



METAL COMPONENT ENGINEERING LIMITED



Turning Around

ANNUAL REPORT

2019

OUR VISION

To be a World-Class Mechanical Manufacturing Solutions Provider

CONTENTS

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This annual report has been prepared by the Company and its contents have been reviewed by the Company's sponsor, ZICO Capital Pte. Ltd. (the "**Sponsor**"), in accordance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual Section B: Rules of Catalyst.

This annual report has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this annual report, including the correctness of any of the statements or opinions made, or reports contained in this annual report.

The contact person for the Sponsor is Ms. Alice Ng, Director of Continuing Sponsorship, ZICO Capital Pte. Ltd. at 8 Robinson Road #09-00 ASO Building, Singapore 048544, telephone (65) 6636-4201.

CORPORATE PROFILE



Metal Component Engineering Limited (“MCE” or the “Company”) is a one-stop mechanical manufacturing solutions provider with a regional manufacturing presence in Asia. The Group focuses on data storage, office automation peripherals, ATM and kiosk products, as well as automotive industries.

The Company offers services from design, prototyping, tool and die fabrication (soft tools, hard tools and hybrid solutions), precision stamping production, surface finishing, to value-added assembly. It supports customers for both high-mix low-volume and low-mix high-volume production. MCE’s services also extend to electromechanical assembly solutions, ranging from welding to mechanical structure integration, and supply chain management capabilities. Its assembly lines allow flexible configurations to meet various product requirements.

Through its sheet metal technology, efficient supply chain and inventory hub management, MCE provides competitive solutions to its customers.

Key capabilities:

- Early supplier involvement
- Design For Manufacturability (DFM)
- Program management
- Prototyping
- Tool design and fabrication
- Batch production
- High-volume production
- Secondary processes
- In-house surface treatment
- Supply chain management
- Mechanical assembly & integration
- Sub-module machining

CORPORATE INFORMATION

Company Registration Number

198804700N

Registered Office

7030 Ang Mo Kio Avenue 5

#08-85 Northstar@AMK

Singapore 569880

Tel: (65) 6759 5575

Fax: (65) 6759 5565

www.mce.com.sg

Board of Directors

Chua Kheng Choon (Chairman and CEO)

Koh Gim Hoe (Lead Independent Director)

Lim Swee Kwang (Independent Director)

Audit Committee

Lim Swee Kwang (Chairman)

Koh Gim Hoe

Chua Kheng Choon

Remuneration Committee

Koh Gim Hoe (Chairman)

Lim Swee Kwang

Chua Kheng Choon

Nominating Committee

Koh Gim Hoe (Chairman)

Lim Swee Kwang

Chua Kheng Choon

Company Secretaries

Lee Wei Hsiung

Mak Peng Leong, Philip

Share Registrar and Share Transfer Office

M & C Services Private Limited

112 Robinson Road

#05-01

Singapore 068902

Principal Bankers

Malayan Banking Berhad

United Overseas Bank Limited

Continuing Sponsor

ZICO Capital Pte. Ltd.

8 Robinson Road

#09-00 ASO Building

Singapore 048544

Independent Auditor

Foo Kon Tan LLP

Public Accountants and Chartered Accountants

24 Raffles Place

#07-03 Clifford Centre

Singapore 048621

Partner-in-charge: Ang Soh Mui

(Practising Member of Public Accountants and Chartered Accountants)

With effect from financial year ended 31 December 2019



CORPORATE STRUCTURE



METAL COMPONENT ENGINEERING LIMITED



Note:

(1) The Company had, on 28 January 2020, entered into a conditional sale and purchase agreement with Hong Sheng Holding (Singapore) Pte. Ltd., in respect of the sale of 100% equity interest in MCE Industries (Shanghai) Co. Ltd.. The sale has not been completed as at the date of this Annual Report.

CORE VALUES

COMMITMENT

We shall always contribute our 100% work effort with passion and enthusiasm. We conduct our business professionally just like a life long marriage, with the “can-do” attitude.

TEAM

We share a common goal, strive to understand each other's strength and weakness, work together with a balanced approach, to bring the Company towards its winning state.

COMMUNICATION

It is important that listeners understand and accept our views. We always ensure two-way interaction is carried out with clarity, precision and be quantifiable. We always strive to master this art to ensure a timely and regular communication.

3CT²

TRUST

We will trust others first, followed by check and balance. We shall always respect all individuals the same way we want to be respected. We empower people, but are aware of cross cultural differences and each other's strength and weakness.

CREATIVITY

We must always think ahead, be bold to make a difference and to accept changes. We are always dynamic, flexible, continuously making improvement and accountable.

CHAIRMAN'S MESSAGE

“

...the Group will continue to explore potential and suitable acquisitions, joint ventures and strategic alliances, which generate sustainable revenue streams for the Group and represent a strategic diversification strategy for the Group towards improving its financial performance and position over a longer term.

”



Dear Shareholders

The year 2019 was a year of turnaround for MCE. After intensive streamlining and consolidation of operations for the past three years, we saw a return to profitability of S\$0.2 million with sales of S\$45.5 million, amid market uncertainty from the Sino-US trade war, and on-going efforts to reduce operating costs and to reach out to new customers to sustain our revenue stream.

Financial Review

The Group recorded a revenue of S\$45.5 million for the financial year ended 31 December 2019 (“FY2019”). This represent a 3% decrease from S\$46.9 million for the financial year ended 31 December 2018 (“FY2018”). The decrease was mainly due to the Sino-US trade war that had adversely impacted the global demand for our customer products in and from China, partially offset by the increase in sales in Singapore, Thailand and Malaysia from existing and new customers.

As a result of (i) changes in product mix that lower percentage of cost of direct material to revenue, (ii)

lower employee benefit expenses from the headcount reduction and pay-cut from the directors and management, and (iii) reduced operating expenses from the stringent cost cutting measures to reduce overhead costs, the Group reported a profit after tax of S\$0.2 million in FY2019 as compared to a loss after tax of S\$5.5 million in FY2018.

In FY2019, the Group recorded a net cash inflow of S\$36,000, as compared to the net cash outflow of S\$2.4 million in FY2018, due to net cash of S\$5.4 million from operating activities, partially offset by cash used of S\$2.5 million and S\$2.8 million in investing activities and financing activities, respectively. Consequently, the Group’s net debt increased from S\$7.8 million as at 31 December 2018 to S\$8.8 million as at 31 December 2019.

In FY2019, arising from the market revaluation of the Group’s leasehold property as at 31 December 2019, leasehold property increased by S\$1.2 million, from S\$10.6 million as at 31 December 2018 to S\$11.8 million as at 31 December 2019, with the resultant increase in capital reserve and deferred tax liabilities of S\$1.2 million and S\$0.4 million, respectively.

CHAIRMAN'S MESSAGE

Operational Review

In the year of 2019, the Group's manufacturing footprint comprised six manufacturing sites in three countries, namely China, Malaysia and Thailand, that is supported by a corporate headquarter in Singapore.

MCE China

There was a decrease in revenue in China, from S\$26.8 million in FY2018 to S\$19.5 million in FY2019, mainly due to lower sales as a result of the Sino-US trade war. It, however, recorded a breakeven in FY2019 as compared to a segment loss of S\$3.1 million in FY2018, as a result of cost cutting from the removal of surplus assets and resources from its operations.

MCE Malaysia

Revenue in Malaysia increased from S\$9.4 million in FY2018 to S\$12.3 million in FY2019, largely due to increase in orders for new projects in FY2019. Consequently, it recorded an increased segment profit of S\$365,000 in FY2019 as compared to a segment profit of S\$88,000 in FY2018.

MCE Thailand

Revenue in Thailand increased from S\$9.8 million in FY2018 to S\$11.2 million in FY2019 due to increased contribution from its second operating site that commenced operation from the second half of FY2018. Consequently, it recorded a segment profit of S\$1.3 million in FY2019 as compared to a segment profit of S\$0.7 million in FY2018.

Forward Looking

While we are seeing increasing sales from new customers in the Thailand and Malaysia plants, we are concerned about the impact of the on-going Sino-US trade war on the China plant, as well as the anxiety and uncertainty caused by the COVID-19 pandemic on the world's economy. The outbreak of COVID-19 is expected to have a significant impact on the global economy caused by the acute shortage of key supplies from China for the next couple of quarters.

As the COVID-19 situation is still evolving, there is a significant degree of uncertainty over the length and severity of the outbreak, and hence its overall impact on the global economy. As such, the outbreak may have an adverse impact on the Group's business operations and consequently have an adverse effect on the Group's financial condition and operating results. To mitigate the uncertain sales demand, the Group will continue to operate a lean cost structure whilst reaching out to existing and new customers for new programs to grow its top line.

On 28 January 2020, the Group announced the conditional sale and purchase agreement for the sale of its dormant subsidiary, MCE Industries (Shanghai) Co. Ltd ("Proposed Sale") for RMB75.5 million. If successful, the Proposed Sale will allow the Group to reduce its gearing, have more working capital to fund its operations and/or undertake new investment opportunities that may arise in the future. As at the date of this report, the first tranche payment of RMB25 million (equivalent to S\$4.99 million, based on the prevailing exchange rate of S \$1 to RMB5 at the date of receipt) was received on 12 March 2020.

In addition to working with key customers to sustain our revenue stream in the next 12 months, the Group will continue to explore potential and suitable acquisitions, joint ventures and strategic alliances, which generate sustainable revenue streams for the Group and represent a strategic diversification strategy for the Group towards improving its financial performance and position over a longer term.

Appreciation

In conclusion, on behalf of the Board of Directors, I would like to express my sincere thanks to all our shareholders, customers, business partners and dedicated staff for their continued support.

Thank you.

Chua Kheng Choon

Chairman and Chief Executive Director

BOARD OF DIRECTORS



1



2



3

1. CHUA KHENG CHOON, our Chairman and Chief Executive Officer, is one of our founders and is responsible for overseeing the overall business strategy of our Group. He has been in the precision metal stamping industry for more than 30 years. Under Mr Chua's leadership, our Company has grown steadily from its inception as a stamping subcontractor to its position as a one-stop provider for mechanical manufacturing products and services. He holds a Diploma in Material Handling Technology and a Certificate in Industrial Management from the Singapore Institute of Management.

2. LIM SWEE KWANG is our Independent Director. Mr Lim is the Chairman of the Audit Committee, and a member of the Nominating Committee and the Remuneration Committee. He is currently the Director of ODM business development with Printronix Schweiz GmbH. In 2017, he was the chief operating officer of Meiban Corporation Pte Ltd, responsible for its operations in Malaysia and Singapore. In 2015 and 2016, he was the executive vice president of Hyflux Limited and was responsible for its technology development, technology acquisition and management of strategic partnerships. From 2012 to 2014, he was the investment advisor of Accion Capital Management Pte Ltd, a MAS registered fund management company. From 2002 to 2012, he held various positions in Venture Corporation Limited, the last being the group general manager for the retail stores and industrial products business unit. He started his career in Hewlett-

Packard (Singapore and USA) where he served the company for more than 17 years in various positions in product development and business management. Mr Lim graduated with a Bachelor of Science degree in Mechanical Engineering (Summa Cum Laude) from the University of Michigan, Ann Arbor, USA, and a Masters of Science in Industrial and System Engineering from the National University of Singapore.

3. KOH GIM HOE STEVEN is our Lead Independent Director. Mr Koh is the Chairman of the Remuneration Committee and the Nominating Committee, and a member of the Audit Committee. He was previously the deputy chief executive officer and executive director in Armstrong Industrial Corporation Limited ("Armstrong") from 2000 to 2015. Prior to Armstrong, Mr Koh held several management positions in major banks. Mr Koh was appointed by SPRING Singapore (now known as Enterprise Singapore) from 2015 to 2016 as business advisor to precision engineering companies in Singapore, the Commissioner of Inland Revenues as a member of the Taxpayer Feedback Panel – Mandarin Dialogue from 2010 to 2014, and the chairman of Singapore Club in South Korea in late 1900s. Mr Koh is currently a full time Executive Director of Singapore Precision Engineering and Technology Association (SPETA). Prior to current appointment, Mr Koh was the vice chairman and advisor for SPETA since 2011. He holds various Diplomas in Banking, Accountancy and Management from renowned overseas and local institutions.

KEY MANAGEMENT

MAK PENG LEONG PHILIP is the Chief Financial Officer and Company Secretary of the Group. He is responsible for the Group's overall financial management, internal control and compliance requirements. Mr Mak is also the Chief Risk Officer of the Group and sits on executive committee of the Group and participates in the strategic and policy making decisions of the Group. Prior to joining the Group, Mr Mak worked in a wide spectrum of companies including Singapore based multi-national corporations, publicly listed companies on the Singapore Exchange and public accounting firms. Mr Mak has more than 25 years of experience in audit and financial management. Mr Mak holds a Master of Business Administration from the University of South Australia in Adelaide, Australia. He is also a fellow member with the Institute of Singapore Chartered Accountants.

BOON CHE KWANG is the General Manager for both MCE Thailand and Malaysia, and has been with MCE since 2004. He is responsible for the overall operations of MCE Thailand and Malaysia. Prior to his current appointment, Mr Boon held various management positions in production, engineering and operations in both MCE Thailand and Malaysia. Mr Boon holds a Bachelor of Science Degree (Major in Statistic and Computer Science) from Campbell University, North Carolina, America.

DING HONG YU RAIN is the General Manager for MCE Suzhou. He is responsible for the operations of MCE Suzhou. Prior to his current appointment, Mr Rain held various management positions in program, production and operations in MCE Suzhou. Mr Rain graduated from Hubei Three Gorges Polytechnic with a degree in Electronic Information Engineering Technology.

NG CHEE HONG DARREN, our Group Quality Assurance Manager, has been with the Group since 2001. He is responsible for the maintenance and continuous improvement of the Quality Management System of the Group, across its manufacturing sites. Mr Ng holds a Bachelor of Science Degree (Honours) from the National University of Malaysia. He is also a certified Lean Six Sigma Black Belt and IATF Lead Auditor.

TAN WEE SUAN MAVIS, our Corporate Materials Manager, has been with the Group since 1989. She is responsible for the Group's materials planning, pricing negotiation and purchase strategy. Ms Tan holds a Diploma in Business Administration from the Singapore Productivity Standards Board Institute.

LEW CHAN FOOK, our Group Enterprise Resource Planning (ERP) and IT Manager, joined the Group in March 2018. He is responsible for the overall ERP and IT system for the Group, as well as to improve IT infrastructure and align ERP business processes. Prior to joining the Group, Mr Lew was an IT manager with Merck Pte Ltd and is responsible for all aspects of the Scala ERP System. Mr Lew has more than 20 years of local and regional experience working in ERP system supporting industries such as Merck Pte Ltd and Food Empire Holdings Ltd.. He holds a Bachelor of Business Administration from the Ottawa University and holds Advanced Diploma in Computer Studies from Informatics College, and a Diploma in Cost Accounting from Systematics College.

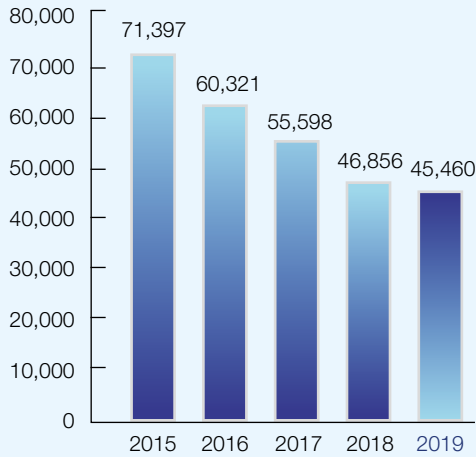
YIP CHEE WANG RAYMOND, our Group Human Resources Manager, joined the Group in February 2019. He is responsible for the overall implementation and provision of human resource services, policies and programs for the Group. Mr Yip has over 30 years of diverse experience in the service, trading and manufacturing industries from his trade union days in the electronics sector, thereon to ship-repair, hotel and a Japanese multinational corporation. His last employment prior to joining the Group, was with a mainboard listed company in the ornamental fish industry. He played a pivotal role in preparing the organisation to achieve the Singapore Quality Award, People Excellence and Innovation Awards. He is also a Lead Assessor with Enterprise Singapore in the Business Excellence certification program, driving best practices through the framework at regular assessments. He graduated from the National University of Singapore with a Bachelor of Science and the City University Business School, London, with a Master of in Business Administration, specialising in Human Resource Management.

FIVE-YEAR FINANCIAL HIGHLIGHTS

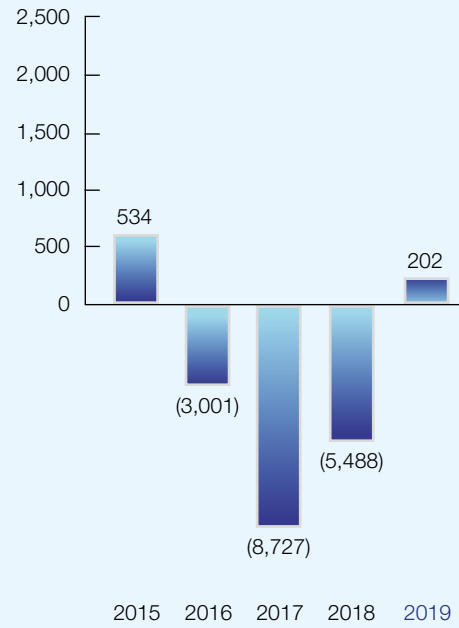
| S\$'000 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|--------|---------|---------|---------|----------------|
| GROUP FINANCIAL PERFORMANCE | | | | | |
| Revenue | 71,397 | 60,321 | 55,598 | 46,856 | 45,460 |
| Profit/(loss) before taxation | 576 | (3,027) | (8,769) | (5,532) | 117 |
| Net profit/(loss) attributable to owners of the company | 534 | (3,001) | (8,727) | (5,488) | 202 |
| Earnings/(loss) per share (diluted) (cents) | 0.13 | (0.80) | (2.33) | (1.47) | 0.05 |
| GROUP FINANCIAL POSITION | | | | | |
| Property, plant and equipment | 16,203 | 13,502 | 20,983 | 20,211 | 18,314 |
| Cash and cash equivalents | 11,480 | 8,634 | 5,144 | 2,421 | 2,436 |
| Current assets | 39,512 | 32,819 | 29,150 | 21,412 | 18,938 |
| Total assets | 57,830 | 47,751 | 50,186 | 41,709 | 43,685 |
| Current liabilities | 29,805 | 23,413 | 25,866 | 23,233 | 22,319 |
| Non-current liabilities | 678 | 812 | 3,294 | 3,253 | 4,556 |
| Total liabilities | 30,484 | 24,225 | 29,160 | 26,486 | 26,875 |
| Total equity | 27,347 | 23,526 | 21,026 | 15,223 | 16,810 |
| KEY FINANCIAL INDICATORS | | | | | |
| Debt-equity ratio (times) | 1.11 | 1.03 | 1.39 | 1.74 | 1.60 |
| Net cash/(debt) (\$'000) | 413 | 60 | (3,215) | (7,756) | (8,793) |
| Net gearing | (2%) | 0% | 15% | 51% | 52% |

FIVE-YEAR FINANCIAL HIGHLIGHTS

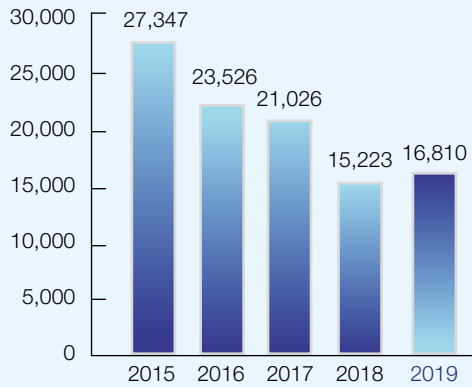
REVENUE
(S\$'000)



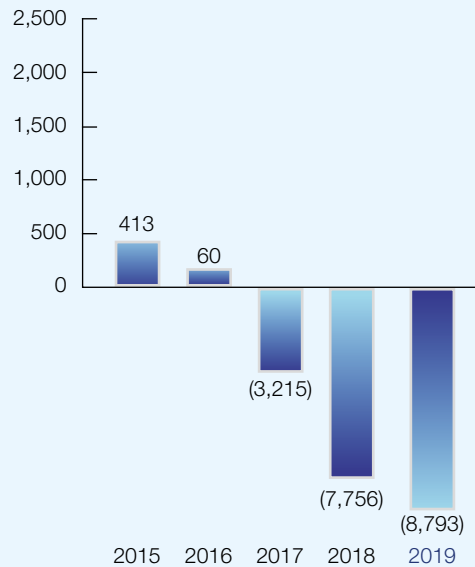
NET PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY
(S\$'000)



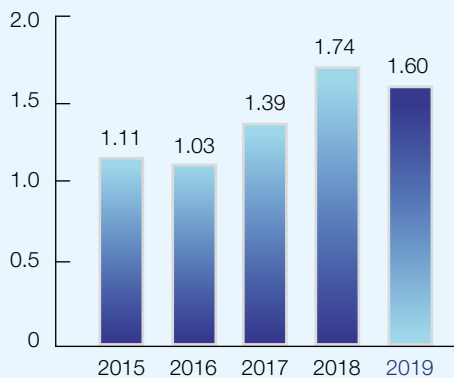
TOTAL EQUITY
(S\$'000)



NET CASH / (DEBT)
(S\$'000)



DEBT-EQUITY RATIO



CORPORATE GOVERNANCE REPORT

The board of directors (the “**Board**” or “**Directors**”) of Metal Component Engineering Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) is committed to comply with the principles of the Code of Corporate Governance 2018 issued on 6 August 2018 (the “**Code**”). The Company believes that good corporate governance is essential in building a sound corporation with an ethical environment, thereby protecting the interests of all shareholders of the Company (“**Shareholders**”).

