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Pipeline Engineering Holdings Limited

管道工程控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1865)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

The board (the “**Board**”) of directors (the “**Directors**”) of Pipeline Engineering Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the unaudited condensed consolidated interim results of the Group for the six months ended 30 September 2019, together with the comparative figures for the six months ended 30 September 2018, which have been reviewed by the audit committee of the Company (the “**Audit Committee**”), and have been approved by the Board on 29 November 2019.

FINANCIAL SUMMARY

	For the six months ended 30 September	
	2019	2018
	S\$'000	S\$'000
	(unaudited)	(audited)
Revenue from contracts with customers	12,889	14,141
Gross profit	1,855	3,639
Profit before income tax	519	495
Profit and total comprehensive income for the period	342	57
Earnings per share for profit attributable to the shareholders of the Company (expressed in Singapore cents per share)		
— Basic earnings per share	0.04	0.01
— Diluted earnings per share	0.04	0.01

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2019

		Six months ended	
		30 September	
		2019	2018
	<i>Notes</i>	<i>S\$'000</i>	<i>S\$'000</i>
		(unaudited)	(audited)
Revenue from contracts with customers	5	12,889	14,141
Cost of sales	8	(11,034)	(10,502)
Gross profit		1,855	3,639
Other income	6	441	259
Other gains/(losses), net	7	281	(36)
Administrative expenses	8	(2,007)	(3,350)
Finance costs	10	(51)	(17)
Profit before income tax		519	495
Income tax expense	11	(177)	(438)
Profit and total comprehensive income for the period		342	57
Earnings per share for profit attributable to equity holders of the Company (expressed in Singapore cents per share)			
Basic and diluted	12	0.04	0.01

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

		30 September 2019	31 March 2019
	<i>Notes</i>	S\$'000	S\$'000
		(unaudited)	(audited)
ASSETS			
Non-current assets			
Property, plant and equipment		9,068	9,651
Investment property		1,020	1,020
Intangible asset		69	77
Right-of-use assets		500	—
		10,657	10,748
Current assets			
Trade and other receivables	13	3,499	1,989
Contract assets	14	14,553	17,166
Fixed deposit		100	100
Cash and cash equivalents		16,642	19,843
		34,794	39,098
Total assets		45,451	49,846

		30 September 2019	31 March 2019
	<i>Notes</i>	S\$'000	S\$'000
		(unaudited)	(audited)
EQUITY AND LIABILITIES			
Equity			
Share capital		1,589	1,589
Share premium		17,138	17,138
Merger reserve		1,500	1,500
Retained profits		15,737	15,408
		35,964	35,635
Current liabilities			
Trade and other payables	15	4,078	5,943
Contract liabilities	14	1,299	2,196
Hire purchase creditors	16	1,121	1,093
Bank borrowings	17	99	2,101
Lease liabilities		450	—
Current income tax liabilities		708	909
		7,755	12,242
Non-current liabilities			
Hire purchase creditors	16	168	432
Bank borrowings	17	345	393
Lease liabilities		68	—
Deferred tax liabilities		1,151	1,144
		1,732	1,969
Total liabilities		9,487	14,211
Total equity and liabilities		45,451	49,846

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 September 2019

1. General information

The Company was incorporated on 17 July 2018 in the Cayman Islands as an exempted Company with limited liability under the Companies Law (Cap 22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The Company is an investment holding company. The shares of the Company have been listed on the Main Board (the “**Main Board**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 27 March 2019.

The Company’s registered office is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Group is principally engaged in infrastructural pipeline construction and related engineering services mainly for gas, water, telecommunications and power industries services (the “**Listing Businesses**”). The principal place of business in Singapore of the Group is 36 Sungei Kadut Avenue, Singapore 729661. The unaudited condensed consolidated financial information are presented in Singapore Dollars (“**S\$**”), unless otherwise stated.

2. Reorganisation

In preparation for the initial listing of the Company's shares on the Main Board of the Stock Exchange, the companies comprising of the Group underwent a group reorganisation (the “**Reorganisation**”) as set out in the section headed “History, Reorganisation and corporate structure” to the prospectus of the Company dated 14 March 2019.

