Far East Group Limited
(Company Registration No.:196400096C)
(Incorporated in the Republic of Singapore on 18 March 1964)

RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT

The Board of Directors (the "**Board**" or the "**Directors**") of Far East Group Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the queries raised by the Securities Investors Association (Singapore) ("**SIAS**") of the Company in relation to the Group's Annual Report for the financial year ended 31 December 2022 ("**FY2022**") and appends the replies as follows:

(I) RESPONSE TO QUERIES FROM SIAS

<u>Question 1</u>

As noted in the CEO's message, the Group achieved a record revenue of $104 million for the financial year ended 31 December 2022, despite the uncertainties in the economy. Profit attributable to owners of the company was $2.07 million.

(i) **Manufacturing: Can management provide an update on the current state of its manufacturing operations in China, given that the government has lifted all COVID-related restrictions since December 2022? Has the operation been fully restored to its pre-COVID levels or improved upon them?**

(ii) **Supply chain: Can management provide an overview of the major supply chain disruptions that impacted the group's operations in 2022, and provide details on any rectification measures taken to address these disruptions?**

(iii) **Oil, marine and gas: Has management observed any notable increase in queries and requests for quotations (RFQs) from customers in the oil, marine, and gas sector following the recovery of the offshore market?**

(iv) **Cost structure: To what extent has the group's cost structure improved since the reorganisation and implementation of cost-cutting measures during the pandemic?**

(v) **Contract assets: Can management provide further details regarding the significant increase in contract assets from $4.9 million to $10.8 million? Is there any potential concentration risk associated with the contract assets?**

<u>Company's response</u>

(i) With the COVID-related restrictions being lifted in China towards the end of 2022, the Group's customers in China have also resumed their operations, mainly site-related work, and are catching up with outstanding and new projects. The Group's manufacturing operations in China are resuming but have yet to reach pre-COVID levels.

(ii) There were various supply chain disruptions encountered by the Group's operations. With regard to logistics and shipping, freight costs have increased significantly as compared with the pre-COVID period. Due to the shortage of materials, orders for certain brands and products had delivery lead time extended by more than 3 months. To tackle these issues, the Group had to place orders for larger quantities of products in anticipation of potential orders from customers. In addition, the Group liaised more closely with the freight forwarders to optimise pricing.

(iii) The Group observed an increase in the orders from the oil, marine and gas sector over the past 2 years. This may be attributed to the recovery of the offshore market.

(iv) With the onset of the pandemic, the Group has severely cut our travelling and entertainment expenses. Streamlining exercises have been performed to improve the productivity of our staff with current staff taking on more duties. However, we would like to explain to shareholders that this may not be reflected in the financial statements, in view of factors such as labour-related expenses in the Engineering & Solutions segment having increased significantly during this period.

(v) The contract assets are mainly contributed by our subsidiary, M-Tech Air-con & Security Engineering Pte Ltd ("**M-Tech**"). There is a potential concentration risk as a key customer contributed 41% and 64% of the total contract assets of M-Tech in FY2021 and FY2022 respectively. In FY2022, there was a single high-value project that made up 44% of the total contract assets. This concentration risk is unavoidable in the short term as the projects from the key customer are of substantial size. The Group looks to dilute its concentration risk by taking on more projects from other customers in the medium term.

<u>Question 2</u>

On 27 September 2021, the Company acquired 20% equity interest in Comfresh Group Holdings Pty Ltd ("**Comfresh**") at a cash consideration of $7.28 million. It is recognised as an associate (Note 10 Investment in associates).

Comfresh achieved a revenue of $63.4 million in 2022 and reported a loss of $1.56 million. The group's share of results of associates is $(312,000).

Management believed that its investment in Comfresh would allow the group to provide consultancy on Heating, Ventilation, Air-conditioning and Refrigeration ("**HVAC&R**") solutions for operating the farm in a controlled environment and maximise efficiencies in cold storage, processing and distribution of fresh produce.

(i) **What is the progress made by the Group in providing HVAC&R consultancy services?**

(ii) **What are the key achievements and milestones made by Comfresh in its core business since the Group's investment in the company?**

(iii) **Can management provide further elaboration on the strategic value of Comfresh and its role in the Group's overall growth plans?**

(iv) **To what extent does management have visibility and influence over the growth trajectory of Comfresh and what measures are in place to ensure that the Group's interests are safeguarded?**

<u>Company's response</u>

(i) To date, the Group has provided consultancy on, and engaged in the sale of equipment for the set up necessary for, the efficient running of the storage and processing facility of Comfresh.