This report sets out the Company’s corporate governance practices. The Board confirms that, for the financial year ended 31 December 2019 (“**FY2019**”), the Company has generally adhered to the Principles and Provisions set out in the Code. In areas where the Company’s practices vary from any Provisions of the Code, the Company has stated herein the Provision of the Code from which it has varied, and appropriate explanations are provided for the variation, and how the practices the Company had adopted are consistent with the intent of the relevant Principle of the Code. The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time, to ensure compliance with the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) Listing Manual Section B: Rules of Catalist (the “**Catalist Rules**”).

BOARD MATTERS

THE BOARD’S CONDUCT OF AFFAIRS

Principle 1: The Company is headed by an effective Board which is collectively responsible and works with Management for the long-term success of the Company

Provision 1.1

The Board provides entrepreneurial leadership and oversees the management of the businesses of the Group, including that of setting the overall strategy and business direction of the Group.

The principal functions of the Board include:

- formulating, reviewing and approving of broad policies, key strategic and financial objectives and monitoring the performance of the management of the Company (“**Management**”);
- overseeing the processes for evaluating the adequacy of internal controls, risk management and regulatory compliance, as well as safeguarding Shareholders’ interests and the Company’s assets;
- reviewing and approving interim and annual results announcements, and other SGXNET announcements;
- reviewing and approving business plans, annual budgets, major funding proposals, investment and divestment proposals;
- approving of nominations for appointment or re-appointment to the Board of Directors and the appointment of key management personnel; and
- assuming responsibility for corporate governance and governance of risk.

All Directors objectively discharge their duties and responsibilities at all times as fiduciaries in the interests of the Company. When a potential conflict of interest situation arises, the affected Director will recuse himself or herself from the discussion and decisions involving the areas of potential conflict, unless the Board is of the opinion that his or her participation is necessary, and in the event his participation is necessary, he will recuse himself from the decision-making.

CORPORATE GOVERNANCE REPORT

Provision 1.2

The Company does not have a formal training program for the Directors but all new Directors will receive appropriate training and orientation when they are first appointed to the Board including an orientation program to familiarise themselves with the Company's business and governance practices. Upon appointment of new Directors, such Directors are formally notified of their appointment and provided with a brief summary of their roles, duties and responsibilities as members of the Board.

The Company will also arrange for first-time Directors to attend relevant training in relation to the roles and responsibilities of a director of a listed company, organised by the Singapore Institute of Directors ("**SID**") as required under Rule 406(3)(a) of the Catalist Rules, as well as other courses relating to areas such as accounting, legal and industry specific knowledge as appropriate, organised by other training institutions. The training of Directors will be arranged and funded by the Company.

The Company encourages existing Directors to attend training courses organised by the SID or other training institutions which are aimed at providing them with the latest updates on changes in relevant regulations, accounting standards, corporate governance practices and guidelines from the SGX-ST that affect the Group and/or the Directors in connection with their duties and responsibilities as a Director of a public-listed company in Singapore, and such training will be funded by the Company.

The Board is updated on an ongoing basis on relevant new laws and regulations applicable to the Group by the Management. The Directors are updated regularly on changes to the Catalist Rules, risk management, corporate governance, insider trading and key changes in the relevant regulatory requirements, financial reporting standards and the relevant laws and regulations to facilitate effective discharge of their fiduciary duties as Board or members of the Board Committees.

In FY2019, Mr Lim Swee Kwang attended the following courses conducted by the SID:

- (a) LED 5 - Audit Committee Essentials
- (b) LED 6 - Board Risk Committee Essentials
- (c) LED 7 - Nominating Committee Essentials
- (d) LED 8 - Remuneration Committee Essentials

Provision 1.3

The Company has adopted internal guidelines setting forth matters that require the Board's approval. These matters include, amongst others, the following:

- (a) approval of announcements released via SGXNet, including financial results announcements;
- (b) approval of operating budgets, annual and interim reports, financial statements, Directors' statement and annual report;
- (c) dividend matters;
- (d) authorisation of banking facilities and corporate guarantees;
- (e) approval of change in corporate business strategy and direction;
- (f) appointment and cessation of Directors and key management;
- (g) any matters relating to general meetings, Board and Board committees; and
- (h) approval of material investment and divestment proposals, acquisitions and disposals, and funding requirements.

CORPORATE GOVERNANCE REPORT

Provision 1.4

The Board conducts regular meetings, and additional meetings for particular matters will be convened as and when they are deemed necessary. Physical meetings are held and the Company's Constitution ("**Constitution**") allows for telephonic and video conference meetings.

The Board is supported by the Audit Committee, the Nominating Committee and the Remuneration Committee (collectively, the "**Board Committees**"). The members of the Board Committees are drawn from the members of the Board, and each of the Board Committees functions within clearly defined terms and operates under the delegated authority from the Board. The composition and description of each Board Committee are set out in this report. All the Board Committees are actively engaged and play an important role in ensuring good corporate governance in the Company and within the Group. The Board Committees report its activities regularly to the Board. Minutes of the Board Committees are regularly provided to the Board and are available to all Board members. The Board acknowledges that while these various Board Committees have the authority to examine particular issues and report back to the Board with their decisions and recommendations, the ultimate responsibility on all matters lies with the Board.

In addition, the Board is also supported by the Executive Committee. For FY2019, the Executive Committee comprises the Chairman and Chief Executive Officer ("**CEO**"), Chua Kheng Choon, and Mak Peng Leong, Philip (Chief Financial Officer ("**CFO**")). The Executive Committee is entrusted with the conduct of the Group's business and affairs. The Executive Committee will monitor the effectiveness of the policies set out by the Board and where necessary, make further recommendations or changes to the policies in line with the Group's financial objectives. The Executive Committee meets regularly, on an average of once a month.

Provision 1.5

The attendance of each Director at the Board and the Board Committees meetings held in FY2019 is set out below:

| | Board | Audit Committee | Nominating Committee | Remuneration Committee |
|---------------------------------|--------------|----------------------------|---------------------------------|-----------------------------------|
| Number of meetings held | 2 | 2 | 1 | 1 |
| Attendance: | | | | |
| Chua Kheng Choon ⁽¹⁾ | 2 | 2 | 1* | 1* |
| Cheah Chow Seng ⁽¹⁾ | 1 | 1 | 1 | 1 |
| Koh Gim Hoe | 2 | 2 | 1 | 1 |
| Lim Swee Kwang | 2 | 2 | 1 | 1 |

*By invitation

Note:-

- (1) Mr Chua Kheng Choon was appointed as a member of the Audit Committee, the Nominating Committee and the Remuneration Committee, following Mr Cheah Chow Seng's retirement as an Independent and Non-Executive Director at the conclusion of the Company's Annual General Meeting held on 29 April 2019.

CORPORATE GOVERNANCE REPORT

All Directors are required to declare their board representations on an annual basis and as soon as practicable after the relevant facts have come to his knowledge. Where a Director has multiple board representations, and in considering the nomination of Directors for appointment, the Nominating Committee will evaluate whether or not the Director is able to and has been adequately carrying out his or her duties as a Director, as well as sufficient time and attention are given to the affairs of the Company, taking into consideration the Director's number of listed company board representations and other principal commitments. Other than their principal commitments, none of the Directors have multiple board representations in FY2019.

Provision 1.6

To enable the Board to its responsibilities, the Management provides all Directors with management accounts, and all necessary information and relevant reports, on a regular and timely basis. The Management regularly updates and reports to the Board on the Company's operations and plans. Board papers are prepared for each Board and Board Committee meeting and are usually circulated in advance of such meetings. This is to give the Directors sufficient time to review and consider the matters to be discussed. In certain cases, where appropriate, the relevant papers are circulated at the meeting itself or matters are discussed without Board papers.

Minutes of all Board and Board Committees meetings will be circulated to the Board so that Directors are aware of and kept updated as to the proceedings and matters discussed during the respective meetings.

Provision 1.7

The Directors have separate and independent access to Management and the Company Secretaries, who are responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied, at all times through email, telephone and face-to-face meetings.

The Directors may also liaise with Management as and when required to seek additional information. Any additional materials or information requested by the Directors to make informed decisions is promptly furnished.

The Company Secretaries assist the Chairman and the Chairman of each Board Committee in the development of the agendas for the various Board and Board Committees meetings. The Company Secretaries and/or their representatives attend all the Board and Board Committees meetings and prepare minutes of meetings. The appointment and removal of the Company Secretaries is decided by the Board as a whole.

Should the Directors, whether as a group or individually, need independent professional advice in furtherance of their duties and responsibilities, the Company will appoint such professional adviser to render the appropriate professional advice. The cost of such professional advice will be borne by the Company.

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION AND GUIDANCE

Principle 2: The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interest of the Company.

Provision 2.1

The criteria for independence is determined based on the definition as provided in the Code, and takes into consideration whether the Director falls under any circumstances pursuant to Rule 406(3)(d) of the Catalist Rules. The Board considers an “independent” director as one who has no relationship with the Company, its related companies, its substantial Shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director’s independent business judgment in carrying out the functions as an independent director with a view to the best interests of the Group. A “substantial shareholder” means any person who has an interest or interests in one of more voting shares (excluding treasury shares) in the Company and the total votes attached to that share or those shares is not less than 5% of the total votes attached to all the voting shares (excluding treasury shares) in the Company, in line with the definition set out in section 2 of the Securities and Futures Act (Chapter 289) of Singapore.

The independence of each Director is assessed and reviewed annually by the Nominating Committee. Each Independent Director is required to complete a declaration in respect of his independence based on the guidelines set out in the Code, and to update the Nominating Committee if there are any changes to the contents of such declaration. Such declaration by each Independent Director is then subject to annual review by the Nominating Committee.

The interests in shares, share options and warrants held by each Director in the Company are set out in the “Directors’ Statement” section of this Annual Report. Save for their individual and deemed interests in the shares of the Company, none of the Directors or any of their immediate family members is related to any other Director or a substantial Shareholder.

The Nominating Committee is satisfied that the Independent Directors are independent and are able to exercise objective judgment on corporate affairs independently from the Management, and there is presently a strong and independent element on the Board. The contribution of the Independent Directors to the Board deliberations ensures that no individual or small group of individuals dominates the Board’s decision making. As such, together with the Chairman and CEO, the Board is able to exercise independent judgment on corporate affairs and provide the Management with diverse and objective views on business issues.

Provisions 2.2 and 2.3

The Board currently comprises three (3) Directors, two (2) of whom are Independent and Non-Executive Directors. Accordingly, the Board has satisfied the requirements for (i) independent directors to make up a majority of the Board where the Chairman of the Board is not independent; and (ii) non-executive directors to make up a majority of the Board.

CORPORATE GOVERNANCE REPORT

Provision 2.4

As at the date of this annual report, the composition of the Board and Board Committees are as follows:

| Name of Director | Designation | Board Committee Membership | | |
|------------------|---|----------------------------|----------------------|------------------------|
| | | Audit Committee | Nominating Committee | Remuneration Committee |
| Chua Kheng Choon | Chairman and CEO | Member | Member | Member |
| Koh Gim Hoe | Lead Independent and Non-Executive Director | Member | Chairman | Chairman |
| Lim Swee Kwang | Independent Non-Executive Director | Chairman | Member | Member |

The Company does not have a board diversity policy. Notwithstanding, the Nominating Committee and the Board have reviewed the size of the present Board and is satisfied that the current Board facilitates effective decision-making and that no individual or small group of individuals dominates the Board decision-making process, based on the Company's present circumstances and taking into account the scope and nature of the Group's businesses and operations. The Nominating Committee and the Board are of the view that the present Board has the necessary mix of expertise, experience and competencies such as accounting or finance, business or management experience and industry knowledge for the effective functioning of the Board and is appropriate for the current scope and nature of the operations of the Group. The Board noted that gender diversity on the board of directors is also one of the recommendations under the Code to provide an appropriate balance and diversity. Although there is currently no female Director appointed to the Board, the Board does not rule out the possibility of appointing a female Director if a suitable candidate is nominated for the Board's consideration.

Provision 2.5

The Independent and Non-executive Directors communicate regularly, without the presence of the Management, to discuss matters such as the Group's performance, corporate governance and remuneration of the Executive Director (being the Chairman and CEO), to facilitate a more effective oversight on the Management. They also assist the Executive Director to review the performance of the Management and provide constructive suggestions to the Management to improve the Group's performance. The Independent and Non-Executive Directors provide constructive suggestions to Management and constructively challenge and provide inputs to the Management on business strategy.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Principle 3: There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual should have unfettered powers of decision-making.

Provision 3.1

Mr Chua Kheng Choon holds both the positions of Chairman of the Board and the CEO of the Company.

Members of the Board, having direct access to the Company Secretaries, are also able to add matters of concern for discussion during Board meetings. The Board is of the view that given the size and business model of the Group, it is in the best interests of the Group to adopt a single leadership structure, whereby the CEO and the Chairman is the same person. This is to facilitate the decision making and implementation processes within the Group. The Chairman and CEO is a member of the Executive Committee, which in turn is subject to the overall supervision of the Board.

Provision 3.2

As CEO, Mr Chua Kheng Choon is responsible for the conduct of the Group's daily operational directions and decisions, while as Chairman of the Board, he:

- leads the Board to ensure its effectiveness on all aspects of its role;
- sets the agenda and ensures that adequate time is available for discussion of all agenda items, in particular strategic issues;
- promotes a culture of openness and debate in the Board;
- ensures that the Directors receive complete, adequate and timely information;
- ensures effective communication with Shareholders;
- encourages constructive relations within the Board and between the Board and the Management;
- facilitates the effective contribution of Independent and Non-executive Directors; and
- promotes high standards of corporate governance.

Provision 3.3

As the Chairman and CEO is the same person, Mr Koh Gim Hoe is appointed as the Lead Independent Director. He acts as the focal point for Independent Directors to provide their inputs to the Chairman and CEO as well as the Management, and in their interactions with the Executive Director. As the Lead Independent Director, he will be available to Shareholders where they have concerns for which contact through the normal channels of the Chairman and CEO, or the CFO have failed to resolve or for which such contact is inappropriate. As and when they deem necessary, the Independent Directors meet without the presence of the other Directors, and the Lead Independent Director provides feedback to the Chairman and CEO after such meeting, if necessary. Similarly, the Lead Independent Director acts as the focal point for contact between the Executive Director and the Management with the Independent Directors.

CORPORATE GOVERNANCE REPORT

BOARD MEMBERSHIP

Principle 4: There Board has a formal and transparent process for the appointment and re-appointment of Directors, taking into account the need for progressive renewal of the Board.

Provision 4.1

The Board established the Nominating Committee with written terms of reference which clearly set out its authority and duties, and reports to the Board directly.

The terms of reference of the Nominating Committee sets out its duties and responsibilities. Amongst them, the Nominating Committee is responsible for:-

1. regularly and strategically reviewing the structure, size and composition (including the skills, gender, age, qualification, experience and diversity) of the Board and Board Committees;
2. identifying and nominating candidates to fill Board vacancies as they occur;
3. requesting nominated candidates to disclose any existing or expected future business interests that may lead to a conflict of interest. This disclosure is to be included in any recommendations to the Board;
4. sending the newly-appointed Director a formal appointment letter which clearly sets out his or her roles and responsibilities, authority, and the Board's expectations in respect of his or her time commitment as a Director of the Company;
5. recommending the membership of the Board Committees to the Board;
6. reviewing the independent status of Non-Executive Directors (in accordance with Catalist Rules 406(3)(d)(i), (ii), and (iii) and Provision 2.1 of the Code) and that of the Alternate Director, if applicable, annually, or when necessary, along with issues of conflict of interest;
7. developing the performance evaluation framework for the Board, the Board Committees and individual Directors and propose objective performance criteria for the Board, the Board Committees and individual Directors;
8. recommending that the Board removes or reappoints a Non-Executive Director at the end of his or her term, and recommend the Directors to be re-elected under the provisions of the Company's Constitution on the policy of retirement by rotation. In making these recommendations, the Nominating Committee should consider the Director's performance, commitment and his or her ability to continue contributing to the Board;
9. reviewing other directorships held by each Director and decide whether or not a Director is able to carry out, and has been adequately carrying out, his or her duties as a Director;
10. reviewing the Board with its succession plans for the Board Chairman, Directors, CEO and key management personnel of the Company;
11. keeping up to date with developments in corporate governance initiatives, changes to relevant legislations, strategic issues and commercial changes that may affect the Company and the industry in which it operates; and

CORPORATE GOVERNANCE REPORT

12. undertaking such other functions and duties as may be required by the Board under the Code, statute or the Catalist Rules (where applicable).

Provision 4.2

The Nominating Committee comprises three members, two of whom are Independent and Non-Executive Directors, namely Mr Koh Gim Hoe (Chairman), Mr Lim Swee Kwang, and an Executive Director, Mr Chua Kheng Choon. The Lead Independent Director is a Chairman of the Nominating Committee.

