



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

PROPOSED JOINT VENTURE IN RESPECT OF MS&H INDUSTRIAL LLC

A. INCORPORATION OF A NEW COMPANY IN THE UNITED STATES OF AMERICA FOR PURPOSES OF JOINT VENTURE

The board of directors ("**Directors**" or "**Board**") of Mun Siong Engineering Limited (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to announce that the Company has engaged a legal advisor in the United States of America ("**USA**"), Mr. Roger A. Stong of Crowe & Dunlevy, A Professional Corporation, to incorporate Pegasus Advance Engineering (US) Inc. ("**PAE USA**") under the laws of Delaware, USA, as part of the Group's proposed expansion of business into the USA via the Proposed Joint Venture (as defined and elaborated below). The structure of the Proposed Joint Venture is set out in paragraph 5 of Section B of this announcement.

PAE USA was incorporated on 2 April 2019 with the authority to issue 5,000 shares of common stock at the par value of USD1.00 per share. In the USA, a corporation such as PAE USA is not required to issue any capital stock at its incorporation and the corporation exists without the issuance of capital stock. To date, the Company does not have any shareholding in PAE USA as PAE USA does not have any shares in issue. Please refer to paragraph 5 of Section B of this announcement for more details.

None of the Directors or controlling shareholders of the Company has any interest, direct or indirect, in the above.

B. ENTRY INTO OPERATING AGREEMENT

1. INTRODUCTION

The Board refers to the Company's announcements dated 29 January 2019 and 21 March 2019 (the "**Announcements**") in relation to a proposed joint venture.

The Board wishes to announce that PAE USA has on 19 June 2019 entered into an operating agreement ("**Operating Agreement**") with Mr. Gary Harvey ("**Harvey**"), the joint venture partner based in Oklahoma, USA, in respect of the operations of MS&H Industrial LLC, a joint venture company incorporated under the laws of Oklahoma, USA ("**JV Company**") (the "**Proposed Joint Venture**"). Pursuant to the Operating Agreement, the JV Company shall engage in the provision of mechanical engineering, electrical and instrumental services and the provision of specialised services to the oil and energy industries in the USA.

An extraordinary general meeting ("**EGM**") to seek the approval of the Company's shareholders (the "**Shareholders**") for the Proposed Joint Venture will be convened in due course.

2. RATIONALE OF PROPOSED JOINT VENTURE

Since 2015, the Group has been seeking business opportunities to access other markets. The Group believes that the five decades of experience it has accumulated in the process and facilities industries (in particular, on refining and petrochemical plants) will be valuable and attractive to potential partners in markets overseas. The Proposed Joint Venture is therefore in line with the Group's strategic plans to expand its business overseas – it will allow the Group to access the larger market in the USA, reducing its risk exposure to any fluctuations in its primary market in Singapore, which it is currently experiencing.

The Proposed Joint Venture involves the incorporation of the JV Company with Harvey. Harvey is a businessperson experienced in the field of services currently provided by the Group. Harvey founded and currently manages MJ & H Fabrication, Inc. and MJ & H Equipment, Inc. (collectively, the "**MJH Companies**"), which carry on an engineering and fabrication business in Ponca City, Oklahoma, USA. The MJH Companies have been serving customers in the oil and gas and petrochemical industries for more than ten years, and specialise in engineering design and fabrication works. They also provide field services, i.e. mechanical maintenance work (including turnaround and short term maintenance work).

The principal businesses of the JV Company will be synergistic to the Group's core businesses and competencies. The Group believes that its accumulated experience in project management and its investment of capital will allow the JV Company to offer an expanded range of services and improve operating performance. It will also be able to reach out to more customers and undertake higher dollar value projects.

The JV Company will operate in Ponca City, which is easily accessible from Oklahoma City, the state capital of Oklahoma. Oklahoma is surrounded by Texas, New Mexico, Louisiana, Arkansas and Kansas, which are states located in the Mid-Continent, a major oil and gas producing area which has historically produced more oil than any other area in the USA. The large oil and gas industry in the Mid-Continent will provide ample business opportunities for the JV Company.

3. DUE DILIGENCE ON THE MJH COMPANIES

The Group has engaged professional parties to conduct financial and legal due diligence on the MJH Companies, and has also conducted its own financial and operating due diligence. The due diligence conducted highlighted significant weaknesses in financial management and inadequacies of capital, resulting in a high level of borrowings and poor financial performance of the MJH Companies.