(ii) Since the Group's investment in Comfresh, Comfresh had completed the construction of the glasshouse in December 2022. Currently, 4 hectares and 2 hectares of space in the glasshouse is set aside for the growth of cucumbers and herbs respectively, which is expected to yield 7.2 million cucumbers and 160,000 units of herbs per annum. Comfresh is currently building the amenity area and has also invested in a cucumber sorting machine and automatic harvesting and transportation carts to increase efficiency. The commissioning of the new machineries is expected between Q2 and Q3 2023.

(iii) The strategic value of the investment into Comfresh is as follows:

a. It provides a recurrent and sustainable stream of income for the Group while complementing its existing businesses in view of the Group's experience in managing sophisticated controls for energy efficient heating, cooling and air-handling;

b. It provides the Group with a more diversified business and sustainable income base for future growth and reduces the Group's reliance on its current core business for its revenue streams; and

c. It provides shareholders with diversified returns and long-term growth as it offers new business opportunities such as food distribution, provides new revenue streams, and improves the Group's prospects.

(iv) The Group does not have management control over the operations of Comfresh. However, the Group advises Comfresh on the infrastructure and equipment required by Comfresh to enhance its efficiency in terms of its HVAC&R requirements, including its cold storages and processing facilities. In addition, the Group's management holds meetings with the management of Comfresh on a quarterly basis to receive updates on Comfresh's operations and on the progress of the construction of Comfresh's new facilities. These quarterly meetings also enable the parties to discuss other relevant issues.

<u>Question 3</u>

As disclosed in the corporate governance report, the internal audit function of the group is outsourced to PricewaterhouseCoopers Risk Services Pte. Ltd. To ensure the adequacy of the internal audit function, the audit committee ("**AC**") reviews and approves the yearly internal audit plan before the commencement of an internal audit.

The objective of internal audit review is to assist management in evaluating and testing the effectiveness of internal controls that are in place. The internal audit review is conducted with a view to identifying control gaps in the current business processes, ensuring that operations are conducted within the policies and procedures laid down and identifying areas for improvements where controls can be strengthened.

(i) **Can the audit committee ("AC") provide clarification on the criteria used to determine and approve the annual internal audit plan? What is the duration of the internal audit cycle?**

(ii) **What were the scope, key findings and recommendations by the internal auditor for FY2022?**

(iii) **Can the AC confirm that all the foreign operating subsidiaries and entities in China, Myanmar, Vietnam, Indonesia, and Australia were included in the internal audit? How was the internal audit carried out for these foreign subsidiaries in 2022, especially as travel restrictions were still in place? Did the AC review the effectiveness of the internal audit?**

(iv) **What is the level of oversight by the AC on the actions taken by management to follow up on the recommendations?**

<u>Company's response</u>

(i) The internal audit plan is determined based on a rotation of the entities contributing significantly to the Group's performance and whether there is a need for the AC to obtain a level of comfort on certain entity's internal control processes. Each audit cycle is between 2 and 3 years.

(ii) In FY2022, there were 2 internal audits performed. One on Far East Refrigeration (M) Sdn Bhd ("**FEM**"), the key entity of the Group's operations in Malaysia, and an internal review of the Group's sustainability reporting process.

The scope of the internal audit of FEM covers revenue and receivables, procurement and payables, inventory management, cash and bank management, and the general control environment. The key observations and recommendations were raised with the AC and the management has committed to accepting the recommendations and have put in place the changes required.

(iii) Not all foreign subsidiaries are included for internal audit. Significant entity such as Eden Refrigeration Manufacturing (Jiangsu) Co., Ltd. is included. The subsidiaries in Myanmar, Vietnam and Indonesia are deemed insignificant as they each contribute less than 5% of the Group's total revenue. As the Group does not have management control over the entity in Australia, we are unable to demand an internal audit to be conducted.

(iv) The management reports formally to the AC twice in a year on status of action items. In FY2022, the AC met informally with the management an additional two times to follow up on outstanding matters as well as to hold other discussions.

By Order of the Board

Loh Mun Yew
Chief Executive Officer and Executive Director
21 April 2023