Provision 4.3

The Nominating Committee's primary function is to recommend the appointments and re-appointments of Directors. Each member of the Nominating Committee is required to abstain from voting, approving or making a recommendation on any resolutions of the Nominating Committee in which he has a conflict of interest in the subject matter under consideration.

As prescribed in the Company's Constitution and recommended by the Code, one-third of the Directors are required to retire from office and be subject to re-election by Shareholders at the Company's Annual General Meeting. In addition, the Constitution of the Company provides that a Director appointed by the Board to fill a vacancy or as an additional Director must retire at the next annual general meeting of the Company after such appointment, and subject himself or herself for re-election.

At the forthcoming annual general meeting of the Company, Mr Koh Gim Hoe will be retiring by rotation pursuant to Regulation 92 of the Company's Constitution. Being eligible for re-election, Mr Koh Gim Hoe has offered himself for re-election at the forthcoming annual general meeting of the Company. The Nominating Committee has recommended and the Board has agreed that Mr Koh Gim Hoe be nominated for re-election of the forthcoming annual general meeting of the Company. In making the recommendations, the Nominating Committee has considered the overall contributions and performances of Mr Koh Gim Hoe. Please refer to the section entitled "Additional Information on Director Nominated for Re-election – Appendix 7F to the Catalist Rules" of this report for the information as set out in Appendix 7F to the Catalist Rules relating to Mr Koh Gim Hoe.

Following the retirement of Mr Cheah Chow Seng as Independent and Non-Executive Director at the conclusion of the Company's annual general meeting held on 29 April 2019, the Nominating Committee has been in the process of the search of a new Independent Director. However, largely due to the termination of an earlier proposed corporate action in end August 2019 (being, the proposed placement of new shares and the associated sale and purchase agreement for the proposed acquisition of Asia Fame Group ("**Proposed Acquisition**")) which affected the Board's plan to reassess the composition of the Board. Accordingly, the Board has yet to appoint a new independent Director.

When a new Director is to be selected or appointed by the Board, the Nominating Committee, in consultation with the Board, decides on the criteria (including qualifications and experience) for selecting any candidate. The Nominating Committee meets with the shortlisted candidates to assess their suitability, with a view to nominating them for the Board's consideration and approval. In their assessment of each candidate, the Nominating Committee will take into account the candidate's track record, age, experience, capabilities and other relevant factors.

CORPORATE GOVERNANCE REPORT

Provision 4.4

The Company has put in place a process to ensure the continuous monitoring of the independence of the Directors whereby the Directors must immediately report any changes in their external appointments that could affect their independence on the Board.

The Nominating Committee reviews the independence of each Director annually in accordance with the definition of independence set out in the Code, and taking into consideration whether the Director falls under any circumstances pursuant to Rule 406(3)(d) of the Catalist Rules. In respect of the Company's current Independent Directors, namely Mr Koh Gim Hoe and Mr Lim Swee Kwang, the Board is of the view that they are independent, taking into account the circumstances set forth in the Code, Rule 406(3)(d) of the Catalist Rules and any other salient factors. For FY2019, the Independent Directors have also confirmed their independence in accordance with the Code and Rule 406(3)(d) of the Catalist Rules.

Provision 4.5

Other than the key information regarding the Directors set out below, information pertaining to the Directors' interests in shares, options and other convertible securities are set out in the "Directors' Statement" section of this Annual Report, and information in relation to the background and principal commitments of the Directors are set out in the "Board of Directors" section of this Annual Report. The dates of initial appointment and last re-election of each Director, together with his current directorships in listed companies and other principal commitments are set out below:

| Name of Director | Board appointment | Date of first appointment | Date of last re-election | Directorships/ Chairmanships in other listed companies (present and in the preceding three years) | Other principal commitments |
|-------------------------|------------------------------------|----------------------------------|---|--|--|
| Chua Kheng Choon | Executive Chairman | 22.12.1988 | 27.4.2018 | - | - |
| Koh Gim Hoe | Non-Executive and Lead Independent | 11.5.2016 | 28.04.2017 (to be re-elected at the forthcoming Annual General Meeting) | - | Executive Director of Singapore Precision Engineering and Technology Association |
| Lim Swee Kwang | Non-Executive and Independent | 27.4.2018 | 29.4.2019 | - | Director of SIDM/ ODM Business Development of Printronix Schweiz GMBH |

The Board is of the view that the effectiveness of each Director is best assessed by a qualitative assessment of the Director's contribution and his ability to devote sufficient time and attention to the Company's affairs. The Board has not determined the maximum number of listed company board representations which a Director may hold as it does not wish to omit from consideration, outstanding individuals who, despite the demands on their time, have the capacity to participate and contribute as new members of the Board. The Board does not have any alternate Directors.

CORPORATE GOVERNANCE REPORT

BOARD PERFORMANCE

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

Provision 5.1

While the Code recommends that the Nominating Committee be responsible for assessing the effectiveness of the Board as a whole and of each of the Board Committees separately, and also assessing the contribution of the Chairman and each individual Director, the Nominating Committee is of the view that, given the small size of the Board, it is more appropriate and effective to assess the Board as a whole in FY2019, bearing in mind that each member of the Board contributes in different way to the success of the Company and Board decisions are made collectively.

Provision 5.2

The Nominating Committee, in considering the appointment or re-appointment of any Director, evaluates the competencies, commitment, contribution and performance of that Director, and also the requirements for Board renewal. The assessment parameters include attendance, preparedness, participation and candour at meetings of the Board and Board Committees, as well as effectiveness and commitment of such Director.

Each member of the Nominating Committee shall abstain from voting on any resolutions or participating in respect of the assessment of his performance or re-nomination as Director.

The Nominating Committee, having reviewed the overall performance of the Board in terms of its role and responsibilities and the conduct of its affairs as a whole for the financial year reported on, is of the view that the performance of the Board as a whole has been satisfactory. The Nominating Committee is satisfied that sufficient time and attention has been given to the Group by each Director. The Board has not engaged any external facilitator in conducting the assessment of the Board's performance. Where relevant, the Nominating Committee will consider such engagement.

REMUNERATION MATTERS

PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

Principle 6: The Board has a formal and transparent procedure for developing policies on Director and executive remuneration, and for fixing the remuneration packages of individual Directors and key management personnel. No Director is involved in deciding his or her own remuneration.

Provision 6.1

The Remuneration Committee's primary responsibility is overseeing the general compensation of the Group's employees with a goal to motivate, recruit and retain the Group's employees and Directors through competitive compensation and progressive policies.

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The principal responsibilities of the Remuneration Committee include, amongst others, the following:

- reviews and recommends to the Board, a framework of remuneration for the Directors and key management personnel;
- reviews and recommends to the Board the specific remuneration packages for each Director; and
- reviews the Company's obligations arising in the event of termination of an executive Director's contract of service, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous.

Provision 6.2

The Remuneration Committee comprises three members, two of whom, including the Chairman, are Independent and Non-Executive Directors, namely Mr Koh Gim Hoe (Chairman) and Mr Lim Swee Kwang, and an Executive Director, Mr Chua Kheng Choon. Provision 6.2 of the Code recommends that all members of a remuneration committee be made up of non-executive directors. The Company does not comply with Provision 6.2 of the Code as Mr Chua Kheng Choon (Chairman and CEO) is a member of the Remuneration Committee. As stated in Provision 4.3, while the Board has been actively searching for an additional Independent and Non-Executive Director, the termination of the Proposed Acquisition had delayed the search plan.

Notwithstanding the above, the Board is of the view that the Company complies with Principle 6 of the Code as the Board has formal and transparent procedure for developing policies on Director and executive remuneration, and for fixing remuneration packages of individual Directors and key management personnel, and no Director is involved in deciding his remuneration.

Provision 6.3

In carrying out its duties, the Remuneration Committee aims to be fair and to avoid rewarding poor performance.

The Remuneration Committee at present does not review and recommend to the Board the specific remuneration packages for key management personnel. This task is carried out by the Executive Committee. The Board will consider how to involve the Remuneration Committee in this process in due course.

The remuneration framework under the purview of the Remuneration Committee covers all aspects of remuneration, including but not limited to, Directors' fees, salaries, allowances, bonuses, options, share based incentives and awards, and benefits in kind. No Director is involved in deciding his or her own remuneration.

At present, the remuneration of key management personnel (excluding CEO) is reviewed and approved by the CEO, while the remuneration of the CEO and Executive Director is reviewed and approved by the Remuneration Committee.

Provision 6.4

No remuneration consultants were engaged by the Company in FY2019. The Remuneration Committee will engage professional advice in relation to remuneration matters as and when the need arises. The Remuneration Committee will ensure that existing relationships between the Company and its appointed remuneration consultants, if any, will not affect the independence and objectivity of the remuneration consultants. Where remuneration consultants are appointed, the Company will disclose the names and firms of the remuneration consultants in the annual remuneration report, and include a statement on whether the remuneration consultants have any such relationships with the Company.

CORPORATE GOVERNANCE REPORT

LEVEL AND MIX OF REMUNERATION

Principle 7: The level and structure of remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value creation of the Company, taking into account the strategic objectives of the Company.

Provisions 7.1 and 7.3

The service contracts of executive Director and key management personnel are for fixed terms which are not excessively long, and do not contain onerous removal clauses. Notice periods in such service contracts are set at a period of 6 months or less. These service contracts are reviewed periodically by the Remuneration Committee to ensure that they are aligned with the long-term interest and risk policies of the Company and are in line with market practices and prevailing market conditions. When it deems appropriate, the Remuneration Committee appoints independent remuneration consultants to assist the Remuneration Committee in the performance of its tasks.

At the moment, the Company does not use any contractual provisions to reclaim incentive components of the remuneration from the executive Director and key management executives in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Group. The Executive Director owes a fiduciary duty to the Company, and the Company should be able to avail itself to remedies against the Executive Director in the event of such breach of fiduciary duties. The Remuneration Committee, will consider, if required, whether there is a requirement to institute such contractual provision to allow the Company to reclaim the incentive components of the remuneration of the executive Director and key management executive paid in prior years in such exceptional circumstances.

The Remuneration Committee is also responsible for overseeing the MCE Share Option 2014 Scheme (the “**2014 Scheme**”) and assists the Board in administering the 2014 Scheme in accordance with the guidelines set. Adequate disclosures have been made in the “Directors’ Statement” section of this Annual Report, entitled “Employee Share Option Scheme” and in note 25 to the financial statements set out in this Annual Report.

Provision 7.2

The Independent Directors are paid fixed Directors’ fees which are set in accordance with a remuneration framework comprising basic fees and committee fees. In determining such fees, the Remuneration Committee considers, among others, the particular circumstances applicable to the Company, and the practice of companies in the same industry, of comparable size and having similar business models.

The Board recognises the need to pay competitive (but not excessive) fees to attract, motivate and retain Directors. The Remuneration Committee has assessed and is satisfied that the Non-Executive and Independent Directors are not overly-compensated to the extent that their independence is compromised. The Directors’ fees are recommended by the Remuneration Committee for the Board’s approval and will be paid only after approval by Shareholders at the Annual General Meeting. The Chairman and members of the various Board Committees receive additional fees after taking into account the nature of their responsibilities and the greater frequency of meetings. Each member of the Remuneration Committee abstains from voting on any resolutions in respect of his remuneration package. Directors’ fees of S\$110,000 for the financial year ending 31 December 2020 (to be paid quarterly in arrears) are recommended by the Board and subject to the approval of Shareholders at the forthcoming annual general meeting of the Company.

CORPORATE GOVERNANCE REPORT

DISCLOSURE ON REMUNERATION

Principle 8: The Company is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.

Provision 8.1

The remuneration bands of the Directors and the top six (6) key management personnel of the Group (who are not Directors or the CEO), for FY2019 are as follows:

| Remuneration Bands | Directors' Fees | Base/Fixed Salary | Bonus | Other Benefits | Total |
|--|-----------------|-------------------|-------|----------------|-------|
| | % | % | % | % | % |
| Directors | | | | | |
| S\$250,000 to below S\$500,000 | | | | | |
| Chua Kheng Choon | 0 | 89 | 0 | 11 | 100 |
| Below S\$250,000 | | | | | |
| Koh Gim Hoe | 100 | 0 | 0 | 0 | 100 |
| Cheah Chow Seng (retired on 29 April 2019) | 100 | 0 | 0 | 0 | 100 |
| Lim Swee Kwang | 100 | 0 | 0 | 0 | 100 |
| Key Management | | | | | |
| Below S\$250,000 | | | | | |
| Mak Peng Leong Philip | 0 | 100 | 0 | 0 | 100 |
| Tan Wee Suan, Mavis | 0 | 98 | 2 | 0 | 100 |
| Ng Chee Hong, Darren | 0 | 98 | 2 | 0 | 100 |
| Boon Che Kwang | 0 | 76 | 24 | 0 | 100 |
| Lew Chan Fook | 0 | 98 | 2 | 0 | 100 |
| Yip Chee Wang | 0 | 100 | 0 | 0 | 100 |

The Company had obtained Shareholders' approval for payment of Directors' fees for FY2019 of an aggregate amount of \$110,000 (with payment to be paid quarterly in arrears during FY2019) at the last annual general meeting of the Company held on 29 April 2019 and the actual Directors' fees paid in FY2019 were S\$96,250.

The Board, after weighing the advantages and disadvantages of such disclosure, is of the view that full disclosure of the actual remuneration of each Director and the CEO as well as the total remuneration paid to the top five key management personnel pursuant to Provision 8.1 of the Code would not be in the interests of the Company as such information is confidential and sensitive in nature, and can be exploited by competitors.

The Board is of the opinion that the information disclosed above would be sufficient for Shareholders to have an adequate appreciation of the Company's compensation policies and practices and therefore does not intend to issue a separate remuneration report, the contents of which would be largely similar.

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Provision 8.2

Save for Mr Chua Kheng Choon who is a substantial Shareholder, the Company does not have any employee who is a substantial Shareholder, or an immediate family member of a Director, the CEO or a substantial Shareholder in FY2019.

Provision 8.3

There are no termination, retirement and post-employment benefits that may be granted to Directors, the CEO and the key management personnel (who are not Directors or the CEO).

The MCE Share Option Scheme (“ESOS”) which was adopted by the Company on 4 November 2003, had expired on or about 3 November 2013. At the annual general meeting of the Company on 25 April 2014, the MCE Share Option Scheme 2014 was approved and adopted by the Company’s shareholders to replace the ESOS. No share options were granted pursuant to the MCE Share Scheme 2014 in FY2019. Details of the ESOS and the MCE Share Option Scheme 2014 are set out in the “Directors’ Statement” section in this Annual Report entitled “Employee Share Option Scheme” and in note 25 to the financial statement set out in this Annual Report.

ACCOUNTABILITY AND AUDIT

RISK MANAGEMENT AND INTERNAL CONTROLS

Principle 9: The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the Company and its Shareholders.

Provision 9.1

To enhance the Board’s risk governance capabilities, the Board has in place an Enterprise Risk Management (“**ERM**”) program for the Group. The ERM program is intended to assist the Board in (a) identifying significant risks, as well as determining the Company’s levels of risk tolerance and risk policies; and (b) overseeing the design, implementation and monitoring of the Company’s risk management and internal control systems.

To assist the Board in carrying out its risk governance functions, the Board has decided, in lieu of forming a separate board risk committee, to expand the terms of reference of the Audit Committee in relation to risk management, namely:

“To assist the Board in overseeing the risk governance in the Company to ensure that the Management maintains a sound system of risk management and internal controls to safeguard shareholders’ interests and the Company’s assets. The Audit Committee will also assist the Board to determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.”

In connection with the ERM program of the Group and the additional terms of reference of the Audit Committee, the Board designated the CFO, Mak Peng Leong, Philip, as the Group’s chief risk officer, with the following terms of reference:

CORPORATE GOVERNANCE REPORT

“To assist the Audit Committee in carrying out its responsibilities in relation to risk governance by monitoring and reporting to the Audit Committee on the performance of the activities of the Company’s ERM program and compliance by all relevant departments, business units or personnel of their respective responsibilities under the ERM programme.”

The ERM program is intended to complement the functions performed by the internal auditors in respect of risk management and internal controls. The internal auditors are tasked to perform independent reviews of risks and controls to provide reasonable assurance to the Audit Committee and the Board that such risks have been adequately addressed and controls are operating.

In addition, the Audit Committee has, with the assistance of the Management and the internal auditors, reviewed and reported to the Board on the effectiveness of the Group’s internal controls including financial, operational, compliance, information technology controls and risk management systems. The Board recognises that no cost effective internal control system will be able to eliminate all errors, irregularities and risks, and that any cost effective system can only be designed to manage and mitigate material errors, irregularities and risks.

Provision 9.2

The Board has also received from the CEO and the CFO, assurances that (i) the financial records of the Group have been properly maintained and the financial statements give a true and fair view of the Group’s operations and finances, and (ii) that the Group has in place adequate and effective risk management and internal control systems.

Based on the Group’s existing framework of management controls, risk management systems, internal control policies and procedures, as well as reviews performed by the Management, the internal and external auditors, the Board, with the concurrence of the Audit Committee, is of the opinion that internal controls of the Group addressing financial, operational, compliance, information technology controls and risk management systems are adequate and effective as at 31 December 2019.

AUDIT COMMITTEE

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

Provision 10.1

The Executive Director will continue to manage the operations of the Group and the Audit Committee will provide the necessary oversight. The Audit Committee will assist the Board in discharging its responsibility to safeguard the Group’s assets, maintain adequate accounting records, as well as develop and maintain effective systems of internal control and risk governance, with the overall objective of ensuring that the Management creates and maintains an effective control environment in the Group.

The Audit Committee has explicit authority to investigate any matter within its terms of reference, and has full access to and co-operation by the Management and full discretion to invite any Director or executive officer to attend its meetings, and has reasonable resources to enable it to discharge its functions properly.

CORPORATE GOVERNANCE REPORT

The Audit Committee's duties include:

- reviewing significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Company and any announcements relating to the Company's financial performance;
- reviewing and reporting to the Board at least annually on the adequacy and effectiveness of the Company's internal controls, including financial, operational, compliance and information technology controls, with inputs and assistance from the Management and the internal auditors;
- reviewing the effectiveness of the Company's internal audit function;
- reviewing the scope and results of the external audit, and the independence and objectivity of the external auditors;
- reviewing the co-operation given by the Management to the internal and external auditors;
- making recommendations to the Board on the proposals to the Shareholders on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors;
- assisting the Board in overseeing the risk governance in the Company to ensure that the Management maintains a sound system of risk management and internal controls to safeguard Shareholders' interests and the Company's assets, and to assist the Board to determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives;
- reviewing interested person transactions (if any) falling within the scope of Chapter 9 of the Catalist Rules; and
- reviewing potential conflicts of interest, if any.

The Audit Committee also provides a channel of communication between the Board, the Management, the external auditors and the internal auditors on audit matters. The Audit Committee meets with the internal auditors and external auditors separately, at least once a year without the presence of the Management to review any matter that might be raised.

The Audit Committee keeps abreast of changes to accounting standards and issues which have a direct impact on financial statements through the report presented by the external auditors on the scope and results of the external audit, and through their discussions with the external auditors.

The Audit Committee reviews arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensures that arrangements are in place for the independent investigation of such matters and for appropriate follow-up action. The Company has put in place a formal whistle-blowing policy for staff in confidence to report and raise any concerns which they may have in relation to the foregoing matter. There were no reports of such matters for FY2019.