Immediately before and after the Reorganisation, the Company and its subsidiaries were controlled by Mr. Michael Shi Guan Wah as the controlling shareholder. Upon completion of the Reorganisation, the Company has direct and indirect interests in the following subsidiaries:

Name of Companies	Principal activities	Country of Operation/ Incorporation	Date of Incorporation	Particulars of share capital	Effective interest held as at	
					30 September 2019	27 March 2019
					%	%
Directly owned:						
Integral Virtue Limited	Investment holding	The British Virgin Islands	10 July 2018	US\$1	100%	100%
Indirectly owned:						
HSC Pipeline Engineering Pte Ltd	Infrastructural pipeline construction and related engineering services	Singapore	13 January 1993	S\$1,500,000	100%	100%

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these unaudited condensed consolidated interim financial information are set out below. These policies have been consistently applied to all the financial period/year presented, unless otherwise stated.

Basis of preparation

The unaudited condensed consolidated interim financial information for the six months ended 30 September 2019 is prepared in accordance with International Accounting Standard (“**IAS**”) 34, “Interim Financial Reporting”. The unaudited condensed consolidated interim financial information have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by International Accounting Standards Board (“**IASB**”). The unaudited condensed consolidated interim financial information should be read in conjunction with the Group's annual financial statement for the year ended 31 March 2019.

The accounting policies applied and methods of computation used in the preparation of these condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2019, except for the adoption of new or revised standards, amendments and interpretations which are relevant to the operations of the Group and mandatory for annual periods beginning 1 April 2019.

(a) Amendments to existing standards adopted by the Group

The following amendments to existing standards are mandatory for the Group's financial year beginning on or after 1 April 2019 and have been adopted in preparation of the interim unaudited consolidated financial information.

Amendments to IFRS 9	Prepayment features with negative compensation
IFRS 16	Leases
IFRIC 23	Uncertainty over income tax treatments
Amendments to IAS 28	Long-term interests in associates and joint ventures
Amendments to Annual Improvements Projects	Annual improvements 2015–2017 cycle
Amendments to IAS 19	Plan amendment, curtailment or settlement

The impact of the adoption of IFRS 16 “Leases” is disclosed below.

Apart from IFRS 16 as mentioned above, there are no other new standards or amendments to standards that are effective for the first time for this financial year that could be expected to have a financial impact on the Group.

(b) New standards and amendment to existing standards not yet adopted

The following new standards and amendment to existing standards have been issued but are not effective for the financial year beginning on 1 April 2019 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
Amendments to IFRS 3	Definition of a business	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be announced by IASB
Amendments to IFRSs	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 1 and IFRS 8	Definition of Material	1 January 2020

None of the above new standards and amendments is expected to have significant effect on the consolidated financial statements of the Group.

(c) **Change in accounting policies**

IFRS 16 Leases

The Group has adopted IFRS 16 retrospectively from 1 April 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

(i) *Adjustments recognised on adoption of IFRS 16*

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 April 2019. The weighted average lessee’s annual incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 2.58%.

	As at 1 April 2019 S\$’000
Operating lease commitments disclosed as at 31 March 2019	317
Discounted using the lessee’s annual incremental borrowing rate at the date of initial application	309
Add: adjustments as a result of a different treatment of extension options	343
Lease liabilities recognised as at 1 April 2019	<u>652</u>
Of which are:	
Current lease liabilities	440
Non-current lease liabilities	212
	<u>652</u>

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	As at 30 September 2019 S\$'000	As at 1 April 2019 S\$'000
Properties	<u>500</u>	<u>639</u>

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:

- right-of-use assets — increase by S\$639,000
- lease liabilities — increase by S\$652,000

The net impact on retained earnings on 1 April 2019 was a decrease of S\$13,000.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

(ii) *The Group's leasing activities and how these are accounted for*

The Group leases workers' dormitories and rents land from the Government. Rental contracts for dormitories are typically made for fixed periods of 1 year but may have extension options as described below, whereas rental contract for land are typically made for a fixed period of 9 years. Lease terms are negotiated on an individual basis and contain different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the financial year ended 31 March 2019, leases of workers' dormitories and leases of land were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Extension and termination options

Extension and termination options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

4. Segment information

The Group's executive directors monitor the operating results of its operating segment for the purpose of making decisions about resource allocation and performance assessment.