To avoid having to take on the significant financial and contractual liabilities of the MJH Companies, the Company will not acquire any shareholding interest in the MJH Companies. Instead, Harvey's contribution will be by way of a business asset transfer. Identified business assets of the MJH Companies will be transferred to the JV Company. Harvey also maintains strong personal relationships with his customers, who he will introduce to the JV Company.

4. VALUATION OF THE MJH COMPANIES

The Singapore-based international public accounting practice that conducted financial due diligence on the MJH Companies also performed a valuation of the MJH Companies. The valuation approach and methodologies considered include the income approach, market approach and asset-back approach.

The income approach was considered not appropriate because the MJH Companies' cash flow could not be reasonably projected given that MJH Companies' projects are typically one-off in nature. In addition, the MJH Companies have negative EBITDA for FY 2016 to

FY2018.

The market approach is critically dependent on comparisons with companies that have identical organisational life cycle or characteristics. The market approach could not be relied upon because no comparable companies for the MJH Companies could be identified and also due to MJH Companies' inability to derive a sustainable earnings base. The MJH Companies are specialty project contractor companies operating within a small niche of the construction industry, and hence has a specific set of customers and projects. The listed competitors are highly diversified and as such no comparable companies could be identified. In addition, due to the highly volatile EBITDA and negative EBITDA observed, a market based multiples could not be applied.

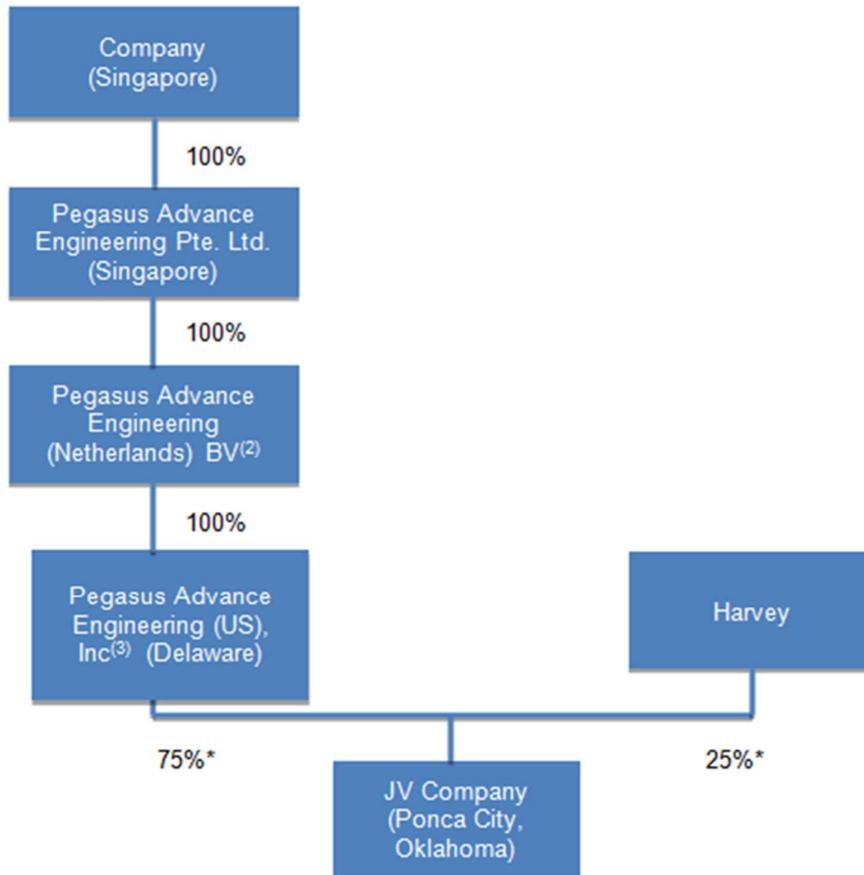
Based on the asset-back approach, the assessed value of the MJH Companies is negative and no goodwill or intangible value could be attached. This is due to negative shareholder's funds, under-capitalisation, and high level of debts owing to financial institutions.

Given the above findings, the Company has not accorded any goodwill or intangible value to Harvey in the JV Company.

5. STRUCTURE OF PROPOSED JOINT VENTURE

The JV Company was incorporated on 2 April 2019 under the laws of Oklahoma. The JV Company is authorised to issue a total of 1,000,000 Units consisting of two classes as follows: 750,000 Class A Units and 250,000 Class B Units. The obligations and the rights of the Class A Units and the Class B Units shall be governed by the terms and the conditions of the Operating Agreement.