In FY2019, the Audit Committee carried out the following activities:-

- (a) reviewed half-year and full-year financial statements (unaudited and audited), and recommended such reports to the Board for approval;
- (b) reviewed the adequacy and effectiveness of the Group's risk management and internal control systems;
- (c) reviewed interested person transactions;
- (d) reviewed and approved the annual external audit plan of the external auditors;
- (e) reviewed and approved the internal audit plan of the internal auditors;
- (f) reviewed the annual re-appointment of the external auditors and determined their remuneration, and made a recommendation for Board approval;
- (g) met with the external auditors and the internal auditors once without the presence of the Management;
- (h) reviewed the salient features memorandum from the external auditor for FY2019; and
- (i) reviewed the internal audit report from the internal auditors.

CORPORATE GOVERNANCE REPORT

In discharging the above duties, the Audit Committee confirms that it has full access to and co-operation from the Management and is given full discretion to invite any Director or executive officer to attend its meetings. In addition, the Audit Committee has also been given reasonable resources to enable it to perform its function properly.

Provision 10.2

The Audit Committee comprises three members, two of whom (including the Chairman) are Independent and Non-Executive Directors, namely Mr Lim Swee Kwang (Chairman) and Mr Koh Gim Hoe, and an Executive Director, Mr Chua Kheng Choon. The Audit Committee members have many years of experience in senior management positions in both the financial and industrial sectors. They have sufficient recent and relevant financial management expertise and experience to discharge the Audit Committee's responsibilities.

Following the retirement of Mr Cheah Chow Seng as an Independent and Non-Executive Director at the conclusion of the Company's annual general meeting held on 29 April 2019, Mr Chua Kheng Choon (Chairman and Chief Executive Officer) was appointed as a member of the Audit Committee. The Board considers Mr Chua Kheng Choon to be non-independent for the purpose of Rule 704(7) of the Catalist Rules. Following the appointment of Mr Chua Kheng Choon as a member of the Audit Committee, the Company does not comply with the Provision 10.2 of the Code with regard to the composition of the Audit Committee, whereby all members of the Audit Committee should be non-executive directors. In this regard, the Board will endeavour to make the necessary arrangements to comply with the provision of the Code in due course. Notwithstanding, the Audit Committee comprised two (out of three) Independent and Non-Executive Directors and they are being kept updated by in-depth quarterly financial updates and progress made on key strategic initiatives by the CEO, the CFO and members from the key management team so as to discharge the role of the Audit Committee effectively.

Provision 10.3

The Audit Committee does not comprise former partners or directors of the Company's existing external auditing firm (a) within a period of two years commencing on the date of their ceasing to be a partner of the auditing firm or director of the auditing corporation; and in any case, (b) for as long as they have any financial interest in the auditing firm.

Provision 10.4

The Company has complied with the Rules 712 and 715 of the Catalist Rules in engaging Foo Kon Tan LLP, which is registered with the Accounting and Corporate Regulatory Authority, as the external auditors of the Company and its Singapore-incorporated subsidiary. The Group has appointed different auditors for its overseas subsidiaries. The Board and the Audit Committee have reviewed the appointment of different auditors for its overseas subsidiaries and were satisfied that the appointment of different auditors would not compromise the standard and effectiveness of the audit of the Group.

CORPORATE GOVERNANCE REPORT

The following are the audit and non-audit fees paid/payable by the Group:

| | FY2019 |
|---|---------------|
| | \$ |
| Audit fees paid/payable to the external auditors | |
| - external auditors of the Company | 140,000 |
| - other external auditors of the Group | - |
| Non-audit fees paid/payable to the external auditors | - |

Annually, the Audit Committee will also conduct a review of the independence and objectivity of the external auditors through discussions with the external auditors, as well as reviewing the non-audit fees paid to them. The Audit Committee has reviewed the amount of non-audit services rendered to the Group by the external auditors and is satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors. After considering the resources and experience of Foo Kon Tan LLP and the audit engagement partner assigned to the audit, Foo Kon Tan LLP's other audit engagements, the size and complexity of the audit for the Group, as well as the number and experience of the staff assigned by Foo Kon Tan LLP for the audit, the Audit Committee has recommended to the Board the nomination and re-appointment of Foo Kon Tan LLP as the external auditors of the Company at the forthcoming annual general meeting of the Company.

In the review of the financial statements, the Audit Committee has discussed with the Management the accounting principles that were applied and their judgment of items that might affect the integrity of the financial statements. The following significant matter impacting the financial statements was discussed with the Management and the external auditors, and was reviewed by the Audit Committee:

| Matters considered | How the Audit Committee reviewed these matters and what decisions were made |
|---|---|
| Impairment testing of non-financial assets (the Group's property, plant and equipment, right-of-use assets and the Company's investment in subsidiaries) | <p>The Audit Committee considered the approach, methodology and inputs applied to the valuation model in assessing the impairment of non-financial assets (the Group's property, plant and equipment and the Company's investments in subsidiaries). The Audit Committee concurred with the assessment of the Management and the valuer.</p> <p>The impairment of non-financial assets was also an area of focus for the external auditors. The external auditors have included this item as a key audit matter in the auditor's report for the financial year ended 31 December 2019. Please refer to page 47 of this Annual Report.</p> |

The Company has outsourced its internal audit function to BDO LLP. The internal auditors report directly to the Chairman of the Audit Committee on audit matters and administratively to the CEO. The Audit Committee approves the hiring, removal, evaluation and compensation of the internal auditors.

The internal auditors plan their audit schedules in consultation with, but independent of, the Management. The internal audit plan is submitted to the Audit Committee for approval prior to implementation. The Audit Committee reviews the activities of the internal auditors, and meets with the internal auditors at least once a year to approve their plans and to review their report for the prior reporting period. The Audit Committee also ensures that the internal auditors have the necessary resources to perform its functions adequately.

CORPORATE GOVERNANCE REPORT

The Audit Committee has reviewed the independence, adequacy and effectiveness of the internal audit function and is satisfied that the internal audit function is independent, effective and adequately resourced, staffed with persons with the relevant qualifications and experience and have the appropriate standing and independence within the Group to fulfil their mandate. The Audit Committee is also of the view that the internal auditors have unfettered access to all the Company's documents, records, properties and personnel including access to the Audit Committee.

The internal auditor have conducted their work in accordance with the standards set by nationally or internationally recognised professional bodies including the Standards of the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

Provision 10.5

The Audit Committee meets, at a minimum, on a semi-annual basis. The Audit Committee held two meetings in FY2019, and has met twice with the external auditors and the internal auditors, of which once was without the presence of the Management in FY2019.

SHAREHOLDER RIGHTS AND ENGAGEMENT

SHAREHOLDER RIGHTS AND CONDUCT OF GENERAL MEETINGS

Principle 11: The Company treats all Shareholders fairly and equitably in order to enable them to exercise shareholders' rights and have the opportunity to communicate their views on matters affecting the Company. The Company gives Shareholders a balanced and understandable assessment of its performance, position and prospects.

COMMUNICATION WITH SHAREHOLDERS

Provision 11.1

The rights of Shareholders are contained in the Company's Constitution and are also set out in applicable laws including the Companies Act, Chapter 50 ("**Companies Act**"). All Shareholders are treated fairly and equitably. Shareholders are also encouraged to participate in question and answer sessions during general meetings, to facilitate active and meaningful communication with the Management and the Board.

Shareholders are informed of all general meetings of the Company through notices contained in annual reports or circulars sent to all Shareholders. The Company complies with its Constitution and the Companies Act in respect of the requisite notice periods for convening general meetings. The notice of the general meeting is accompanied by the Company's annual report. The notice of an extraordinary general meeting is accompanied by a Circular. All notices of all general meetings are advertised in a national newspaper in Singapore as well as on SGXNET.

Details of the rules governing voting procedures are contained in the Company's Constitution and are set out under applicable law. Circulars sent to Shareholders also contain a notice on their cover page that if Shareholders are in any doubt to the action they should take, they should consult their stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

CORPORATE GOVERNANCE REPORT

Provision 11.2

The resolutions tabled at the general meetings are on each substantially separate issue, unless the issues are interdependent and linked so as to form one significant proposal. If a scenario arises where the resolutions are inter-conditional, the Company will explain the reasons and material implications in the notice of meeting. The Company typically ensures that there are separate resolutions at general meetings on each distinct issue. Detailed information on each resolution is set out in the notice of the general meeting.

Provision 11.3

Shareholders are informed of and are given the opportunity to participate at general meetings of the Company. The Board and the Management are present at these meetings to address any questions that Shareholders may have. The Company's external auditors are also in attendance at the annual general meeting of the Company and are available to assist the Directors in addressing any relevant queries by Shareholders. In view of the Company's relatively modest Shareholder base, the ability of Shareholders to interact directly with the Board and the Management before, during and after each general meeting, the Board is of the view that Shareholders have sufficient opportunity to express their views and address their questions to the Board and the Management. For FY2019, save for Mr Koh Gim Hoe (Independent and Non-Executive Director), Mr Chua Kheng Choon (Chairman and CEO), Mr Lim Swee Kwang (Independent and Non-Executive Director), and Mr Cheah Chow Seng (Independent and Non-Executive Director, retired following the conclusion of the FY2019 annual general meeting on 29 April 2019), were present at the FY2019 annual general meeting on 29 April 2019. Save for aforementioned annual general meeting, there was no other general meeting held during FY2019.

Provision 11.4

The Company does not provide for absentia voting methods such as by mail, email, or fax due to concerns as to the integrity of such information and authentication of the identity of Shareholders voting by such means.

If Shareholders are not able to attend these meetings, they can appoint up to two (2) proxies to attend and vote in their place. Resolutions proposed at general meetings on a single substantively separate issue are proposed as a single item resolution. Pursuant to the Companies Act, a member who is a relevant intermediary is entitled to appoint more than two (2) proxies to attend and vote at general meeting, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member appoints more than two (2) proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the instrument appointing a proxy or proxies. "Relevant Intermediary" has the meaning ascribed to it in Section 181 of the Companies Act

Provision 11.5

Minutes are taken of all general meetings, and where appropriate, include all substantial and relevant comments or queries from Shareholders relating to the agenda of the meeting and the responses from the Board and the Management. Such minutes, which are subsequently approved by the Board, will be made available to Shareholders during office hours upon request.

CORPORATE GOVERNANCE REPORT

Provision 11.6

The Company does not have a formal policy on the payment of dividends. However, the Board is mindful of the need to reward Shareholders as and when the performance of the Group, its projected capital requirements, cash-flow and operating requirements, allow for the payment of dividends. The frequency and amount of dividends declared each year will take into consideration the Group's profit growth, cash position, projected capital requirements for business growth and other factors as the Board may deem appropriate. Taking into account the above factors, and the Group's recorded accumulated losses in FY2019, the Board has not recommended dividends to be paid in respect of FY2019.

ENGAGEMENT WITH SHAREHOLDERS

Principle 12: The Company communicates regularly with its Shareholders and facilitates participation of Shareholders during general meetings and other dialogues to allow Shareholders to communicate their views on various matters affecting the Company.

Provision 12.1

The general meetings of the Company is the principal forum for dialogue with Shareholders. The Company recognises the value of feedback from Shareholders. During the general meetings, Shareholders are given ample time and opportunities to sound their views and concerns. All the Directors will endeavour to attend general meetings of the Company and Shareholders will be given the chance and share their thoughts and ideas or ask questions relating to the resolutions to be passed or on other corporate and business issues.

The Company will put all resolutions to vote by poll at the general meetings and the detailed results of the number of votes cast for and against each resolution and the respective percentages will be announced via SGXNET.

The Company believes in timely and accurate dissemination of information to its Shareholders. The Board makes every effort to comply with continuous disclosure obligations of the Company under the Catalist Rules and the Companies Act. Where there is inadvertent disclosure made to a selected group, the Company will make the same disclosure publicly as soon as practicable. Communication to Shareholders is normally made through:-

- (a) annual reports that are prepared and issued to all Shareholders;
- (b) annual and half-year financial statements announcements containing a summary of the financial information and affairs of the Group for the period;
- (c) notices and explanatory memoranda for general meetings;
- (d) disclosures to the SGX-ST via SGXNet; and
- (e) press/media releases.

CORPORATE GOVERNANCE REPORT

Provisions 12.2 and 12.3

The Company does not have an Investors Relations Policy in place. Notwithstanding, the Board's policy is that all Shareholders should be informed simultaneously in an accurate and comprehensive manner regarding all material developments that impact the Group via SGXNet on an immediate basis, in line with the Group's disclosure obligations pursuant to the Catalist Rules and Companies Act. There is no dedicated investor relations team in place as the Board was of the view that the current communication channels are sufficient and cost-effective.

MANAGING STAKEHOLDERS RELATIONSHIPS

ENGAGEMENT WITH STAKEHOLDERS

Principle 13: The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the Company are served.

Provision 13.1

The Company has identified environment and future generations, employees, customers, suppliers and communities as material stakeholders who may materially impact or be directly impacted by the Group's activities. Therefore, the Company has arrangements in place to engage with these material stakeholders and manage its relationships with them.

Stakeholder relations are managed by the Corporate Sustainability Committee ("**CSC**") chaired by the CEO. Other members of the CSC include designated senior executives. Engagement includes regular and up-to-date communications on CSR policies and activities to the stakeholders. Stakeholders are encouraged to provide feedback (through the appropriate channels) on the Company's performance.

Provision 13.2

The Company's strategy and key areas of focus in relation to the management of stakeholder relationships during FY2019 were as follows:

- providing investors with relevant information about the Company and its activities and seeking their views on the Company's financial performance and activities;
- interacting with customers and suppliers regularly to better understand each other's concerns and needs and working with them to address these concerns and needs;
- communicating with the Group's employees in various ways to ensure that the Company knows their concerns and that they are aligned with the Company's strategies;
- engaging the local communities where the Group operates and identifying and seeking to address their needs and concerns; and
- providing feedback to and complying with the regulations and policies of regulators.

CORPORATE GOVERNANCE REPORT

Provision 13.3

To promote regular, effective and fair communication with Shareholders, the Company maintains a corporate website at www.mce.com.sg, through which Shareholders are able to access up-to-date information on the Group.

MATERIAL CONTRACTS

No material contracts (including loans) were entered into between the Company or any of its subsidiaries involving the interests of any Director or controlling Shareholder, which are either subsisting at the end of the financial year reported on or, if not then subsisting, entered into since the end of the previous financial year except for Director's remuneration as disclosed in the Notes to the Financial Statements in this Annual Report.

INTERESTED PERSON TRANSACTIONS

The Company has established procedures to ensure that transaction with interested person are properly reviewed, approved and reported to the Audit Committee on a timely basis, and are conducted at arm's length basis and will not be prejudicial to the interest of the Company and its minority shareholders.

There were no interested person transactions which were more than \$100,000 entered into in FY2019. The Group does not have a general mandate for recurrent interested person transactions.

NON-SPONSORSHIP FEES

With reference to Rule 1204 (21) of the Catalist Rules, no non-sponsorship fees were paid to the Company's Sponsor, ZICO Capital Pte. Ltd. in FY2019.

DEALING IN SECURITIES

The Company has issued an internal code on dealings in the Company's securities to the Directors and other officers (including officers with access to material non-public price-sensitive information) of the Group. The Directors and other officers are prohibited from dealing in the Company's securities at least one month before the announcement of the Group's half year and full year results until after the announcements were made. They are also advised not to deal in the Company's securities on short-term considerations and in circumstances where they have access to material non-public price-sensitive information. They are also advised to observe all applicable insider trading laws at all times even when dealing in securities within the permitted trading period.

CORPORATE GOVERNANCE REPORT

ADDITIONAL INFORMATION ON DIRECTORS NOMINATED FOR RE-ELECTION – APPENDIX 7F TO THE CATALIST RULES

Pursuant to Rule 720(5) of the Catalist Rules, the information as set out in Appendix 7F to the Catalist Rules relating to Koh Gim Hoe, being the Director who is retiring in accordance with the Company's Constitution at the forthcoming AGM, is set out below:

| | |
|---|---|
| Name of Director | Koh Gim Hoe |
| Date of Appointment | 11 May 2016 |
| Date of last re-appointment (if applicable) | 28.04.2017 |
| Age | 68 |
| Country of principal residence | Singapore |
| The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process) | The re-election of Mr Koh Gim Hoe ("Mr Koh") as the Independent Non-Executive Director was recommended by the Nominating Committee and the Board has accepted the recommendation, after taking into consideration Mr Koh's qualifications, expertise, past experiences and overall contribution since he was appointed as a Director of the Company. |
| Whether appointment is executive, and if so, the area of responsibility | Non-Executive |
| Job Title (e.g. Lead ID, AC Chariman, AC member etc.) | Independent Non-Executive Director, Chairman of the Nominating Committee and Remuneration Committee and member of the Audit Committee. |
| Professional qualifications | Nil |
| Working experience and occupation(s) during the past 10 years | December 2015 to Current Singapore Precision Engineering and Technology Association Executive Director November 2015 to November 2016 Standards, Productivity and Innovation Board (SPRING Singapore) Business Advisor December 2000 to June 2015 Armstrong Industrial Corporation Limited Deputy Chief Executive Officer |
| Shareholding interest in the listed Issuer and its subsidiaries | Nil |

CORPORATE GOVERNANCE REPORT

| | |
|---|--|
| Any relationship (including immediate family relationship) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries | Nil |
| Conflict of Interest (including any competing business) | Nil |
| Undertaking (in the format set out in Appendix 7H) under Rule 720(1) has been submitted to the listed issuer | Yes |
| Other Principal Commitments* Including Directorships# | |
| <p>**Principal Commitments” has the same meaning as defined in the Code – “principal commitments” includes all commitments which involve significant time commitment such as full-time occupation, consultancy work, committee work, non-listed company board representations and directorships and involvement in non-profit organisations.</p> <p># These fields are not applicable for announcements of appointments pursuant to Listing Rule 704(8)</p> | |
| Past (for the last 5 years) | Armstrong Industrial Corporation Limited Armstrong-Odenwald (Asia) Pte. Ltd. Armstrong Weston Holdings Pte. Ltd. |
| Present | Metal Component Engineering Limited |

Disclose the following matters concerning an appointment of director, chief executive officer, general manager or other officer of equivalent rank. If the answer to any questions is “yes”, full details must be given.

| | | |
|-----|---|----|
| (a) | Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner? | No |
| (b) | Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency? | No |
| (c) | Whether there is any unsatisfied judgment against him? | No |
| (d) | Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose? | No |

CORPORATE GOVERNANCE REPORT

| | | |
|-----|--|----|
| (e) | Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach? | No |
| (f) | Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part? | No |
| (g) | Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust? | No |
| (h) | Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust? | No |
| (i) | Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity? | No |
| (j) | Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of :- | |
| | (i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or | No |
| | (ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or | No |
| | (iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or | No |
| | (iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust? | No |
| (k) | Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere? | No |

CORPORATE GOVERNANCE REPORT

| Disclosure applicable to the appointment of Director only. | |
|---|--|
| Any prior experience as a director of an issuer listed on the Exchange? (Yes/No) | Not applicable. This is a re-election of a Director. |
| If yes, please provide details of prior experience. | |
| If no, please state if the director has attended or will be attending training on the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange. | Not applicable. This is a re-election of a Director. |
| Please provide details of relevant experience and the nominating committee's reasons for not requiring the director to undergo training as prescribe by the Exchange (if applicable). | Not applicable. This is a re-election of a Director. |

DIRECTORS' STATEMENT

For the financial year ended 31 December 2019

The directors submit this annual report to the members together with the audited consolidated financial statements of Metal Component Engineering Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2019.