The executive directors of the Group are the Group's chief operating decision makers (the "CODM"). The CODM considers all business included in a single operating segment.

The CODM assesses the performance based on profit after income tax.

Majority of the Group's assets and liabilities are located in Singapore as at 30 September 2019, except for cash and bank balances amounting to S\$8.5 million (31 March 2019: S\$19.3 million) located in Hong Kong.

The Group's revenue is derived from external customers in Singapore.

For the six months ended 30 September 2019, there were two customers (2018: three customers), which individually contributed over 10% of the Group's total revenue. The revenue contributed from each of these customers was as follows:

	Six months ended	
	30 September	
	2019	2018
	S\$'000	S\$'000
	(unaudited)	(audited)
Customer A	8,361	2,700
Customer B	N/A	1,800
Customer C	2,810	3,800
	<u>2,810</u>	<u>3,800</u>

5. Revenue from contracts with customers

	Six months ended	
	30 September	
	2019	2018
	S\$'000	S\$'000
	(unaudited)	(audited)
Contract revenue relating to:		
— Gas	8,361	2,731
— Water	4,481	6,374
— Cable	47	5,036
	<u>12,889</u>	<u>14,141</u>
Timing of revenue recognition:		
Over time	<u>12,889</u>	<u>14,141</u>

The following table shows unsatisfied performance obligations resulting from contracts and when the Group expects to recognise as revenue:

	As at 30 September 2019 S\$'000 (unaudited)	As at 31 March 2018 S\$'000 (audited)
Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied:		
Within 1 year after financial period/year	23,440	24,582
Between 1 to 2 years after financial period/year	308	6,025
More than 2 years after financial period/year	—	602
	<u>23,748</u>	<u>31,209</u>

6. Other income

	Six months ended 30 September 2019 S\$'000 (unaudited)	2018 S\$'000 (audited)
Rental income	17	45
Interest income	44	—
Government grant	32	34
Insurance claims	12	2
Others	336	178
	<u>441</u>	<u>259</u>

7. Other gains/(losses), net

	Six months ended 30 September	
	2019	2018
	S\$'000	S\$'000
	(unaudited)	(audited)
Loss on disposal of property, plant and equipment	(8)	(16)
Write off of property, plant and equipment	—	(11)
Foreign exchange gain/(losses)	289	(9)
	<u>281</u>	<u>(36)</u>

8. Expenses by nature

	Six months ended 30 September	
	2019	2018
	S\$'000	S\$'000
	(unaudited)	(audited)
Material costs	1,981	3,672
Subcontractor costs	2,365	1,258
Transportation costs	201	274
Auditor's remuneration	115	40
Entertainment expenses	20	10
Rental expenses	—	128
Depreciation of property, plant and equipment	1,010	920
Amortisation of intangible assets	19	16
Amortisation of right-of-use asset	242	—
Professional fees	198	49
Vehicle-related expenses	434	441
Repair and maintenance expenses	381	253
Employee benefit costs (<i>Note 9</i>)	5,117	3,794
Listing expenses	—	1,924
Other expenses	958	1,073
	<u>13,041</u>	<u>13,852</u>
Total cost of sales and administrative expenses	13,041	13,852
Represented by:		
Costs of sales	11,034	10,502
Administrative expenses	2,007	3,350
	<u>13,041</u>	<u>13,852</u>

9. Employee benefit costs — including directors' emoluments

	Six months ended 30 September	
	2019	2018
	<i>S\$'000</i>	<i>S\$'000</i>
	(unaudited)	(audited)
Wages and salaries	4,908	3,632
Employer's contribution to defined contribution plans	209	162
	<u>5,117</u>	<u>3,794</u>

Employee benefits expenses have been included in the condensed consolidated statement of profit or loss and other comprehensive income as follows:

	Six months ended 30 September	
	2019	2018
	<i>S\$'000</i>	<i>S\$'000</i>
	(unaudited)	(audited)
Cost of sales	4,225	2,801
Administrative expenses	892	993
	<u>5,117</u>	<u>3,794</u>

10. Finance costs

	Six months ended 30 September	
	2019	2018
	<i>S\$'000</i>	<i>S\$'000</i>
	(unaudited)	(audited)
Hire purchase	24	10
Lease liabilities	16	—
Bank borrowings	11	7
	<u>51</u>	<u>17</u>

11. Income tax expense

Tax has been provided at the applicable Singapore statutory corporate tax rate of 17% (2018: 17%) on the estimated assessable profit during the financial period. No overseas profit tax has been provided as the Company and certain subsidiaries are incorporated in the Cayman Islands and the BVI respectively, and are exempted from tax.