For taxation efficiency, the Proposed Joint Venture will be structured as follows:



Notes:

- (1) Harvey will hold 100% of the Class B Units in the JV Company (25% of the total issued share capital of the company), while PAE USA will hold 100% of the Class A Units in the JV Company (75% of the total issued share capital of the company). However, during the pendency of any default or event of default under any indebtedness to which Harvey or either of the MJH Companies is a party, the Class B Units shall not have any voting rights in the JV Company.
- (2) Pegasus Advance Engineering (Netherlands) BV ("**PAE Netherlands**") is currently in the process of being incorporated.
- (3) As noted above, PAE USA currently does not have any shares in issue. Subsequent to the incorporation of PAE Netherlands, PAE USA will issue shares to PAE Netherlands such that PAE USA is wholly owned by PAE Netherlands.

6. PRINCIPAL TERMS OF THE OPERATING AGREEMENT

6.1 Contributions to the JV Company

It is intended that:

- (a) PAE USA shall contribute the sum of USD3.0 million (approximately S\$4.11 million)¹ in funds to the JV Company to be used by the JV Company as working capital and/or for capital expenditure, in exchange for 750,000 Class A Units. It is further contemplated that PAE USA may, at its sole discretion, provide further financing in the form of a shareholder's loan of up to US\$3.0 million (approximately S\$4.11 million) to the JV Company to finance its projects, which shall be secured against the account receivables, inventory and other personal property of the JV Company; and
- (b) Harvey shall contribute a real property located in Oklahoma ("**Real Property**") to the JV Company, which will house the operations of the JV Company, in exchange for 250,000 Class B Units. The Real Property is valued at USD3.2 million to USD3.5 million as at 7 June 2019 and the amount owing to the bank on the Real Property is approximately USD2.3 million (as at 30 April 2019). The residual value, i.e. the appraised value less the amount outstanding to the bank, is in the region of USD0.9 million to USD1.2 million. In view of this, the Company would recognise Harvey's contribution of USD1.0 million towards the capital of the JV Company.

In arriving at the value of the investment to be made by the Company, i.e. up to USD6.0 million (approximately S\$8.21 million), the Company took into consideration input from its senior management staff in the finance, engineering and project management departments. The Company is satisfied, based on projections of revenue and cash flows under various scenarios, that through its investment, the JV Company will be adequately capitalised.

Each of the parties' contributions shall be made within 30 days after Shareholders' approval for the Proposed Joint Venture is obtained.

Consequently, on completion of the Proposed Joint Venture, PAE USA shall hold 750,000 Class A Units, representing 75% of the issued and paid-up share capital of the JV Company, while Harvey shall hold 250,000 Class B Units, representing the remaining 25% of the issued and paid-up share capital of the JV Company.

6.2 Conversion of Class B Units into Class A Units

To avoid any uncertainty with regards to Harvey's shareholding in the JV Company, due to the threat of potential insolvency proceedings, Harvey will be issued Class B Units, which are subject to restrictions on transferability and, during the pendency of any

¹ All USD to SGD conversions in this announcement are based on exchange rate of 1 USD to 1.36916 SGD on 19 June 2019.

default or event of default under any indebtedness to which Harvey or either of the MJH Companies is a party, shall not carry voting rights.

Harvey shall have an option to convert all the Class B Units he holds into Class A Units (which, amongst others, carry voting rights) on full satisfaction of any debt owed by Harvey and either of the MJH Companies to financial institutions/lenders in Oklahoma.

6.3 Management of the JV Company

The Group will exercise a significant degree of control over the management of the JV Company.

The board of managers (or board of directors) of the JV Company will comprise three (3) members, two (2) of which will be nominated by the Group. The initial managers appointed to the board by the Group will be Quek Kian Hui (an executive director of the Company) and Lim Poon Kheng (the finance director of the Group). The third member of the board of managers is Harvey.

The Group has also appointed the vice-president of finance, who will oversee the financial management functions of the JV Company. The vice-president of finance will focus on financial management, project costing and implementation, and maintenance of internal controls.

The Group will also be seconding a member of its senior project management team to assist in the management of the JV Company.

Additionally, the JV Company will appoint a firm of public accountants which is affiliated to the Group's current auditors as its external auditors.