In the opinion of the directors:

- (a) the accompanying statements of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows, together with the notes thereon, are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards (International); and
- (b) at the date of this statement, as disclosed in Note 2(a) to the financial statements, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

Names of directors

The directors of the Company in office at the date of this statement are:

Chua Kheng Choon (Chairman and Chief Executive Officer)

Koh Gim Hoe (Independent Director)

Lim Swee Kwang (Independent Director)

Directors' interest in shares, debentures or share options

According to the Register of Directors' Shareholdings kept by the Company under Section 164 of the Companies Act, Chapter 50, none of the directors who held office at the end of the financial year had any interest in the shares, debentures or share options of the Company or its related corporations, except as follows:

| | Holdings registered in the name of director | | Holdings in which director is deemed to have an interest | |
|--|--|----------------------|---|----------------------|
| | As at 1.1.2019 | As at 31.12.2019# | As at 1.1.2019 | As at 31.12.2019# |
| The Company - Metal Component Engineering Limited | | | <u>Number of ordinary shares</u> | |
| Chua Kheng Choon | 27,737,666 | 27,737,666 | 6,735,000 | 6,735,000 |
| Lim Swee Kwang | - | - | 66,666 | 66,666 |

DIRECTORS' STATEMENT

For the financial year ended 31 December 2019

Directors' interest in shares, debentures or share options (cont'd)

According to the Register of Directors' Shareholdings, certain directors holding office at the end of the financial year had interests in options to subscribe for ordinary shares of the Company granted pursuant to the Employee Share Option Scheme as set out below:

| | As at 1.1.2019 | As at 31.12.2019[#] |
|---|---|---|
| The Company - <u>Metal Component Engineering Limited</u> | Number of unissued ordinary <u>shares under option</u> | |
| Chua Kheng Choon | 1,700,000 | 1,700,000 |

[#] There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2020.

Employee Share Option Scheme

On 4 November 2003, the Company adopted the MCE Share Option Scheme ("MCE Scheme") which expired on or about 3 November 2013. At the Annual General Meeting of the Company on 25 April 2014, the MCE Share Option Scheme 2014 ("MCE Scheme 2014") was approved by the Company's shareholders ("Shareholders") to replace the MCE Scheme. The MCE Scheme 2014, which forms an integral component of its compensation plan, is designed with the following objectives:

- i) to serve as an additional method available to the Group for compensating the participants rather than merely through salaries, salary increments and/or cash bonuses and to make remuneration sufficiently competitive to recruit and retain the participants;
- ii) to enhance the Group's ability to retain and attract highly qualified participants whose contributions are important to the Group's long-term business plans and objectives;
- iii) to offer participants the opportunity to acquire or increase their equity interests in the company and a chance to share in the profits of the Company as Shareholders;
- iv) to motivate participants to maximise their performance and efficiency due to the possible financial rewards arising from the Options granted, and to maintain a high level of contribution to the Group and create value for Shareholders;
- v) to promote greater commitment and dedication, instill loyalty and a stronger identification by the participants with the long-term development and growth plans of the Group; and
- vi) to align the interests of the participants with those of the Shareholders.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2019

Employee Share Option Scheme (cont'd)

Under the rules of the MCE Scheme 2014, all directors (including non-executive directors) and employees of the Group are eligible to participate in the MCE Scheme 2014. Directors and employees who are also controlling shareholders or associates of controlling shareholders are not eligible to participate in the MCE Scheme 2014 unless:

- (i) their participation; and
- (ii) the actual number of Shares to be issued to them and the terms of any Option to be granted to them, have been approved by independent Shareholders in general meeting in separate resolutions for each such person.

The total number of shares over which options may be granted shall not exceed 15% of the issued ordinary share capital of the Company on the day preceding the date of the relevant grant. The MCE Scheme 2014 is administered by the Company's Remuneration Committee, comprising Koh Gim Hoe,

Cheah Chow Seng and Lim Swee Kwang, in accordance with the rules of the MCE Scheme 2014. The number of options to be offered to a participant shall be determined at the discretion of the Remuneration Committee who shall take into account criteria such as the rank, length of service and performance of the participant provided always that the maximum entitlement of any participant, in accordance with and during the operation of the MCE Scheme 2014, shall not exceed 20% in aggregate of the total number of shares which have been issued and may be issued by the Company pursuant to the exercise of options under the MCE Scheme 2014.

The subscription price for each share in respect of which an option is exercisable shall be determined by the Remuneration Committee at its absolute discretion and fixed by the Remuneration Committee:

- i) at the prevailing market price of the Company's shares based on the average of the last dealt price per share determined by reference to the daily official list or other publication published by the SGX-ST for a period of five consecutive market days immediately preceding the relevant date of grant of such options ("Market Price"); or
- ii) at a price which is set at a discount to the Market Price, provided that the maximum discount shall not exceed 20% of the Market Price, the discount must have been approved by the Shareholders in a separate resolution.

Options must be exercised before the expiry of 10 years and 5 years from the date of grant for holders of options who are executive directors or employees and non-executive directors respectively. The vesting period is one year from date of grant.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2019

Employee Share Option Scheme (cont'd)

Details of options granted to directors and employees under the MCE Share Option Scheme are as follows:

| Date of grant | Balance at 1.1.2019 | Options granted | Options exercised | Options forfeited/ expired | Balance at 31.12.2019 | Exercise price | Number of option holders at 31.12.2018 | Exercise period |
|---------------------------|---------------------|-----------------|-------------------|----------------------------|-----------------------|----------------|--|------------------------|
| 4.9.2013 ⁽ⁱ⁾ | 3,060,000 | - | - | - | 3,060,000 | S\$0.050 | 6 | 4.9.2014 to 4.9.2023 |
| 22.6.2018 ⁽ⁱⁱ⁾ | 9,845,000 | - | - | (412,500) | 9,432,500 | S\$0.034 | 21 | 22.6.2019 to 22.6.2028 |
| | <u>12,905,000</u> | <u>-</u> | <u>-</u> | <u>(412,500)</u> | <u>12,492,500</u> | | | |

⁽ⁱ⁾ For executive directors and employees

⁽ⁱⁱ⁾ For employees

The following table summarises information about share options of directors and employees (who received 5% or more of the total number of options) outstanding as at 31 December 2019:

| | Options granted during the financial year ended 31.12.2019 | Aggregate options granted since commencement of scheme to 31.12.2019 | Aggregate options exercised since commencement of scheme to 31.12.2019 | Aggregate options cancelled/ lapsed since commencement of scheme to 31.12.2019 | Aggregate options outstanding as at 31.12.2019 |
|---|--|--|--|--|--|
| Executive Director: | | | | | |
| Chua Kheng Choon | - | 1,700,000 | - | - | 1,700,000 |
| Other participants who received 5% or more of the total available options other than directors: | | | | | |
| Boon Che Kwang ⁽¹⁾ | - | 990,000 | - | - | 990,000 |
| Mak Peng Leong Philip ⁽²⁾ | - | 1,155,000 | - | - | 1,155,000 |
| Ng Chee Hong Darren ⁽³⁾ | - | 825,000 | - | - | 825,000 |
| Thanyarat Chanpet ⁽⁴⁾ | - | 660,000 | - | - | 660,000 |
| | - | 3,630,000 | - | - | 3,630,000 |
| Other participants who received less than 5% of the total available options other than directors: | | | | | |
| Other employees | - | 7,575,000 | - | (412,500) | 7,162,500 |
| | - | 12,905,000 | - | (412,500) | 12,492,500 |

DIRECTORS' STATEMENT

For the financial year ended 31 December 2019

Employee Share Option Scheme (cont'd)

- (1) Boon Che Kwang holds the position of General Manager of MCE Technologies Sdn Bhd and MCE Thailand Co., Ltd, a subsidiary of the Company in Malaysia and Thailand, respectively.
- (2) Mak Peng Leong Philip holds the position of Chief Financial Officer of the Company.
- (3) Ng Chee Hong Darren holds the position of Group Quality Assurance Manager of the Company.
- (4) Thanyarat Chanpet holds the position of Finance Manager of MCT Thailand Co., Ltd, a subsidiary of the Company in Thailand.

The persons to whom the options have been issued have no right to participate by virtue of the options in any share issue of the Company or any corporation in the Group.

There have been no options granted to the controlling shareholders of the Company or their associates. The Company does not have any parent company. Save as disclosed, no options have been granted to directors under the MCE Scheme and the MCE ESOS. No options were granted at a discount to market price during the financial year. No employee, other than as disclosed above, has received 5% or more of the total number of options available under the MCE Scheme and the MCE Scheme 2014.

The options granted by the Company do not entitle the holders of the options, by virtue of such holding, to any rights to participate in any share issue of any other related corporations.

Audit Committee

At the date of this statement, the Audit Committee comprises the following members:

Lim Swee Kwang (Chairman)
Koh Gim Hoe
Chua Kheng Choon

The Audit Committee performs the functions set out in Section 201B(5) of the Companies Act, Chapter 50, the Catalyst Rules of the Listing Manual of the SGX-ST and the Code of Corporate Governance. In performing those functions, the Audit Committee reviewed the following:

- (i) overall scope of both the internal and external audits and the assistance given by the Company's officers to the auditors. It also met with the Company's internal auditor to discuss the results of their examination and evaluation of the Group's system of internal accounting controls;
- (ii) the audit plan of the Company's external auditor and any recommendations on the Group's internal accounting controls arising from the statutory audit;
- (iii) the half-yearly financial information, the statement of financial position of the Company as at 31 December 2019 and the consolidated financial statements of the Group for the financial year ended 31 December 2019, as well as the auditor's report thereon;
- (iv) effectiveness of the Company's material internal controls, including financial, operational and compliance controls and information technology controls and risk management systems via reviews carried out by the internal auditor;

DIRECTORS' STATEMENT

For the financial year ended 31 December 2019

Audit Committee (cont'd)

- (v) met with the external auditor, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the Audit Committee;
- (vi) reviewed legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators;
- (vii) reviewed the cost effectiveness and the independence and objectivity of the external auditor;
- (viii) reviewed the nature and extent of non-audit services provided by the external auditor;
- (ix) recommended to the Board of Directors the external auditor to be nominated, approved the compensation of the external auditor, and reviewed the scope and results of the audit;
- (x) reported actions and minutes of the Audit Committee to the Board of Directors with such recommendations as the Audit Committee considered appropriate; and
- (xi) interested person transactions (as defined in Chapter 9 of the Catalist Rules of the Listing Manual of the SGX-ST).

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditor and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditor and has recommended to the Board of Directors that the auditor, Foo Kon Tan LLP, be nominated for re-appointment as auditor at the forthcoming Annual General Meeting of the Company.

Full details regarding the Audit Committee are provided in the Corporate Governance Report.

In appointing our auditors for the Company and its subsidiaries, we have complied with Rules 712 and 715 of the Catalist Rules.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2019

Independent auditor

The independent auditor, Foo Kon Tan LLP, Public Accountants and Chartered Accountants, has expressed its willingness to accept re-appointment.

On behalf of the Directors

.....
CHUA KHENG CHOON

.....
LIM SWEE KWANG

Dated: 9 April 2020

INDEPENDENT AUDITOR'S REPORT

To the members of Metal Component Engineering Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Metal Component Engineering Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)s") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

To the members of Metal Component Engineering Limited

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Our responses and work performed

Impairment testing of non-financial assets (the Group's property, plant and equipment, right-of-use assets and the Company's investments in subsidiaries)

In view of the operating losses incurred by certain businesses of the Group, management has assessed that there are indications of impairment of the related property, plant and equipment of the Group and investments in subsidiaries of the Company. Accordingly, the assets are tested for impairment.

Impairment testing of the Group's property, plant and equipment and the Company's investments in subsidiaries is considered to be a significant risk area due to the judgemental nature of key assumptions and the significance of the carrying amounts of these assets in the statements of financial position of the Group and the Company.

The Group has adopted the fair value less cost to sell method, since it is the higher of fair value less cost to sell and value-in-use, to assess impairment testing. Fair value less costs of disposal encompasses estimating the expected selling prices of the underlying assets by identifying the comparable assets and determining the current market selling/purchase prices of these assets, and the estimated cash outflows to settle the obligations in respect of the underlying liabilities. Input inaccuracies or inappropriate bases used to determine the level of impairment, including the comparable assets used in the fair value measurements, could result in material misstatement in the financial statements.

The valuation techniques and inputs to the impairment tests based on fair value less costs of disposal are disclosed in Note 3 to the financial statements.

Our procedures in relation to management's testing of impairment and determination of the recoverable amounts of the Group's property, plant and equipment and the Company's investments in subsidiaries based on fair value less costs of disposal included:

- Assessing the methodologies and appropriateness of the key assumptions used by the management's expert;
- Understanding and reviewing the assumptions in the input data from management and the management's expert through discussions, comparisons to industry peers and independent external data sources and where available to agreement with supporting documentation and historical trends; and
- Evaluating the competence, capabilities and objectivity of the management's expert.

We involved auditor's expert to assist us in the above. We evaluated the competence, capabilities and objectivity of the auditor's expert, and the adequacy of the work performed by the experts.

We also considered the adequacy of disclosures in the financial statements, describing the methodologies used, degree of subjectivity and key assumptions used in the estimates.

INDEPENDENT AUDITOR'S REPORT

To the members of Metal Component Engineering Limited

Other Information

Management is responsible for the other information. The other information comprises the "Directors' Statement" section of the Annual Report but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the remaining sections of the Annual Report which are expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining sections of the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and take appropriate actions in accordance with SSAs.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I)s, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT

To the members of Metal Component Engineering Limited

Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT

To the members of Metal Component Engineering Limited

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by the subsidiary corporation incorporated in Singapore of which we are the auditor have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Ang Soh Mui.

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants
Singapore

9 April 2020

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2019

| | Note | The Group | | The Company | |
|---|------|-------------------|-------------------|-------------------|-------------------|
| | | 2019 S\$ | 2018 S\$ | 2019 S\$ | 2018 S\$ |
| ASSETS | | | | | |
| Non-Current Assets | | | | | |
| Property, plant and equipment | 3 | 18,314,218 | 20,210,985 | 109,757 | 156,784 |
| Right-of-use assets | 4 | 6,269,765 | - | - | - |
| Subsidiaries | 5 | - | - | 17,603,806 | 17,603,806 |
| Deferred tax assets | 6 | 163,007 | 85,894 | - | - |
| | | 24,746,990 | 20,296,879 | 17,713,563 | 17,760,590 |
| Current Assets | | | | | |
| Inventories | 7 | 3,430,646 | 4,223,121 | - | - |
| Trade and other receivables | 8 | 10,794,943 | 12,812,254 | 8,462,379 | 13,654,110 |
| Prepayments | 9 | 2,276,718 | 1,955,139 | 625,203 | 522,884 |
| Cash and bank balances | 10 | 2,435,683 | 2,421,144 | 244,920 | 435,417 |
| | | 18,937,990 | 21,411,658 | 9,332,502 | 14,612,411 |
| Total assets | | 43,684,980 | 41,708,537 | 27,046,065 | 32,373,001 |
| EQUITY AND LIABILITIES | | | | | |
| Capital and Reserves | | | | | |
| Share capital | 11 | 21,638,661 | 21,638,661 | 21,638,661 | 21,638,661 |
| Reserves | 12 | (4,828,447) | (6,415,714) | (15,667,545) | (7,499,796) |
| Total equity attributable to owners of the Company | | 16,810,214 | 15,222,947 | 5,971,116 | 14,138,865 |
| Non-Current Liabilities | | | | | |
| Deferred tax liabilities | 6 | 2,402,025 | 1,990,602 | - | - |
| Borrowings | 13 | 99,194 | 1,262,315 | - | 533,755 |
| Lease liabilities | 14 | 2,054,832 | - | 533,822 | - |
| | | 4,556,051 | 3,252,917 | 533,822 | 533,755 |
| Current Liabilities | | | | | |
| Borrowings | 13 | 7,265,792 | 8,915,178 | 3,350,192 | 3,448,239 |
| Lease liabilities | 14 | 1,808,592 | - | 408,415 | - |
| Trade and other payables | 15 | 12,322,337 | 13,461,097 | 16,261,010 | 13,461,448 |
| Contract liability | 16 | 921,551 | 847,796 | 521,510 | 790,694 |
| Current tax payable | | 443 | 8,602 | - | - |
| | | 22,318,715 | 23,232,673 | 20,541,127 | 17,700,381 |
| Total liabilities | | 26,874,766 | 26,485,590 | 21,074,949 | 18,234,136 |
| Total equity and liabilities | | 43,684,980 | 41,708,537 | 27,046,065 | 32,373,001 |

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 31 December 2019

| | Note | 2019 S\$ | 2018 S\$ |
|---|------|---------------------|--------------|
| Revenue | 17 | 45,459,822 | 46,856,446 |
| Other income | 18 | 328,810 | 309,132 |
| Raw materials and consumables used | | (21,290,985) | (25,208,273) |
| Changes in inventories of finished goods and work in progress | | (1,133,168) | (109,501) |
| Employee benefits expense | 19 | (12,813,993) | (15,347,633) |
| Depreciation of property, plant and equipment | 3 | (1,903,317) | (2,571,471) |
| Depreciation of right-of-use assets | 4 | (1,212,881) | - |
| Impairment losses on trade receivables | 8 | (16,974) | (153,507) |
| Other charges | 20 | (174,563) | (377,793) |
| Finance costs | 21 | (687,613) | (540,542) |
| Other operating expenses | 22 | (6,438,190) | (8,388,857) |
| Profit/(Loss) before taxation | | 116,948 | (5,531,999) |
| Taxation | 23 | 85,248 | 43,662 |
| Profit/(Loss) for the year | | 202,196 | (5,488,337) |
| Other comprehensive income after tax: | | | |
| Items that will not be reclassified subsequently to profit or loss | | | |
| Revaluation of land and buildings | 3 | 1,645,692 | (544,481) |
| Related tax | 6 | (411,423) | 136,120 |
| | | 1,234,269 | (408,361) |
| Items that may be reclassified subsequently to profit or loss | | | |
| Currency translation differences | | 144,194 | 41,534 |
| Other comprehensive income/(loss) for the year, net of tax | | 1,378,463 | (366,827) |
| Total comprehensive income/(loss) for the year attributable to owners of the Company | | 1,580,659 | (5,855,164) |
| Earnings/(Loss) per share attributable to owners of the Company (Singapore cent) | | | |
| - Basic and diluted | 24 | 0.05 | (1.47) |