The amount of income tax expense charged to the condensed consolidated statement of profit or loss and other comprehensive income represents:

	Six months ended	
	30 September	
	2019	2018
	S\$'000	S\$'000
	(unaudited)	(audited)
Tax expense attributable to profit is made up of:		
— Current income tax	170	348
— Deferred income tax	7	90
	177	438

12. Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	Six months ended	
	30 September	
	2019	2018
	(unaudited)	(audited)
Profit attributable to owners of the Company (S\$'000)	342	57
Weighted average number of ordinary shares in issue (in thousands)	920,000	690,000
Basic earnings per share (Singapore cents)	0.04	0.01

The weighted average number of ordinary shares for the purpose of calculating basic earnings per shares has been determined based on the assumption that the Reorganisation and capitalisation issue as described in Note 2 had been effective from 1 April 2018.

The calculation of the basic earnings per share is based on the profit for the period attributable to equity holders of the Company and the weighted average number of ordinary shares in issue.

(b) Diluted earnings per share

For the six months ended 30 September 2019 and 2018, the diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares.

13. Trade and other receivables

	As at 30 September 2019 S\$'000 (unaudited)	As at 31 March 2019 S\$'000 (audited)
Trade receivables	3,001	1,629
Prepayment and deposits:		
— Deposits	313	149
— Prepayments	185	211
	<u>3,499</u>	<u>1,989</u>

For trade receivables, the credit terms granted to customers ranges from 30 to 45 days (31 March 2019: 30 to 45 days). The ageing analysis of the trade receivables based on invoice date is as follows:

	As at 30 September 2019 <i>S\$'000</i> (unaudited)	As at 31 March 2019 <i>S\$'000</i> (audited)
1 to 30 days	2,881	1,461
31 to 60 days	119	113
61 to 90 days	1	55
	<u>3,001</u>	<u>1,629</u>

The carrying amounts of the Group's trade and other receivables are denominated in Singapore Dollars.

The Group's customers comprise mainly (i) gas, water, telecommunications and power utility companies in the private sector, and (ii) Singapore government agencies such as those governing water utility and catchment in the public sector.

The expected credit loss rate for the Group's customers are negligible for the periods ended 30 September 2019 and 2018 respectively. The Group is of the view that no impairment allowance is necessary in respect of these balances, by taking into consideration of the track record of regular repayment from the customers and also the outlook of economic environment for the financial period ended 30 September 2019 and 2018, respectively.

14. Contract assets/(liabilities)

	As at 30 September 2019 <i>S\$'000</i> (unaudited)	As at 31 March 2019 <i>S\$'000</i> (audited)
Contract costs incurred plus recognised profits less recognised losses	172,890	159,390
Less: progress billings	<u>(159,636)</u>	<u>(144,420)</u>
Balance at end of period	<u>13,254</u>	<u>14,970</u>

Analysed for reporting purposes as:

	As at 30 September 2019 S\$'000 (unaudited)	As at 31 March 2019 S\$'000 (audited)
<i>Current</i>		
Contract assets	<u>14,553</u>	<u>17,166</u>
<i>Current</i>		
Contract liabilities	<u>(1,299)</u>	<u>(2,196)</u>

The contract assets primarily relate to the Group's conditional right to a consideration in exchange for a satisfied performance obligations at the reporting date in respect of contracts with customers. The contract liabilities primarily relate to the Group's obligation to transfer services to customers for which the Group has received consideration (or an amount of consideration is due) from the customers.

Movements in contract liabilities:

	As at 30 September 2019 S\$'000 (unaudited)	As at 31 March 2019 S\$'000 (audited)
At the beginning of the year	2,196	1,168
Billing to customers	1,331	8,426
Less: Revenue recognised	<u>(2,228)</u>	<u>(7,398)</u>
	<u>1,299</u>	<u>2,196</u>

As at 30 September 2019, retention receivables amounted to S\$610,000 (2018: S\$558,000) are included in contract assets.

