and trade related financing (such as invoice financing and letters of credit) and are extended without encumbrances against the Group's assets.

For our total short-term loans of $5.6 million utilized for the period under review (June to September 2023), the average drawdown to repayment was 30 days. In the event that our business partners take a longer time to agree to the completed job value (in order for the Group to proceed with billings) and make payments to the Group (currently trade receivables turnover is 72 days), we would need to increase our reliance on short term loans (for larger job value amounts and longer milestone payments) to bridge our working capital needs. The average interest rates (based on total short-term loans taken up during the period under review) was 5.29% which significantly exceeds our net profit before tax margins of 1.28% (in FY2022) and 0.9% (in FY2021).

The Board has imposed financial discipline on new capital commitments. Management has been reviewing the deployment of operating assets to achieve higher returns in terms of deployment frequencies (eg recent transfer of auto welding machine from Singapore to the Malaysia). Otherwise, Management will proceed to dispose some of these operating assets in view of smaller area at 26 Gul Way. The shift to Johor (Malaysia) allows easier access to manpower and proximity to a major business partner.

After the commencement of our North America operations in late FY2022, a major long time business partner, after their global review of its global business strategies and operations, has publicly made known its intention to change their business strategies for their Singapore assets. Concurrently, they have also held back further investments into their Singapore operations. This business partner has contributed significantly to the Group's profitability in the past and we are currently one of their long-term maintenance service providers for the Singapore Operations. We have increased our manpower since 2H2022 in anticipation of being awarded major project works. However, due to this development, we resulted having redundancies in our direct employed workforce. The oligopolistic nature of the Singapore process industry poses such risks. To address such risks, since 2019, the Group has made significant progress in gaining works in Malaysia and Taiwan. The latter has contributed significantly to our profitability in recent financial years. Likewise, we believe the establishment of facilities in North America will bear fruit to the Group. The North America operations will contribute significantly to the Group's losses in FY2023. Like most startups, operating losses at the early stage is inevitable.

The Group will incur significant operating losses for FY2023.

By order of the Board

Cheng Woei Fen
Executive Chairlady

7 November 2023