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2019

| | ← Attributable to owners of the Company | | → | | ← | | → | | Total equity S\$ |
|---|---|------------------------|--------------------------|-------------------------|--|-----------------------|---|-------------------|------------------|
| | Share capital S\$ | Accumulated losses S\$ | Share option reserve S\$ | Revaluation reserve S\$ | Foreign currency translation reserve S\$ | Statutory reserve S\$ | | | |
| Balance at 1 January 2018 | 21,638,661 | (8,357,131) | 24,400 | 6,380,167 | (604,128) | 1,944,142 | | 21,026,111 | |
| Loss for the year | - | (5,488,337) | - | - | - | - | - | (5,488,337) | |
| Other comprehensive (loss)/income for the year | - | - | - | (408,361) | - | - | - | (408,361) | |
| - Revaluation of land and buildings | - | - | - | (408,361) | - | - | - | (408,361) | |
| - Currency translation differences | - | - | - | - | 41,534 | - | - | 41,534 | |
| Total comprehensive (loss)/income for the year | - | (5,488,337) | - | (408,361) | 41,534 | - | - | (5,855,164) | |
| Contributions by and distributions to owners | - | - | - | - | - | - | - | - | |
| - Expiry/Forfeiture of share options | - | 4,000 | (4,000) | - | - | - | - | - | |
| - Share-based payment transactions | - | - | 52,000 | - | - | - | - | 52,000 | |
| Transactions with owners in their capacity as owners | - | 4,000 | 48,000 | - | - | - | - | 52,000 | |
| Balance at 31 December 2018 | 21,638,661 | (13,841,468) | 72,400 | 5,971,806 | (562,594) | 1,944,142 | | 15,222,947 | |
| Balance at 1 January 2019 | 21,638,661 | (13,841,468) | 72,400 | 5,971,806 | (562,594) | 1,944,142 | | 15,222,947 | |
| Adjustment on adoption of SFRS(I) 16 | - | (43,213) | - | - | - | - | - | (43,213) | |
| Profit for the year | - | 202,196 | - | - | - | - | - | 202,196 | |
| Other comprehensive income for the year | - | - | - | - | - | - | - | - | |
| - Revaluation of land and buildings | - | - | - | 1,234,269 | - | - | - | 1,234,269 | |
| - Currency translation differences | - | - | - | - | 144,194 | - | - | 144,194 | |
| Total comprehensive income for the year | - | 202,196 | - | 1,234,269 | 144,194 | - | - | 1,580,659 | |
| Contributions by and distributions to owners | - | - | - | - | - | - | - | - | |
| - Expiry/Forfeiture of share options | - | 2,179 | (2,179) | - | - | - | - | - | |
| - Share-based payment transactions | - | - | 49,821 | - | - | - | - | 49,821 | |
| Transactions with owners in their capacity as owners | - | 2,179 | 47,642 | - | - | - | - | 49,821 | |
| Balance at 31 December 2019 | 21,638,661 | (13,680,306) | 120,042 | 7,206,075 | (418,400) | 1,944,142 | | 16,810,214 | |

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2019

| | Note | 2019 S\$ | 2018 S\$ |
|--|-------|--------------------|--------------------|
| Cash Flows from Operating Activities | | | |
| Profit/(Loss) before taxation | | 116,948 | (5,531,999) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 3 | 1,903,317 | 2,571,471 |
| Depreciation of right-of-use assets | 4 | 1,212,881 | - |
| (Gain)/Loss on disposal of property, plant and equipment | 18/20 | (57,863) | 94,509 |
| Equity-settled share-based payment transactions | 19 | 49,821 | 52,000 |
| Gain on disposal on other assets | 18 | - | (32,299) |
| Interest expense (Note A) | 21 | 498,745 | 540,542 |
| Interest expense on lease liabilities (Note A) | 21 | 188,868 | - |
| Interest income | 18 | (6,447) | (2,997) |
| Operating profit/(loss) before working capital changes | | 3,906,270 | (2,307,533) |
| Changes in bank deposits restricted in use | | 98,754 | (153,677) |
| Changes in inventories | | 808,297 | 678,690 |
| Changes in trade and other receivables | | 1,560,648 | 4,559,170 |
| Changes in trade and other payables | | (1,003,890) | (4,188,588) |
| Cash generated from/(used in) operations | | 5,370,079 | (1,413,178) |
| Income taxes refunded | | 443 | 734 |
| Net cash generated from/(used in) operating activities | | 5,370,522 | (1,412,444) |
| Cash Flows from Investing Activities | | | |
| Interest received | | 6,447 | 2,997 |
| Proceeds from disposal of other assets | | - | 42,899 |
| Proceeds from disposal of property, plant and equipment | | 179,344 | 111,841 |
| Purchase of property, plant and equipment | 3 | (1,540,727) | (1,836,906) |
| Payments for right-of-use assets | 4 | (1,185,728) | - |
| Net cash used in investing activities | | (2,540,664) | (1,679,169) |
| Cash Flows from Financing Activities | | | |
| Interest paid (Note A) | | (687,613) | (540,542) |
| Proceeds from borrowings (Note A) | | 25,707,298 | 17,691,746 |
| Repayment of borrowings (Note A) | | (26,351,842) | (16,453,447) |
| Repayment of lease liabilities (Note A) | | (1,461,373) | - |
| Net cash (used in)/generated from financing activities | | (2,793,530) | 697,757 |
| Net increase/(decrease) in cash and cash equivalents | | 36,328 | (2,393,856) |
| Cash and cash equivalents at beginning of year | | 2,136,276 | 4,525,802 |
| Exchange differences on translation of cash and cash equivalents | | 21,486 | 4,330 |
| Cash and cash equivalents at end of year | 10 | 2,194,090 | 2,136,276 |

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2019

Note A

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

| | Obligations under finance leases S\$ | Lease liabilities S\$ | Loans from financial institutions S\$ | Bank overdraft S\$ | Bills payable to banks S\$ | Total S\$ |
|--|--|-----------------------------|--|--------------------------|----------------------------------|--------------|
| At 1 January 2018 | 1,115,065 | - | 4,546,427 | 567,741 | 2,130,100 | 8,359,333 |
| Changes from financing cash flows | | | | | | |
| - Proceeds from borrowings | - | - | 2,340,684 | - | 15,351,062 | 17,691,746 |
| - Repayment of borrowings | (537,975) | - | (907,736) | - | (15,007,736) | (16,453,447) |
| - Interest paid | (67,163) | - | (274,425) | (18,769) | (180,185) | (540,542) |
| Total changes from financing cash flows | (605,138) | - | 1,158,523 | (18,769) | 163,141 | 697,757 |
| Effect of changes in foreign exchange rates | - | - | (8,294) | 4,093 | 8,294 | 4,093 |
| Other changes | | | | | | |
| - New finance leases | 1,066,963 | - | - | - | - | 1,066,963 |
| - Changes in bank overdrafts | - | - | - | (491,195) | - | (491,195) |
| - Interest expense | 67,163 | - | 274,425 | 18,769 | 180,185 | 540,542 |
| Total liability-related other changes | 1,134,126 | - | 274,425 | (472,426) | 180,185 | 1,116,310 |
| At 31 December 2018 | 1,644,053 | - | 5,971,081 | 80,639 | 2,481,720 | 10,177,493 |

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2019

| | Obligations under finance leases S\$ | Lease liabilities S\$ | Loans from financial institutions S\$ | Bank overdraft S\$ | Bills payable to banks S\$ | Total S\$ |
|--|--|-----------------------------|--|--------------------------|----------------------------------|--------------------|
| At 1 January 2019 | 1,644,053 | - | 5,971,081 | 80,639 | 2,481,720 | 10,177,493 |
| Adoption of SFRS(I) 16 | (1,644,053) | 4,408,504 | - | - | - | 2,764,451 |
| Changes from financing cash flows | | | | | | |
| - Proceeds from borrowings | - | 579,388 | 10,614,223 | - | 14,513,687 | 25,707,298 |
| - Repayment of borrowings | - | - | (12,121,671) | - | (14,230,171) | (26,351,842) |
| - Repayment of lease liabilities | - | (1,461,373) | - | - | - | (1,461,373) |
| - Interest paid | - | (188,868) | (314,966) | (11,632) | (172,147) | (687,613) |
| Total changes from financing cash flows | - | (1,070,853) | (1,822,414) | (11,632) | 111,369 | (2,793,530) |
| Effect of changes in foreign exchange rates | - | - | 2,800 | 2,200 | - | 5,000 |
| Other changes | | | | | | |
| - New lease liabilities | - | 331,905 | - | - | - | 331,905 |
| - Changes in bank overdraft | - | - | - | 55,478 | - | 55,478 |
| - Interest expense | - | 188,868 | 314,966 | 11,632 | 172,147 | 687,613 |
| Total liability-related other changes | - | 520,773 | 314,966 | 67,110 | 172,147 | 1,074,996 |
| At 31 December 2019 | - | 3,858,424 | 4,463,634 | 138,317 | 2,765,236 | 11,228,410 |

Note B

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of S\$1,540,727 (2018: S\$2,903,869) of which S\$Nil (2018: S\$1,066,963) was acquired by means of finance leases. The Group acquired right-of-use assets with an aggregate cost of S\$1,910,599 (2018: S\$Nil). Cash payments of S\$1,540,727 (2018: S\$1,836,906) and S\$1,185,728 (2018: S\$Nil) were made to purchase property, plant and equipment and right-of-use assets, respectively.

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

1 General information

The financial statements of Metal Component Engineering Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on the date of the Statement by Directors.

The Company is incorporated as a limited liability company and is domiciled in Singapore.

The Company is listed on the Catalist of the Singapore Exchange Securities Trading Limited.

The registered office and principal place of business of the Company is located at 7030 Ang Mo Kio Avenue 5, #08-85 Northstar@AMK Singapore 569880.

The principal activities of the Company consist of investment holding and metal stamping and manufacturing of tools and fixtures. The principal activities of the subsidiaries are disclosed in Note 5 to the financial statements.

2(a) Going concern

As at 31 December 2019, the Group and the Company had net current liabilities of S\$3,380,725 (2018: S\$1,821,015) and S\$11,208,625 (2018: S\$3,087,970), respectively.

Notwithstanding the above, the directors are of the view that the going concern assumption is appropriate for the preparation of these financial statements, due to the following:

- (i) The Group and the Company had net assets of S\$16,810,214 (2018: S\$15,222,947) and S\$5,971,116 (2018: S\$14,138,865), respectively, as at 31 December 2019.
- (ii) The net assets of the Group are largely supported by the fair value of its leasehold land and buildings of S\$11,789,304 (2018: S\$10,611,108) (Note 3) as at 31 December 2019, which the Group may dispose of for cash proceeds, where necessary. The Group and the Company also hold cash and bank balances amounting to S\$2,435,683 (2018: S\$2,421,144) and S\$244,920 (2018: S\$435,417), respectively, as at 31 December 2019.
- (iii) The net current liabilities of the Company as at 31 December 2019 were mainly attributed to amounts owing to subsidiaries totalling S\$13,327,076 (2018: S\$10,631,809), which the Company has the power and authority to manage the payment obligations to the wholly-owned subsidiaries and between the group entities if the need ever arises.
- (iv) As disclosed in Note 32, On 28 January 2020, the Group has entered into a conditional sales and purchase agreement to sell MCE Industries (Shanghai) Co., Ltd, a subsidiary of the Company, for a cash consideration of RMB75.5 million (S\$14.8 million). The Group has received RMB25.0 million (S\$4.9 million) on 13 March 2020. The Group expects to receive the remaining payments in two tranches amounting to RMB37.0 million (S\$7.25 million) during the year ending 31 December 2020 and RMB13.5 million (S\$2.65 million) thereafter. The receipt of cash would strengthen the Group's and the Company's cash position for the next 12 months.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(a) Going concern (cont'd)

Based on the above, the directors believe that the Group and the Company have sufficient working capital and financial resources to enable them to meet their liabilities as and when they fall due and continue as going concern for 12 months from the end of the reporting period.

The financial statements do not include any adjustments relating to the recoverability and classification of reported asset amounts or the amounts and classification of liabilities that would be required if the going concern basis is found to be inappropriate.

2(b) Basis of preparation

The financial statements are prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)") promulgated by the Accounting Standards Council ("ASC"). SFRS(I) 1 First-time Adoption of Singapore Financial Reporting Standards (International) has been applied in preparing these financial statements. These are the first financial statements of the Group and the Company prepared in accordance with SFRS(I).

The financial statements have been prepared under the historical cost convention except as otherwise described in the notes below.

The preparation of financial statements in conformity with SFRS(I) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 2(e).

The financial statements are presented in Singapore dollar which is the Company's functional currency. All financial information is presented in Singapore dollar, unless otherwise stated.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

2(c) Adoption of new and revised SFRS(I) effective for the current financial year

On 1 January 2019, the Group and the Company have adopted all the new and revised SFRS(I), SFRS(I) interpretations ("SFRS(I) INT") and amendments to SFRS(I), effective for the current financial year that are relevant to them. The adoption of these new and revised SFRS(I) pronouncements does not result in significant changes to the Group's and the Company's accounting policies and has no material effect on the amounts or the disclosures reported for the current or prior reporting periods, except as discussed below:

| Reference | Description |
|----------------------------|--|
| SFRS(I) 16 | Leases |
| SFRS(I) INT 23 | Uncertainty over Income Tax Treatments |
| Amendments to SFRS(I) 9 | Prepayment Features with Negative Compensation |
| Amendments to SFRS(I) 1-19 | Plan Amendment, Curtailment or Settlement |
| Amendments to SFRS(I) 1-28 | Long-term Interests in Associates and Joint Ventures |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(c) Adoption of new and revised SFRS(I) effective for the current financial year (cont'd)

| Reference | Description |
|---|---|
| Annual Improvements to SFRS(I) 2015-2017 Cycle: | |
| - Amendments to SFRS(I) 3 | Previously Held Interest in a Joint Operation |
| - Amendments to SFRS(I) 11 | Previously Held Interest in a Joint Operation |
| - Amendments to SFRS(I) 1-12 | Income Tax Consequences of Payments on Financial Instruments Classified as Equity |
| - Amendments to SFRS(I) 1-23 | Borrowing Costs Eligible for Capitalisation |

SFRS(I) 16 Leases

SFRS(I) 16 Leases supersedes SFRS(I) 1-17 Leases, SFRS(I) INT 4 Determining whether an Arrangement contains a Lease, SFRS(I) INT 1-15 Operating Leases - Incentives and SFRS(I) INT 1-27 Evaluating the Substance of Transactions involving the Legal Form of a Lease, and pronounces new or amended requirements with respect to lease accounting. For lessee accounting, SFRS(I) 16 introduces significant changes by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low-value assets when such recognition exemptions are adopted. For lessor accounting, the requirements have remained largely unchanged. The impact of the adoption of SFRS(I) 16 on the Group's financial statements are discussed below.

The date of initial application of SFRS(I) 16 for the Group is 1 January 2019. The Group has elected to transition to SFRS(I) 16 using the or modified retrospective approach which requires the Group to recognise the cumulative effect of initially applying SFRS(I) 16 as an adjustment to the opening balance of retained earnings at the date of initial application, without restatement of comparatives under SFRS(I) 1-17.

(a) Definition of a lease

The new definition of a lease under SFRS(I) 16 mainly relates to the concept of 'control' that determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration, which is in contrast to the concept of 'risks and rewards' under SFRS(I) 1-17.

The Group has elected to apply the practical expedient available on transition to SFRS(I) 16 not to reassess whether a contract is, or contains, a lease. Accordingly, the superseded definition of a lease under SFRS(I) 1-17 continues to be applied to those leases entered into, or modified, before 1 January 2019, and the Group applies the new definition of a lease and related guidance set out in SFRS(I) 16 only to those lease contracts entered into, or modified, on or after 1 January 2019. After the transition to SFRS(I) 16, the Group shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

The new requirements for identifying a lease under SFRS(I) 16 do not change significantly the scope of contracts that will meet the definition of a lease for the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(c) Adoption of new and revised SFRS(I) effective for the current financial year (cont'd)

SFRS(I) 16 Leases (cont'd)

(b) Lessee accounting

(i) Former operating leases

Before the adoption of SFRS(I) 16, the Group's non-cancellable operating lease payments in future reporting periods for a factory premise, motor vehicles, office and other equipment and plant and machinery, were not recognised as liabilities in the statement of financial position but were disclosed as commitments in the notes to the financial statements, and these lease payments were reported as rental expenses in profit or loss over the lease term on a straight-line basis and presented under operating activities in the statement of cash flows. Under SFRS(I) 16, the Group recognises right-of-use assets and lease liabilities in the statement of financial position for these outstanding lease payments, reports depreciation of right-of-use assets and interest expense on lease liabilities in profit or loss, and presents these lease payments as principal repayment and interest paid separately under financing activities in the statement of cash flows.

Under SFRS(I) 16, lease incentives are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under SFRS(I) 1-17, they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight-line basis.

The Group has elected, as a practical expedient of SFRS(I) 16, not to separate non-lease components from lease components for all classes of underlying assets and instead account for each lease component and any associated non-lease components as a single lease component, except if the non-lease component is an embedded derivative according to SFRS(I) 9.

For short-term leases and leases of low-value assets, the Group has elected for exemption under SFRS(I) 16 from recognising their right-of-use assets and lease liabilities, and to report their lease expenses in profit or loss on a straight-line basis.

On 1 January 2019, the Group has applied the following SFRS(I) 16 transition provisions under the cumulative catch-up approach for each lease, or each portfolio of leases with reasonably similar characteristics, formerly classified as operating lease under SFRS(I) 1-17:

- recognises a lease liability at the present value of the remaining lease payments using the lessee's incremental borrowing rate for the underlying lease asset;
- recognises a right-of-use asset, on a lease-by-lease basis:
 - for factory premise, motor vehicles, office and other equipment and plant and machinery, at the carrying amount as if SFRS(I) 16 had been applied since the lease commencement date, but discounted using the lessee's incremental borrowing rate for the underlying lease asset instead of the interest rate implicit in the lease;
- applies SFRS(I) 1-36 Impairment of Assets to perform an impairment review of the right-of-use asset; and
- adjusts any difference between the carrying amounts of the right-of-use asset and the lease liability to the opening balance of retained earnings.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(c) Adoption of new and revised SFRS(I) effective for the current financial year (cont'd)

SFRS(I) 16 Leases (cont'd)

(b) Lessee accounting (cont'd)

(i) Former operating leases (cont'd)

The Group has adopted the following SFRS(I) 16 practical expedients when applying the cumulative catch-up transition approach to leases formerly classified as operating lease under SFRS(I) 1-17:

- applies a single discount rate to a portfolio of leases with reasonably similar characteristics;
- adjusts the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under SFRS(I) 1-37 Provisions, Contingent Liabilities and Contingent Assets in the statement of financial position immediately before the date of initial application, as an alternative to performing an impairment review under SFRS(I) 1-36;
- elects not to recognise the right-of-use asset and lease liability for a lease with lease term ending within twelve months of the date of initial application;
- excludes initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- uses hindsight for determining the lease term when the contract contains options to extend or terminate the lease.

(ii) Former finance leases

On 1 January 2019, with regards to the Group's leases of motor vehicles that were formerly classified as finance lease under SFRS(I) 1-17, the carrying amounts of the leased assets (in property, plant and equipment) and obligations under finance lease immediately before the date of initial application become respectively the opening balance of the carrying amounts of right-of-use assets and lease liabilities under SFRS(I) 16. Subsequently, the Group accounts for these right-of-use assets and lease liabilities in accordance with SFRS(I) 16.

(c) Deferred tax effects on adoption of SFRS(I) 16

In certain jurisdictions that the Group operates in, tax deductions are available only for the lease payments as they are paid, and no tax deduction is allowed for the leased asset depreciation or finance cost. On 1 January 2019, these tax circumstances give rise to temporary differences on initial recognition of both the right-of-use asset and lease liability. Consequently, deferred tax asset and deferred tax liability of S\$546,157 and S\$554,525 respectively are recognised on these temporary differences at the date of initial application.