Retention receivables is unsecured, interest-free and recoverable at the end of the defect liability period of individual contracts.

The Group considered that the ECL for contract assets are negligible as the customers of the Group are reputable organisations.

15. Trade and other payables

	As at 30 September 2019 S\$'000 (unaudited)	As at 31 March 2019 S\$'000 (audited)
<i>Current</i>		
Trade payables	1,977	1,991
Other payable		
— Goods and services tax payables	494	74
— Advances received	6	6
— Sundry creditors	—	2,017
Accrued expenses	175	317
Accrued for trade related cost	715	788
Accrual for employee benefit expenses	711	750
	<u>4,078</u>	<u>5,943</u>

The ageing analysis of the trade payables based on invoice date were as follows:

	As at 30 September 2019 S\$'000 (unaudited)	As at 31 March 2019 S\$'000 (audited)
0 to 30 days	1,882	1,017
31 to 60 days	78	739
61 to 90 days	—	216
Over 90 days	17	19
	<u>1,977</u>	<u>1,991</u>

The carrying amounts of the Group's trade payables are denominated in Singapore dollars. The carrying amounts of trade payables approximate their fair values.

16. Hire purchase creditors

The Group leases certain plant and machinery and motor vehicles from non-related parties under hire purchase.

	As at 30 September 2019 S\$'000 (unaudited)	As at 31 March 2019 S\$'000 (audited)
Minimum lease payments due:		
— No later than 1 year	1,141	1,123
— Later than 1 year and no later than 2 years	169	435
	1,310	1,558
Less: Future finance charges	(21)	(33)
Present value of hire purchase creditors	<u>1,289</u>	<u>1,525</u>

The present values of hire purchase creditors are analysed as follows:

	As at 30 September 2019 S\$'000 (unaudited)	As at 31 March 2019 S\$'000 (audited)
— No later than 1 year	1,121	1,093
— Later than 1 year and no later than 2 years	168	432
	<u>1,289</u>	<u>1,525</u>

17. Bank borrowings

	As at 30 September 2019 S\$'000 (unaudited)	As at 31 March 2019 S\$'000 (audited)
<i>Current, secured</i>		
Bank borrowings	99	2,101
<i>Non-current, secured</i>		
Bank borrowings	345	393
Total bank borrowings	444	2,494

The carrying amounts of the Group's borrowings approximate their fair values and are denominated in Singapore Dollars.

Bank borrowings are separately secured by legal mortgage of the investment property which is an existing leasehold property and joint and several personal guarantee from Michael Shi Guan Wah and Shi Guan Lee. At the date of this announcement, the personal guarantees from Michael Shi Guan Wah and Shi Guan Lee are in the process to be replaced by the corporate guarantee from the Company.

EVENTS AFTER THE REPORTING PERIOD

Up to the date of this announcement, there was no significant event relevant to the business or financial performance of the Group that come to the attention of the Directors after the six months ended 30 September 2019.

MANAGEMENT DISCUSSION & ANALYSIS

Industry Overview

The infrastructural pipeline market in Singapore remained relatively stable for the six months ended 30 September 2019, with no material adverse change in the general economic and market conditions in Singapore or the industry in which we operated that had materially or adversely affected or would affect the business operations or financial condition.

Business Review and Prospect

The core business and revenue structure of the Group has remained unchanged for the six months ended 30 September 2019. The Group's operations are located in Singapore and our revenue and profit from operations are solely derived from pipeline infrastructural services rendered within Singapore. The Group is actively involved as a main contractor in both private and public sector projects which include institutional, industrial, commercial and residential projects. The revenue was principally derived from pipeline project works for (i) gas pipeline projects, (ii) water pipeline projects and (iii) cable installation projects.

Our business strategies remained unchanged. Since the listing of the Company, the management has continuously consolidated and strengthened the reputation of the Group through submission of tender invitation to keep our presence in the market. Leveraging our listing status, our core business continued to earn good reputation and provided the Group with sound track record for potential business opportunities. Subsequent to the six months ended 30 September 2019, the Group has secured new projects, together with the ongoing projects in hand, our revenue could be sustained for the next financial year.