6.4 Non-compete Restrictions

On the effective date of the Proposed Joint Venture (the "**Effective Date**"), Harvey shall undertake the following actions in relation to the MJH Companies:

- (a) Harvey shall resign from all positions held within the MJH Companies, and shall not be involved in the management or operations of either company or its affiliates, save that the completion of any projects remaining in progress as of the Effective Date (or such other date as may be mutually agreed by the Members) shall not constitute a violation of this restriction;
- (b) Harvey shall cause each of the MJH Companies to execute and deliver non-compete undertakings to the JV Company, pursuant to which they undertake that they shall not, amongst others, compete with the JV Company in the provision of mechanical engineering, electrical and instrumental services and the provision of specialised services to the oil and energy industry in the USA or have any equity or other interest in, provide any assistance or financing to or otherwise be involved with any person engaged in those businesses, for the period that Harvey owns an equity interest in the JV Company, and for a period of two (2) years thereafter, save that non-compete restrictions shall not apply in the event of a termination of Harvey's employment with the JV Company for reason of a material breach by the JV Company of its obligations under the contract service agreement; and
- (c) Harvey shall cause each of the MJH Companies to provide to the JV Company financial statements for each calendar month and annual unaudited financial statements for each calendar year. Upon the JV Company's request, Harvey shall also cause each of the MJH Companies to permit the JV Company to audit their books and records at the cost and expense of the JV Company.

In addition, the JV Company may purchase raw materials and other inventory or items from the MJH Companies, provided that in relation to each such transaction the relevant

MJH Company shall first obtain a price quote from a customary and established vendor who is not an affiliate, and may only offer the same quoted price (without any premium or inflation) to the JV Company in respect of the transaction.

Further, to the extent that any manager, Member or other officer of the JV Company has any interest in any transaction to which the JV Company is a party or is contemplated to be a party, he shall disclose the existence of the interest and all material information in relation thereto to the JV Company. Such person shall abstain from participating in any discussion of or voting on any such transaction, save that PAE USA shall not be restricted from participating in any such discussion or voting.

6.5 Compulsory Repurchase

Upon the occurrence of certain events, including, amongst others:

- (a) breach by a member of the Operating Agreement or of any other obligation to the other member or the JV Company that continues for a period after notice has been given to that member of such breach;
- (b) various insolvency-related events occurring in relation to a member, such as failure to pay any indebtedness or any interest or premium, where the effect of the failure is to accelerate the maturity of such indebtedness;
- (c) a member being unable to pay its debts as they fall due;
- (d) a member failing to make any additional capital contribution required; or
- (e) cessation of Harvey's employment with the JV Company except where the termination is due to death, disability or a material breach by the JV Company of the terms of Harvey's contract service agreement,

(each a "**Trigger Event**"),

then the JV Company or its assignee shall have the right to purchase all or part of the Units held by the member affected by such Trigger Event.

7. CHAPTER 10 OF THE LISTING MANUAL

Under Chapter 10 of the listing manual (the "**Listing Manual**") of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"), a transaction will be classified as a major transaction if any of the relative figures calculated on the bases set out in Rule 1006 of the Listing Manual exceeds 20% and if so, shareholders' approval must be obtained for the major transaction.

7.1 Relative Figures under Rule 1006 of the Listing Manual

Based on the audited consolidated financial statements of the Group for the year ended 31 December 2018, the relative figures in respect of the Proposed Joint Venture, as computed on the bases set out in Rule 1006 of the Listing Manual, are as follows:

Base	Relative Figure
Rule 1006(a) – the net asset value of the assets to be disposed of, compared with the Group's net asset value	Not applicable as this is not a disposal of assets.
Rule 1006(b) – the net profits attributable to the assets acquired, compared with the Group's net profits	48.0% ⁽¹⁾
Rule 1006(c) – the aggregate value of the consideration given or received, compared with the	30.9% ⁽²⁾

Company's market capitalisation based on the total number of issued shares excluding treasury shares	
Rule 1006(d) – the number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue	Not applicable as no equity securities will be issued by the Company as consideration.
Rule 1006(e) – the aggregate volume or amount of proved and probable reserves to be disposed of, compared with the Group's proved and probable reserves	Not applicable as the Company is not a mineral, oil and gas company.