In the other jurisdictions, where tax deductions are received in respect of the right-of-use asset (i.e. depreciation allowance) and the lease liability (i.e. deduction for finance cost) in a manner consistent with the accounting treatment, and there is no difference between the accounting and tax depreciation rates, no temporary differences arise from recognition of the right-of-use asset and lease liability.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(c) Adoption of new and revised SFRS(I) effective for the current financial year (cont'd)

SFRS(I) 16 Leases (cont'd)

(d) Financial impact of initial application of SFRS(I) 16

The Group's and the Company's weighted average incremental borrowing rate applied to measure the Group's and the Company's lease liabilities recognised in the statement of financial position on 1 January 2019 is 6.1%.

A reconciliation of the differences between the Group's operating lease commitments previously disclosed in the financial statements as at 31 December 2018 and the Group's lease liabilities recognised in the statement of financial position on 1 January 2019 is as follows:

| | 1 January 2019 S\$ |
|--|-----------------------------------|
| The Group | |
| Operating lease commitments as at 31 December 2018 as disclosed under IAS 17 in the financial statements (Note 26) | 3,078,237 |
| Discounted using the incremental borrowing rate at 1 January 2019 | (144,017) |
| Less: Recognition exemption for leases with less than 12 months of lease term at transition | (323,861) |
| Less: Recognition exemption for leases with low value assets | (30,215) |
| Lease liabilities recognised at 1 January 2019 | <u>2,580,144</u> |

The effects of adoption of SFRS (I) 16 on the Group's financial statements as at 1 January 2019 are as follows:

| | Increase/ (Decrease) S\$ |
|---|---|
| The Group | |
| Right-of-use assets - property, plant and equipment | 2,536,931 |
| Lease liabilities | (2,580,144) |
| Deferred tax assets | 546,157 |
| Deferred tax liabilities | (554,525) |
| Retained earnings | <u>(43,213)</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(c) Adoption of new and revised SFRS(I) effective for the current financial year (cont'd)

IFRS(I) INT 23 *Uncertainty over Income Tax Treatments*

The Group has adopted SFRS(I) INT 23 for the first time in the current year. SFRS(I) INT 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings, as follows:
 - if yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings; or
 - if no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

There is no material impact to the Group's and the Company's financial statements.

2(d) New and revised SFRS(I) in issue but not yet effective

At the date of authorisation of these financial statements, the Group and the Company have not adopted the new and revised SFRS(I), SFRS(I) INT and amendments to SFRS(I) that have been issued but are not yet effective to them. Management anticipates that the adoption of these new and revised SFRS(I) pronouncements in future periods will not have a material impact on the Group's and the Company's financial statements in the period of their initial application, except as discussed below:

| Reference | Description | Effective date (Annual periods beginning on or after) |
|---|---|--|
| Amendments to References to the Conceptual Framework in SFRS(I) | | 1 January 2020 |
| Amendments to SFRS(I) 3 | Definition of Business | 1 January 2020 |
| Amendments to SFRS(I) 1-1 and SFRS(I) 1-8 | Definition of Material | 1 January 2020 |
| SFRS(I) 17 | Insurance Contracts | 1 January 2021 |
| Amendments to SFRS(I) 10 and SFRS(I) 1-28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Not yet determined |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(d) New and revised SFRS(I) in issue but not yet effective (cont'd)

Amendments to SFRS(I) 3 Definition of a Business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

The expected impact to the Group's and the Company's financial statements on initial application is currently not known or reasonably estimable.

Amendments to SFRS(I) 1-1 and SFRS(I) 1-8 Definition of Material

The amendments are intended to make the definition of 'material' in SFRS(I) 1-1 easier to understand and are not intended to alter the underlying concept of materiality in SFRS(I). The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of 'material' in SFRS(I) 1-8 has been replaced by a reference to the definition of 'material' in SFRS(I) 1-1. In addition, the other SFRS(I) and the Conceptual Framework, which contain a definition of 'material' or refer to the term 'material', have been updated to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

There is no material impact expected to the Group's and the Company's financial statements on initial application.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(e) Significant accounting estimates and judgements

The preparation of the financial statements in conformity with SFRS(I) requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The significant accounting estimates and assumptions used and areas involving a high degree of judgement are described below.

Significant judgements in applying accounting policies

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the respective entities in the Group, judgement is required to determine the currency that mainly influences sales prices of goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on the local management's assessment of the economic environment in which the entities operate and the respective entities' process of determining sales prices.

Classification of land use right

Within the PRC, it is the practice for the State to issue land use rights to individuals or entities. Such rights are evidenced through the granting of a land use right certificate, which gives the holder the right to use the land (including the construction of buildings thereon) for a given length of time. In management's judgement, the land use right of a PRC subsidiary is accounted for as a purchase of property, plant and equipment and has been classified as leasehold land, as the PRC subsidiary is deemed to obtain the significant risks and rewards of ownership of the land. At the end of the reporting period, the carrying amount of the Group's leasehold land was S\$8,822,358 at valuation (2018: S\$7,364,211) classified within leasehold land and buildings in property, plant and equipment (Note 3).

Classification of sale of scrap metals

Based on the nature of the Group's operations, scrap metals which are a critical and significant output of the Group's productions are sold as the Group's ordinary course of business activities. The Group considers the sale of scrap metals to be integral and not incidental to the main revenue-generating activities. Accordingly, the sale of scrap metals is classified and presented as revenue in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(e) Significant accounting estimates and judgements (cont'd)

Significant judgements in applying accounting policies (cont'd)

Income taxes

The Group and the Company have exposure to income taxes in various jurisdictions. Significant judgement and estimates are involved in determining group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group and the Company recognise liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made. The carrying amounts of the Group's and the Company's deferred tax assets and liabilities at the end of the reporting period and the Group's income taxes for the year are disclosed in Note 6 and Note 23 to the financial statements, respectively.

Determination of the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects the assessment, and that is within the control of the lessee. For leases of plant and equipment, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Determination of operating segments

Management identifies the Chief Operating Decision Maker ("CODM") as well as their business activities (which may not necessarily earn revenue or incur expenses). Management has further determined whether discrete financial information is available for the business activities and whether that information is regularly reviewed by the CODM. Judgement is applied by management in the allocation of resources to the operating segments.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(e) Significant accounting estimates and judgements (cont'd)

Significant assumptions used and critical accounting estimates in applying accounting policies

Revaluation of land and buildings

The Group carries its land and buildings at fair value, with the change in fair value being recognised in other comprehensive income. The Group engages a firm of independent professional valuation experts to assess the fair value at the end of each reporting period. The fair value of the land and buildings is determined by the independent professional valuers using recognised valuation techniques. These techniques comprise both the market approach and income approach. The carrying amount of the land and buildings at fair value and the valuation techniques and inputs used to determine the fair value of the land and buildings at the end of the reporting period are provided in Note 3 to the financial statements.

Depreciation of property, plant and equipment and right-of-use assets

The costs of property, plant and equipment and right-of-use assets are depreciated on a straight-line basis over the estimated economic useful lives of the assets. The Group's business is capital intensive and the annual depreciation of property, plant and equipment and right-of-use assets forms a significant component of total costs charged to profit or loss. Management estimates the useful lives of property, plant and equipment and rights-of-use assets to be within 3 to 30 years. In particular, management estimates the useful life of plant and machinery to be 5 to 10 years. The carrying amounts of the Group's and the Company's property, plant and equipment and right-of-use assets at the end of the reporting period are disclosed in Notes 3 and 4 to the financial statements. The Group and the Company perform annual reviews on whether the assumptions made on useful lives continue to be valid. As changes in the expected level of usage, maintenance programmes and technological developments could impact the economic useful lives and the residual values of these assets, future depreciation charges could be revised. If depreciation on the Group's and the Company's property, plant and equipment increases/decreases by 10% from management's estimates, the Group's and the Company's results for the year will decrease/increase by S\$190,332 (2018: S\$257,147) and S\$6,753 (2018: S\$20,005), respectively. If depreciation on the Group's right-of-use assets increases/decreases by 10% from management's estimates, the Group's results for the year will decrease/increase by S\$121,288.

Estimation of the incremental borrowing rate ("IBR")

For the purpose of calculating the right-of-use asset and lease liability, an entity applies the interest rate implicit in the lease ("IRIIL") and, if the IRIIL is not readily determinable, the entity uses its IBR applicable to the lease asset. The IBR is the rate of interest that the entity would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. For most of the leases whereby the Group is the lessee, the IRIIL is not readily determinable. Therefore, the Group estimates the IBR relevant to each lease asset by using observable inputs (such as market interest rate and asset yield) when available, and then making certain lessee specific adjustments (such as a group entity's credit rating). The carrying amount of the Group's right-of-use assets and lease liabilities are disclosed in Notes 4 and 14, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(e) Significant accounting estimates and judgements (cont'd)

Significant assumptions used and critical accounting estimates in applying accounting policies (cont'd)

Impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are assessed at the end of each reporting period whether there is any indication of impairment. If any such indication exists, the recoverable amounts of the assets are estimated to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Such impairment loss is recognised in profit or loss.

Significant judgement and estimates by management are required in the area of asset impairment, particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by its market value based on comparable assets or the net present value of future cash flows which are estimated based on the continued use of the asset in the business; and (iii) the appropriate valuation techniques and inputs used in fair value measurement and the key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are extrapolated using a suitable growth rate and then discounted using an appropriate discount rate. Changing the assumptions selected by management to determine the level of impairment could materially affect the recoverable amount determined in the impairment test and as a result may potentially affect the Group's results.

A decrease of 5% (2018: 5%) in the value-in-use of the Group's property, plant and equipment would have decreased the Group's profit by S\$915,711 (2018: S\$1,010,549) and a decrease of 5% (2018: nil%) in the value-in-use of the Group's right-of-use assets would have decreased the Group's profit by S\$313,488 (2018: S\$nil). The carrying amounts of the Group's property, plant and equipment and right-of-use assets at the end of the reporting period and the basis used to determine fair value less costs of disposal as the recoverable amount are disclosed in Notes 3 and 4 to the financial statements.

Impairment of subsidiaries

The Company assesses at the end of each reporting period whether there is any indication that the investments in subsidiaries may be impaired. If any indication exists, the investment in subsidiary is tested for impairment. The determination of the recoverable amount requires an estimation of the fair value less costs of disposal of the underlying assets or the value-in-use of the cash-generating units. Estimating the fair value less costs of disposal requires the Company to make an estimate of the expected selling prices of the underlying assets and the estimated cash outflows to settle the obligations in respect of the underlying liabilities. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from the cash-generating units, a suitable growth rate to extrapolate the future cash flows, and an appropriate discount rate in order to calculate the present value of the future cash flows. The carrying amounts of the Company's investments in subsidiaries at the end of the reporting period and the basis used to determine fair value less costs of disposal or the assumptions used to estimate value in use as the recoverable amount and sensitivity analysis are disclosed in Note 5 to the financial statements.

At the reporting date, the carrying amounts of investments in subsidiaries are S\$17,603,806 (2018: S\$17,603,806). Management has evaluated the recoverability of the investment based on such estimates. If the present value of estimated future cash flows decreases by 10% (2018: 10%) from management's estimates, the Company's allowance for impairment of investments in subsidiaries will increase by S\$1,760,381 (2018: S\$1,760,381).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(e) Significant accounting estimates and judgements (cont'd)

Significant assumptions used and critical accounting estimates in applying accounting policies (cont'd)

Allowance for inventory obsolescence

The Group reviews the ageing analysis of inventories at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The net realisable values for such inventories are estimated based primarily on the latest invoice prices and current market conditions. Possible changes in these estimates could result in revisions to the valuation of inventories. The carrying amount of the Group's inventories at the end of the reporting period is disclosed in Note 7 to the financial statements. If the net realisable values of the inventories decrease/increase by 10% from management's estimates, the Group's results for the year will decrease/increase by S\$343,065 (2018: S\$422,312).

Provision for expected credit losses of trade receivables

The Group and the Company use a provision matrix to calculate expected credit losses ("ECLs") for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's and the Company's historical observed default rates. The Group and the Company will calibrate the matrix to adjust historical credit loss experience with forward-looking information. At the end of each reporting period, historical default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's and the Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information relating to ECLs on the Group's and the Company's trade receivables is disclosed in Note 29.1. If the loss rates increase/decrease by 10% from management's estimates, the Group's and the Company's allowance for impairment of trade and other receivables will increase/decrease by S\$1,073,808 (2018: S\$1,259,531) and S\$845,112 (2018: S\$1,360,955), respectively.

2(f) Summary of significant accounting policies

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and investees (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company or its subsidiary:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Consolidation (cont'd)

The Company or its subsidiary reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company or its subsidiary has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company or its subsidiary considers all relevant facts and circumstances in assessing whether or not the Company's or its subsidiary's voting rights in an investee are sufficient to give it power, including:

- size of the Company's or its subsidiary's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company or its subsidiary, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances which indicate that the Company or its subsidiary has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company or its subsidiary obtains control over the subsidiary or investee and ceases when the Company or its subsidiary loses control of the subsidiary or investee. Specifically, income and expenses of a subsidiary or an investee acquired or disposed during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company or its subsidiary gains control until the date when the Company or its subsidiary ceases to control the subsidiary or investee.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries and investees are attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries or investees to bring their accounting policies in line with the Group's accounting policies.

(ii) Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Consolidation (cont'd)

(ii) Changes in the Group's ownership interests in existing subsidiaries (cont'd)

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary, and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable SFRS(I)). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under SFRS(I) 9, or when applicable, the cost on initial recognition of an investment in an associate.

In the Company's separate financial statements, investments in subsidiaries are carried at cost less any impairment in net recoverable value that has been recognised in profit or loss. On disposal of such investments, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the acquisition date fair values of assets given, liabilities incurred by the Group to the former owners of the acquiree, and equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates at fair value, with changes in fair value recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date on which the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Business combinations (cont'd)

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with SFRS(I) 1-12 Income Taxes and SFRS(I) 1-19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment awards transactions with share-based payment awards transactions of the acquirer in accordance with the method in SFRS(I) 2 Share-based Payment at the acquisition date; and
- disposal groups that are classified as held for sale in accordance with SFRS(I) 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year from acquisition date.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their depreciable amount over their estimated useful lives as follows:

| | |
|---------------------------------------|---------------|
| Leasehold land and buildings | 30 years |
| Building improvements and renovations | 3 to 5 years |
| Plant and machinery | 5 to 10 years |
| Furniture and fittings | 5 years |
| Office equipment | 5 years |
| Computers | 5 years |
| Motor vehicles | 5 years |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Property, plant and equipment and depreciation (cont'd)

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

Subsequent expenditure relating to property, plant and equipment that have been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Group and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

For acquisitions and disposals during the financial year, depreciation is recognised in profit or loss from the month that the property, plant and equipment are installed and are available for use, and to the month of disposal, respectively. Fully depreciated property, plant and equipment are retained in the books of accounts until they are no longer in use.

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at the end of each reporting period as a change in estimates.

Leasehold land and buildings are measured at fair value less accumulated depreciation and impairment losses recognised after the date of the revaluation. Any revaluation surplus is recognised in other comprehensive income and accumulated in equity under revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset carried in the revaluation reserve.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation surplus included in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

Subsidiaries

In the Company's separate statement of financial position, subsidiaries are stated at cost less allowance for any impairment losses on an individual subsidiary basis.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(a) Financial assets

Measurement

Initial recognition and measurement

Financial assets are recognised when, only when the entity becomes party to the contractual provisions of the instruments.

The classification of financial assets, at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of financial asset not at fair value through profit or loss, transaction costs. Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party if the trade receivables do not contain a significant financing component at initial recognition. Refer to the accounting policies in this section Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchase or sales of financial assets that required delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Financial instruments (cont'd)

(a) Financial assets (cont'd)

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

Subsequent measurement of debt instruments depends on the Group's business model with the objective to hold financial assets in order to collect contractual cash flows and the contractual cash terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal and interest on the principal amount outstanding on the asset.

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through amortisation process.

The Group's and the Company's financial assets at amortised cost comprise trade and other receivables, excluding prepayments.

Fair value through other comprehensive income (debt instruments)

Financial assets that are held for collection of contractual of cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Financial assets measured at FVOCI are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses and interest calculated using the effective interest method are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is de-recognised. The Group does not have financial assets at FVOCI (debt instruments).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Financial instruments (cont'd)

(a) Financial assets (cont'd)

Financial assets designated at fair value through OCI (equity instruments)

The Group subsequently measures all equity instruments at fair value. On initial recognition of an equity instruments that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. The classification is determined on an instrument-by-instrument basis. Dividends from such investments are to be recognised in profit or loss when the Group's right to receive payments is established.

Changes in fair value of financial assets at fair value through profit or loss are recognised in profit or loss. Changes in fair value of financial assets at FVOCI are recognised in OCI are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit and loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment. The Group does not have financial assets at FVOCI (equity instruments).

Financial assets at fair value through profit and loss

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. A gain or loss on a debt instruments that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss statement in the period in which it arises. Interest income from these financial assets is included in the finance income.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Dividends on listed equity instruments are also recognised as other income in the statement of comprehensive income when the right of payment has been established. The Group does not have financial assets at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Financial instruments (cont'd)

(a) Financial assets (cont'd)

Derecognition

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit losses (ECLs) associated with its debt instrument assets carried at amortised cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Financial instruments (cont'd)

(a) Financial assets (cont'd)

Impairment of financial assets (cont'd)

For trade receivables, the Group measures the loss allowance at an amount equal to the lifetime expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery (e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings), or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Financial instruments (cont'd)

(b) Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised initially at fair value less directly attributable transaction costs.

The Group's financial liabilities comprise borrowings, lease liabilities and trade and other payables (excluding contract liability and provision for retirement benefits).

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by SFRS(I) 9. Separate embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in SFRS(I) 9 are satisfied. The Group has not designated any financial liability at fair value through profit or loss.

Financial liabilities that are not carried at fair value through profit or loss

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Financial instruments (cont'd)

(b) Financial liabilities (cont'd)

Borrowings

Borrowings which are due to be settled more than 12 months after the end of the reporting period are included in current borrowings in the statement of financial position if the loan facility agreements include an overriding repayment on demand clause which gives the lender the right to demand repayment at any time at its sole discretion and irrespective of whether a default event has occurred, or when the Group has defaulted or breached a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the borrowings become payable on demand, even if the lender agreed after the reporting period and before the authorisation of the financial statements for issue not to demand payment as a consequence of the breach. These borrowings are classified as current because, at the end of the reporting period, the Group does not have an unconditional right to defer its settlement for at least twelve months after that date.

However, those borrowings with breaches or defaults of loan agreement terms are classified as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the Group can rectify the breach and/or during which the lender cannot demand immediate repayment. Other borrowings due to be settled more than 12 months after the end of the reporting period are included in non-current borrowings in the statement of financial position.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Financial instruments (cont'd)

(c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Financial guarantees

The Company has issued corporate guarantees to banks for the borrowings of certain subsidiaries. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are recognised initially as liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantees.

Subsequent to initial recognition, financial guarantees are measured at the higher of the amount of the loss allowance determined in accordance with the impairment model under SFRS(I) 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Contract liability

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from a customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liability is recognised as revenue when the Group performs under the contract.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis, and includes all costs in bringing the inventories to their present location and condition. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity.