Looking forward, the Group will continue to focus on strengthening the market position in the building and construction industry in Singapore. Leveraging the competitive advantages in terms of credibility and visibility in the pipeline engineering and construction industry upon listing of the Company, the Board expects that the Group is well-positioned for the challenges and competition ahead, and aims to deliver satisfactory return to shareholders.

Ongoing Projects

As at 30 September 2019, the Group had five ongoing gas pipeline projects, four water pipeline projects, one ongoing cable installation project with an aggregated contract sum of approximately S\$63.1 million, of which approximately S\$39.4 million has been recognised as revenue as at 30 September 2019. The remaining balance will be recognised as our revenue in subsequent periods in accordance with IFRS 15.

The management considered that all ongoing projects were on schedule and none of which is expected to cause the Group to indemnify the third parties and incur any contingent liabilities as at 30 September 2019.

Financial Review

Six months ended 30 September 2019 (“**1H2020**”) compared to six months ended 30 September 2018 (“**1H2019**”).

Revenue

The following table sets out the breakdown of the Group’s revenue, the number of projects/ contracts performed and the percentage contribution to total revenue for 1H2020 and 1H2019.

	Number of projects	For the six months ended 30 September 2019			2018	
		Revenue (\$\$'000)	% of revenue (%)	Number of Projects	Revenue (\$\$'000)	% of revenue (%)
Gas pipeline	10	8,361	64.9	9	2,731	19.3
Water pipeline	8	4,481	34.7	6	6,374	45.1
Cable installation	3	47	0.4	4	5,036	35.6
Total	<u>21</u>	<u>12,889</u>	<u>100.0</u>	<u>19</u>	<u>14,141</u>	<u>100.0</u>

Our revenue has decreased by approximately S\$1.2 million from S\$14.1 million in 1H2019 to S\$12.9 million in 1H2020 due to the followings:

- 1.) Increase in revenue from gas pipeline projects by approximately S\$5.6 million;
- 2.) Decrease in revenue from water pipeline projects by approximately S\$1.9 million;
- 3.) Decrease in revenue from cable installation by approximately S\$4.9 million.

The increase in revenue from the gas pipeline projects by approximately S\$5.6 million is due to the followings:

- (i) Increase in revenue from projects relating to the supply and lay of gas mains and renewal services by approximately S\$2.1 million;

- (ii) Increase in revenue from term contract relating to a gas transmission pipeline by approximately S\$1.1 million;
- (iii) Approximately S\$2.4 million generated from two new projects and two existing projects not commenced in 1H2019.

The decrease in revenue from the water pipeline projects by approximately S\$1.9 million is due to the substantial completion of project brought forward from previous years, where the revenue recognised amounted to approximately S\$4.5 million (1H2019: approximately S\$6.4 million).

The decrease in revenue relating to cable installation project by approximately S\$4.9 million is mainly attributable to the substantial completion of projects for (i) supply and installation of solar panels, (ii) cable utility in the previous financial period.

Cost of Sales

Our cost of sales increased by approximately S\$0.5 million or 5% from approximately S\$10.5 million in 1H2019 to approximately S\$11 million for 1H2020. The increase in cost of sales was mainly attributable to higher project headcounts, increase in foreign worker levy due to increase in levy rate and number of foreign workers and additional project overheads incurred for certain projects due to the implementation of new work site safety requirement.

Gross Profits and Gross Profit Margins

The Group's total gross profits decreased by approximately S\$1.7 million from approximately S\$3.6 million in 1H2019 to approximately S\$1.9 million in 1H2020. Gross profit margin decreased by approximately 11.3% from 25.7% in 1H2019 to approximately 14.4% in 1H2020. The decrease in gross profit margin is mainly due to the different project mix as compared to previous year, substantial completion of projects with higher margin in previous years, higher project headcounts and higher project overhead incurred due to the implementation of new work site safety requirement.

Other Income

Other income increased by approximately S\$182,000 from S\$259,000 in 1H2019 to S\$441,000 in 1H2020, mainly attributable to minor ad-hoc repair works for private customers and scrap sales, amounting to S\$0.3 million.

Other Gains/(Losses), net

Increase in other gain/(losses) is mainly attributable to foreign exchange gain contributed by cash and bank balances in Hong Kong Dollars.