Notes:

- (1) The audited net loss of the MJH Companies of US\$1,325,206 for FY2018 (equivalent to approximately S\$1,806,521 based on an exchange rate of 1.3632 of USD to SGD as at 31 December 2018) is compared against the audited net loss of the Group of S\$3,766,933 for FY2018.
- (2) The proposed investment of up to US\$6.0 million (equivalent to approximately S\$8,214,960 based on an exchange rate of 1.36916 of USD to SGD), is compared to the Company's market capitalisation of approximately S\$26.62 million, which is computed based on 578,724,400 shares in issue and the closing price of S\$0.046 per share transacted on 19 June 2019, being the date of signing of the Operating Agreement.

7.2 Major Transaction

As the relative figures computed on the bases set out in Rule 1006(b) and Rule 1006(c) exceed 20%, the Proposed Joint Venture constitutes a major transaction as defined in Chapter 10 of the Listing Manual. Accordingly, under Rule 1014(2) of the Listing Manual, the Proposed Joint Venture is conditional upon the approval by Shareholders in a general meeting.

8. FINANCIAL EFFECTS OF THE PROPOSED JOINT VENTURE

8.1 Bases and Assumptions

The financial effects of the Proposed Joint Venture are based on the audited consolidated financial statements of the Group for the financial year ended 31 December 2018.

The financial effects are presented for illustration purposes only and are not intended to reflect the actual future financial situation of the Group following the completion of the Proposed Joint Venture.

8.2 Net Tangible Assets

Assuming that the Proposed Joint Venture was completed on 31 December 2018, the financial effects of the Proposed Joint Venture on the consolidated NTA of the Group are as follows:

	As at 31 December 2018	
	NTA of the Group (S\$'000)	NTA per share ⁽¹⁾ (Singapore cents)
Before the Proposed Joint Venture	54,763	9.46
After the Proposed Joint Venture	54,763	9.46

Note:

(1) Based on 578,724,400 shares of the Company in issue as at 31 December 2018.

8.3 Loss per Share

Assuming that the Proposed Joint Venture was completed on 1 January 2018, as the JV Company has not commenced operations, the loss per share of the Group as at 31 December 2018 remains unchanged at 0.65 Singapore cents.

9. FUNDING OF THE PROPOSED JOINT VENTURE

The Company will invest up to US\$6.0 million (approximately S\$8.21 million) in the JV Company. This sum will be funded using the Group's cash reserves (or accumulated retained earnings). As at 31 March 2019, the Group's reserves (cash and cash equivalents) amount to S\$29.4 million and its outstanding lease liabilities (including finance lease to financial institutions) amount to S\$0.8 million.

10. SERVICE AGREEMENTS

As at the date hereof, no person is proposed to be appointed as a Director of the Company in connection with the Proposed Joint Venture.

Harvey will enter into a contract service agreement with the JV Company as President of the JV Company.

11. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the Directors or controlling shareholders of the Company or their associates have any interest, direct or indirect in the Proposed Joint Venture, other than through their respective shareholdings in the Company.

12. RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this announcement and confirm, after making all reasonable enquiries, that to the best of their knowledge and belief, this announcement constitutes full and true disclosure of all material facts about the Proposed Joint Venture, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this announcement misleading. Where any information has been extracted from published or publicly available sources, the sole responsibility of the Directors has been to ensure through reasonable enquiries that such information has been accurately and correctly extracted from such sources or, as the case may be, accurately reflected or reproduced in this announcement in its proper form and context.

13. CAUTIONARY STATEMENT

Shareholders and potential investors are advised to read this announcement and any further announcements by the Company carefully. Shareholders are also advised to refrain from taking any action in respect of their securities in the Company which may be prejudicial to their interests, and to exercise caution when dealing in the securities of the Company. In the event of any doubt, Shareholders and potential investors should consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers.

The Company will continue to keep its Shareholders updated on any material developments relating to the Proposed Joint Venture on a timely basis.

14. CIRCULAR TO SHAREHOLDERS

A circular containing further details of, *inter alia*, the Proposed Joint Venture together with a notice of the EGM will be despatched to Shareholders in due course.

15. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company at 35 Tuas Road, Jurong Town, Singapore 638496 during normal office hours from the date hereof up to and including the date of the EGM:

- (a) the Operating Agreement;
- (b) the constitution of the Company; and
- (c) the valuation report relating to the Real Property.

BY ORDER OF THE BOARD

Cheng Woei Fen
Executive Chairlady
20 June 2019