Administrative Expenses

The Group recorded administrative expenses amounting to approximately S\$2 million (1H2019: approximately S\$3 million). The decrease is mainly due to listing expenses incurred in 1H2019 amounting to approximately S\$2 million, partially offset by increase in amortisation expenses of S\$0.2 million and higher professional expenses of S\$0.3 million.

Income Tax Expense

The Group incurred higher income tax expenses for 1H2019, as the listing expenses incurred for 1H2019 were not tax deductible.

Profit and Total Comprehensive Income for the Period

Due to the above, profit and total comprehensive income for 1H2020 increased by approximately S\$285,000 from S\$57,000 in 1H2019 to S\$342,000.

Property, Plant and Equipment

Property, plant and equipment decreased by approximately S\$0.6 million due to additions of approximately S\$0.5 million, offset by depreciation of approximately S\$1 million and disposal of plant and equipment of S\$25,000. The additions of property, plant and equipment include new machineries used for the subsidiary's operations.

Trade and Other Receivables

The Group's trade and other receivables increased by approximately S\$1.5 million from S\$2 million as at 31 March 2019 to S\$3.5 million as at 30 September 2019. The movement is mainly attributable to the timing of the billings and settlements as at 30 September 2019.

Contract Assets/(Liabilities)

Contract asset decreased by approximately S\$2.6 million from S\$17.2 million as at 31 March 2019 to S\$14.6 million as at 30 September 2019 is mainly attributable to higher amount of work orders certified, thus contributing to higher amount of billing raised.

Contract liability decreased by approximately S\$0.9 million from S\$2.2 million as at 31 March 2019 to S\$1.3 million as at 30 September 2019 is mainly attributable to substantial completion of certain projects which are in the stage of final claims.

Trade and Other Payables

Trade and other payables decreased by approximately S\$1.9 million from S\$5.9 million as at 31 March 2019 to S\$4.0 million as at 30 September 2019 mainly due to the settlement of listing expenses of approximately S\$1.9 million.

Bank Borrowings

Bank borrowings decreased by approximately S\$2.1 million from S\$2.5 million as at 31 March 2019 to S\$0.4 million as at 30 September 2019. The decrease is mainly attributable to the repayment of a short-term loan facility of S\$2 million.

Hire Purchase Creditors

Hire purchase creditors decreased by approximately S\$0.2 million from S\$1.5 million as at 31 March 2019 to S\$1.3 million as at 30 September 2019 due to additions of machinery during the period of approximately S\$0.4 million, and mitigated by repayments of approximately S\$0.6 million.

Liquidity and Financial Resources

As at 30 September 2019, the Group maintained a healthy liquidity position with net current asset balance and net cash and bank deposits of approximately S\$27 million (31 March 2019: S\$26.9 million) and S\$17 million (31 March 2019: S\$20 million) respectively. The Group's gearing ratio (calculating by total interest-bearing debt over total equity) as at 30 September 2019 was 6.2%, decrease of 5.1% from 11.3% as at 31 March 2019. The decrease in gearing ratio was due mainly to the repayment of bank borrowings and hire purchase creditors during 1H2020.

Foreign Exchange Exposure

The principal place of business of the Group is in Singapore with majority of the transactions denominated and settled in Singapore dollars, which is the functional currency of the Group.

Since the listing of the Group on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 27 March 2019 (the “**Listing Date**”), the Group retains most of the listing proceeds from the share offer denominated in Hong Kong Dollars amounting to approximately S\$13.2 million that are exposed to fluctuations in foreign exchange rate risks. The Group will continue to monitor its foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. The Group has not entered into any agreement or commit to any financial instruments to hedge any foreign currency exposure.

Employees and Remuneration Policies

As at 30 September 2019, the Group had a total of 296 employees. The Group's remuneration policies are in line with the prevailing market practice and are determined on the basis of performance, qualification and experience of individual employee. The Group recognises the importance of a good relationship with its employees. The remuneration payable to its employees includes salaries, bonus and allowances.

Use of Listing Proceeds

The shares of the Company were listed on the Main Board on 27 March 2019 for which the Company issued 230,000,000 new shares. The net listing proceeds from the share offer received by the Company, after deducting related listing expenses, were approximately HK\$90.2 million (approximately S\$15.7 million), out of which approximately S\$1.4 million has been utilised for the Group's working capital.

The future plan and scheduled use of proceeds were based on the best estimation of future market conditions made by the Group, while the proceeds were applied with consideration of the actual development of business and market. As of 30 September 2019, the Group does not anticipate any change to the plan as to the use of listing proceeds. The majority of the unused net proceeds have been placed with licensed bank in Singapore and Hong Kong.

		Utilised	Total remaining net proceeds available
		as at 30 September 2019	as at 30 September 2019
		(S\$'000)	(S\$'000)
Use of nets proceeds		Total net proceeds received	
		(S\$'000)	
(a)	Relocate to a new property to be acquired to be used as our new office, foreign worker dormitory and warehouse for our machinery (Note 1)	9,368	—
(b)	Purchase two pipe jacking machines (Note 2)	4,896	—
(c)	Working capital	1,428	—
Total		<u>15,692</u>	<u>14,264</u>

Note 1: As at 30 September 2019, the Group has identified a new property suitable to our new headquarters. However to date of this announcement, the transaction is yet to be completed as the transaction is pending approval from local authorities.

Note 2: As at 30 September 2019, the Group has yet to acquire the pipe jacking machines as we have been tendering but not awarded with projects that require the use of certain models of pipe jacking machines mentioned in the proposed use of proceeds.

Material Acquisition and Disposal of Subsidiaries and Associates and Joint Ventures

During the six months ended 30 September 2019, the Group had no material acquisitions or disposals of subsidiaries, associates and joint ventures.

Significant Investment Held

During the six months ended 30 September 2019, the Group held no significant investment.

Charges on Assets

As at 30 September 2019, carrying amount of plant and machinery and motor vehicles held under hire purchase loan were S\$2,857,000 (31 March 2019: S\$2,435,000). The carrying amount of investment property mortgaged for bank borrowings was S\$1,020,000 (31 March 2019: S\$1,020,000).

Contingent Liabilities

As at 30 September 2019, the Group had no significant contingent liabilities.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listings of Shares on the Stock Exchange (the “**Listing Rules**”) as its own code of conduct regarding Directors’ securities transactions. Having made specific enquiries to all Directors, all Directors of the Company confirms that they have fully complied with the relevant requirements set out in its own code of conduct since the Listing Date and up to 30 September 2019.

Compliance with Corporate Governance Code

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and the Corporate Governance Report (the “**CG Code**”) contained in Appendix 14 to the Listing Rules as its own code of corporate governance. Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals. Under the current organisation structure of the Company, Mr. Michael Shi Guan Wah is the Chairman of the Board and the Chief Executive Officer. With extensive experience in the infrastructural pipeline engineering industry, the Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprise experienced and high caliber individuals. The Board currently comprises three executive Directors, one non-executive Director and three independent non-executive Directors and therefore has a fairly strong independence element in its composition. Save as disclosed herein, the Company has complied with the code provisions as set out in the CG Code since the Listing Date and up to the date of this announcement. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

Purchase, Sale or Redemption of the Listed Securities

Since the Listing Date and up to the date of this announcement, neither the Company nor any of our subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Interim Dividend

The Board did not recommend the payment of an interim dividend for the six months ended 30 September 2019.

Audit Committee

The Audit Committee has reviewed the unaudited interim results for the six months ended 30 September 2019 including the interim report and discussed with the management of the Company and is of the view that such financial information and report have been prepared in compliance with the applicable accounting standards, the Listing Rules and other applicable legal requirements, and that adequate disclosure has been made with no disagreement by the Audit Committee.

Publication of the Results Announcement and Interim Report

This results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.pipeline-engineering-holdings.com), and the interim report of the Company for the six months ended 30 September 2019 containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By Order of the Board
Pipeline Engineering Holdings Limited
Michael Shi Guan Wah
Chairman and Chief Executive Officer

Hong Kong, 29 November 2019

As at the date of this announcement, the Board comprises Mr. Michael Shi Guan Wah, Mr. Shi Guan Lee and Mr. Shi Hong Sheng (Xu Hongsheng) as executive directors; Ms. Feng Jiamin as non-executive director; Mr. Cher Choong Kiak, Mr. Chiam Soon Chian (Zhan Shunquan) and Mr. Choo Chih Chien Benjamin as independent non-executive directors.