Allowance is made for obsolete, slow-moving and defective inventories in arriving at the net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Cash and bank balances

Cash and bank balances comprise cash balances and bank deposits.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are presented net of bank overdrafts which are repayable on demand and which form an integral part of cash management.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

Warrant reserve

The fair value ascribed to warrants less issue expenses is credited as a reserve in equity under warrant reserve and the related balance is transferred to the share capital account as and when the warrants are exercised.

The warrant reserve is transferred to retained earnings upon expiry of the warrants.

Dividends

Final dividends proposed by the directors are not accounted for in shareholders' equity as an appropriation of retained earnings, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because of the articles of association of the Company grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

Leases (from 1 January 2019)

(i) The Group as lessee

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of twelve months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease (including extension option) unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

(a) Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses the incremental borrowing rate specific to the lessee. The incremental borrowing rate is defined as the rate of interest that the lessee would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Leases (from 1 January 2019) (cont'd)

(a) Lease liability (cont'd)

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Variable lease payments that are not based on an index or a rate are not included as part of the measurement and initial recognition of the lease liability. The Group shall recognise those lease payments in profit or loss in the periods that trigger those lease payments.

The lease liability is subsequently measured at amortised cost, by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (with a corresponding adjustment to the related right-of-use asset or to profit or loss if the carrying amount of the right-of-use asset has already been reduced to nil) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); or
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

(b) Right-of-use asset

The right-of-use asset comprises the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Leases (from 1 January 2019) (cont'd)

(b) Right-of-use asset (cont'd)

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under SFRS(I) 1-37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Depreciation on right-of-use assets is calculated using the straight-line method to allocate their depreciable amounts over the shorter period of lease term and useful life of the underlying asset, as follows:

| | |
|--------------------------|-----------------|
| Office premise | : 3 years |
| Office & other equipment | : 3 to 5 years |
| Plant and machinery | : 3 to 10 years |

If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line item in the statement of financial position.

The Group applies SFRS(I) 1-36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Leases (before 1 January 2019)

(i) The Group as lessee

(a) Operating lease

Leases where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease. Contingent rents are recognised as an expense in profit or loss when incurred.

(b) Finance lease

Leases where the Group assumes substantially all risks and rewards incidental to ownership of the leased assets are classified as finance leases.

The leased assets and the corresponding lease liabilities (net of finance charges) under finance leases are recognised on the statement of financial position as plant and equipment and borrowings, respectively, at the inception of the leases based on the lower of the fair value of the leased assets and the present value of the minimum lease payments.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Each lease payment is apportioned between the interest expense and the reduction of the outstanding lease liability. The interest expense is recognised within "finance costs" in profit or loss on a basis that reflects a constant periodic rate of interest on the finance lease liability.

Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither accounting or taxable profit or loss at the time of the transaction.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authorities on the same taxable entity, or on different tax entities, provided they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period; and
- (ii) based on the tax consequence that will follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised either in other comprehensive income or directly in equity.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Employee benefits

Pension obligations

The Group participates in the defined contribution national pension schemes as provided by the laws of the countries in which it has operations. The subsidiaries in Malaysia, Thailand and the PRC are required to provide certain staff pension contributions to their employees under existing regulations. Pension contributions are provided at rates stipulated by the regulations and are contributed to pension funds managed by government agencies, which are responsible for administering these amounts for the subsidiaries' employees. The Company and its Singapore incorporated subsidiary make contributions to the Central Provident Fund, a defined contribution pension scheme regulated and managed by the Government of Singapore.

A defined contribution national pension scheme is a post-employment benefit plan under which an entity pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts. The contributions to national pension schemes are charged to profit or loss in the period to which the contributions relate.

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. Accrual is made for the unconsumed leave as a result of services rendered by employees up to the end of the reporting period.

Defined benefit plan

A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The subsidiary in Thailand operates a defined benefit pension plan according to the requirements of Thai Labour Protection Act B.E. 2541 (1998) to provide retirement benefits to employees based on pensionable remuneration and length of service operates. The liability in respect of the defined benefit plan is the present value at the end of the reporting period, of the amount of future benefit that employees have earned in return for their service in the current and prior periods. The Group determines the present value of the defined benefit obligation with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.

Employee share option scheme

The Group has an employee share option plan for the granting of non-transferable options.

The Group issues equity-settled share-based payments to certain employees. The fair value of the employee services received in exchange for the grant of options is recognised as an expense in profit or loss with a corresponding increase in the share option reserve over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the options granted on the date of the grant. Non-market vesting conditions are included in the estimation of the number of shares under option that are expected to become exercisable on the vesting date. At the end of each reporting period, the Group revises its estimates of the number of shares under option that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in profit or loss, with a corresponding adjustment to the share option reserve over the remaining vesting period.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

When the options are exercised, the proceeds received (net of transaction costs) and the related balance previously recognised in the share option reserve is credited to the share capital account when new ordinary shares are issued.

The share option reserve is transferred to retained earnings upon expiry of the options.

Related parties

A related party is defined as follows:

- a) A person or a close member of that person's family is related to the Group and the Company if that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Group or the Company or of a parent of the Company.
- b) An entity is related to the Group and the Company if any of the following conditions applies:
 - (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) both entities are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Directors and certain management executives are considered key management personnel.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

If it is not possible to estimate the recoverable amount of the individual asset, then the recoverable amount of the cash-generating unit to which the assets belong will be identified.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal and value in use, based on an internal discounted cash flow evaluation. Impairment loss recognised for a cash-generating unit is charged *pro rata* to the assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Any impairment loss is charged to profit or loss.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decreases.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

A reversal of an impairment loss is recognised as income in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Revenue from contracts with customers

The Group recognises revenue from contracts with customers based on a five step model as set out in SFRS(I) 15:

- Step 1: Identify contract(s) with a customer: A contract is defined as an agreement between two or more parties create enforceable rights and obligations and sets out the criteria for every contract that must be met.
- Step 2: Identify performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
- Step 3: Determine the transaction price: The transaction price is the amount of the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
- Step 4: Allocate the transaction price to the performance obligations in the contract: For a contract that has more in an amount that depicts the amount of consideration to which the Group expects to entitle in exchange for satisfying each performance obligation.
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

The Group satisfies a performance obligation and recognised revenue over time, if one of the following criteria is met:

- (a) The Group's performance obligation does not create an asset with an alternate use to the Group and the Group has as an enforceable right to payment for performance completed to date.
- (b) The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- (c) The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. Revenue is recognised when the Group satisfies a performance obligation by transferring the promised goods or services to the customer, which is when the customer obtains control of the goods or services. Performance obligation may be satisfied at a point in time or over time.

The Group supplies components and tools to manufacturers. Revenue is recognised at a point in time when the goods are delivered to the customer and all criteria for acceptance have been satisfied. The amount of revenue recognised is based on the estimated transaction price, which comprises the contractual price, net of the estimated volume discounts and adjusted for expected returns.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Interest income

Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Government grants

Government grant is recognised at its fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Functional currencies

Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements of the Group and the Company are presented in Singapore dollar, which is also the functional currency of the Company.

Conversion of foreign currencies

Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the end of the reporting period are recognised in profit or loss.

Foreign currency gains and losses are reported on a net basis as either other income or other expenses depending on whether foreign currency movements are in a net gain or net loss position.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the transactions.

Group entities

The results and financial positions of all the entities (none of which has the currency of a hyperinflationary economy) within the Group that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities are translated at the closing exchange rates at the end of each reporting period;
- (ii) Income and expenses for each statement presenting profit or loss and other comprehensive income (i.e. including comparatives) are translated at exchange rates at the dates of the transactions; and
- (iii) All resulting currency translation differences are recognised as other comprehensive income in the foreign currency translation reserve in equity.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2(f) Summary of significant accounting policies (cont'd)

Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Executive Officer ("CEO"), who is the chief operating decision maker, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available. Additional disclosures on each of these segments are shown in Note 25 to the financial statements, including the factors used to identify the reportable segments and the measurement basis of segment information.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the financial year to acquire property, plant and equipment.

Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees and warrants.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 Property, plant and equipment

| The Group | Leasehold land and buildings (at revaluation) | Building improvements and renovations (at cost) | Plant and machinery (at cost) | Furniture and fittings (at cost) | Office equipment (at cost) | Computers (at cost) | Motor vehicles (at cost) | Total |
|--|---|---|-------------------------------|----------------------------------|----------------------------|---------------------|--------------------------|--------------------|
| | S\$ | S\$ | S\$ | S\$ | S\$ | S\$ | S\$ | S\$ |
| <u>Cost or valuation</u> | | | | | | | | |
| At 1 January 2018 | 11,564,529 | 3,355,476 | 37,248,213 | 313,717 | 976,241 | 2,473,819 | 314,383 | 56,246,378 |
| Additions | - | 905,755 | 1,817,444 | 7,470 | 53,942 | 98,379 | 20,879 | 2,903,869 |
| Revaluation surplus | (544,481) | - | - | - | - | - | - | (544,481) |
| Disposals | - | (880,088) | (48,246) | (109,340) | (394,274) | (291,044) | (81,720) | (1,804,712) |
| Elimination of accumulated depreciation on revaluation | (490,540) | - | - | - | - | - | - | (490,540) |
| Exchange difference on translation | 81,600 | (78,037) | (407,841) | (9,080) | (17,227) | (29,405) | (5,532) | (465,522) |
| At 31 December 2018 | 10,611,108 | 3,303,106 | 38,609,570 | 202,767 | 618,682 | 2,251,749 | 248,010 | 55,844,992 |
| Adoption of SFRS(I) 16 | - | - | - | - | - | - | - | - |
| - Reclassification to right-of-use assets (Note 4) | - | - | (3,152,773) | - | - | - | (20,760) | (3,173,533) |
| At 1 January 2019, as adjusted | 10,611,108 | 3,303,106 | 34,456,797 | 202,767 | 618,682 | 2,251,749 | 227,250 | 52,671,459 |
| Additions | - | 158,032 | 1,306,765 | 16,804 | 18,345 | 40,781 | - | 1,540,727 |
| Revaluation surplus | 1,645,692 | - | - | - | - | - | - | 1,645,692 |
| Disposals | - | (168,926) | (884,543) | (1,148) | (253) | (31,465) | (34,535) | (1,120,870) |
| Elimination of accumulated depreciation on revaluation | (340,778) | - | - | - | - | - | - | (340,778) |
| Exchange difference on translation | (126,718) | (25,132) | 133,302 | 364 | (875) | (10,023) | 1,756 | (27,326) |
| At 31 December 2019 | 11,789,304 | 3,267,080 | 36,012,321 | 218,787 | 635,899 | 2,251,042 | 194,471 | 54,368,904 |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 Property, plant and equipment

| The Group | Leasehold land and buildings (at revaluation) | Building improvements and renovations (at cost) | Plant and machinery (at cost) | Furniture and fittings (at cost) | Office equipment (at cost) | Computers (at cost) | Motor vehicles (at cost) | Total |
|--|---|---|-------------------------------|----------------------------------|----------------------------|---------------------|--------------------------|-------------------|
| | S\$ | S\$ | S\$ | S\$ | S\$ | S\$ | S\$ | S\$ |
| <u>Accumulated depreciation</u> | | | | | | | | |
| At 1 January 2018 | - | 2,052,841 | 30,334,283 | 216,002 | 759,437 | 1,689,076 | 211,853 | 35,263,492 |
| Depreciation | 439,747 | 327,317 | 1,397,833 | 27,379 | 34,355 | 327,795 | 17,045 | 2,571,471 |
| Disposals | - | (692,085) | (132,310) | (97,287) | (354,851) | (272,238) | (49,591) | (1,598,362) |
| Elimination of accumulated depreciation on revaluation | (490,540) | - | - | - | - | - | - | (490,540) |
| Exchange difference on translation | 50,793 | (58,704) | (84,158) | (1,548) | (7,135) | (9,300) | (2,002) | (112,054) |
| At 31 December 2018 | - | 1,629,369 | 31,515,648 | 144,546 | 431,806 | 1,735,333 | 177,305 | 35,634,007 |
| Adoption of SFRS(l) 16 | - | - | - | - | - | - | - | - |
| -Reclassification to right-of-use assets (Note 4) | - | - | (189,861) | - | - | - | (1,730) | (191,591) |
| At 1 January 2019, as adjusted | - | 1,629,369 | 31,325,787 | 144,546 | 431,806 | 1,735,333 | 175,575 | 35,442,416 |
| Depreciation | 395,782 | 374,096 | 892,778 | 31,409 | 30,482 | 178,669 | 101 | 1,903,317 |
| Disposals | - | (139,575) | (795,313) | (1,023) | (178) | (31,476) | (31,824) | (999,389) |
| Elimination of accumulated depreciation on revaluation | (340,778) | - | - | - | - | - | - | (340,778) |
| Exchange difference on translation | (55,004) | (19,960) | 129,712 | 136 | (5,036) | (3,529) | 2,801 | 49,120 |
| At 31 December 2019 | - | 1,843,930 | 31,552,964 | 175,068 | 457,074 | 1,878,997 | 146,653 | 36,054,686 |
| <u>Carrying amount</u> | | | | | | | | |
| At 31 December 2019 | 11,789,304 | 1,423,150 | 4,459,357 | 43,719 | 178,825 | 372,045 | 47,818 | 18,314,218 |
| At 31 December 2018 | 10,611,108 | 1,673,737 | 7,093,922 | 58,221 | 186,876 | 516,416 | 70,705 | 20,210,985 |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 Property, plant and equipment (cont'd)

| The Company | Renovations S\$ | Plant and machinery S\$ | Furniture and fittings S\$ | Office equipment S\$ | Computers S\$ | Total S\$ |
|---------------------------------|--------------------|-------------------------------|----------------------------------|----------------------------|------------------|------------------|
| <u>Cost</u> | | | | | | |
| At 1 January 2018 | 340,870 | 21,207 | 40,978 | 74,949 | 1,467,301 | 1,945,305 |
| Additions | - | - | - | 2,198 | 31,983 | 34,181 |
| Disposals | (217,010) | (4,807) | (39,548) | (21,096) | (222,903) | (505,364) |
| At 31 December 2018 | 123,860 | 16,400 | 1,430 | 56,051 | 1,276,381 | 1,474,122 |
| Additions | 8,180 | - | - | - | 12,340 | 20,520 |
| Disposals | - | (1,600) | - | - | - | (1,600) |
| Written-off | (123,860) | (14,800) | - | - | - | (138,660) |
| At 31 December 2019 | 8,180 | - | 1,430 | 56,051 | 1,288,721 | 1,354,382 |
| <u>Accumulated depreciation</u> | | | | | | |
| At 1 January 2018 | 340,870 | 20,925 | 40,729 | 56,409 | 1,163,723 | 1,622,656 |
| Depreciation | - | 160 | 246 | 8,557 | 191,083 | 200,046 |
| Disposals | (217,010) | (4,807) | (39,548) | (21,096) | (222,903) | (505,364) |
| At 31 December 2018 | 123,860 | 16,278 | 1,427 | 43,870 | 1,131,903 | 1,317,338 |
| Depreciation | 2,727 | 108 | 3 | 4,694 | 60,001 | 67,533 |
| Disposals | - | (1,586) | - | - | - | (1,586) |
| Written-off | (123,860) | (14,800) | - | - | - | (138,660) |
| At 31 December 2019 | 2,727 | - | 1,430 | 48,564 | 1,191,904 | 1,244,625 |
| <u>Carrying amount</u> | | | | | | |
| At 31 December 2019 | 5,453 | - | - | 7,487 | 96,817 | 109,757 |
| At 31 December 2018 | - | 122 | 3 | 12,181 | 144,478 | 156,784 |

The carrying amount of property, plant and equipment held under finance leases for the Group, comprising plant and machinery, is S\$1,900,316 (2018 S\$1,760,238) (Note 13.1).

During the financial year ended 31 December 2018, the Group acquired property, plant and equipment with an aggregate cost of S\$2,903,869 of which S\$1,066,963 was acquired by means of finance leases. Cash payments of S\$1,836,906 were made to purchase property, plant and equipment.

Short-term bank loans are secured by the leasehold land and buildings of a PRC subsidiary with carrying value of S\$11,789,304 (2018: S\$10,611,108) as at 31 December 2019 (Note 13.2).

There were impairment indicators for the Group's property, plant and equipment. Refer to Note 5 for the impairment assessment on property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3 Property, plant and equipment (cont'd)

Leasehold land relates to the land use right acquired by the PRC subsidiary, MCE Industries (Shanghai) Co., Ltd, under Shanghai Municipal People's Government and relates to the following parcel of land:

| Location | Land area | Tenure |
|-------------------------------|----------------------|--|
| Qingpu District, Chonggu Town | 25,000 square metres | 50 years (commenced on 20 December 2006 and expiring on 19 December 2056) |

Revaluation of land and buildings

Management has engaged a firm of independent professional valuers to perform valuation of the land and buildings, having regard to the valuers' recognised and relevant professional qualifications and recent experience in the location and category of properties being valued. In determining the fair value of the land and buildings, the valuers used the market approach and cost approach. Based on the valuation report, the fair value was determined to be RMB 60,996,678 (S\$11,789,304) (2018: RMB 53,483,406 (S\$10,611,108)). The revaluation gain of S\$1,234,269 (2018: loss of S\$408,361) (after the related tax of S\$411,423 (2018: S\$136,120) (Note 6)) was recognised in other comprehensive income. The carrying amount of the land and buildings after accumulated depreciation that would have been recognised had the assets been carried under the cost model was S\$2,691,543 (2018: S\$2,914,372).

Valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in measuring the Level 3 fair value hierarchy, as well as the significant unobservable inputs used:

| Valuation method | Basis | Key unobservable inputs | Inter-relationship between key unobservable inputs and fair value measurement |
|---------------------------------------|--|--------------------------------|---|
| <u>Leasehold land</u> | | | |
| Market comparison approach | Land use right for industrial purpose when selling prices for comparable land are available | Current market selling prices | A significant increase in market selling prices would result in a significantly higher fair value measurement, and vice versa. |
| <u>Leasehold buildings</u> | | | |
| Depreciated replacement cost approach | Cost to a market participant buyer to acquire or construct a building of comparable utility, adjusted for obsolescence | Current market purchase prices | A significant increase in market purchase prices would result in a significantly higher fair value measurement, and vice versa. |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

4 Right-of-use assets

| The Group | Factory premise S\$ | Motor vehicles S\$ | Office and other equipment S\$ | Plant and machinery S\$ | Total S\$ |
|---|---------------------------|--------------------------|---|-------------------------------|------------------|
| <u>Cost</u> | | | | | |
| <u>Adoption of SFRS(I) 16:</u> | | | | | |
| - Initial recognition | 2,536,931 | - | - | - | 2,536,931 |
| - Reclassification from property, plant and equipment (Note 3) | - | 20,760 | - | 3,152,773 | 3,173,533 |
| At 1 January 2019 | 2,536,931 | 20,760 | - | 3,152,773 | 5,710,464 |
| Additions | 615,794 | 50,061 | 35,047 | 1,209,697 | 1,910,599 |
| Currency translation differences | (3,002) | 1,280 | - | 50,314 | 48,592 |
| At 31 December 2019 | 3,149,723 | 72,101 | 35,047 | 4,412,784 | 7,669,655 |
| <u>Accumulated depreciation</u> | | | | | |
| <u>Adoption of SFRS(I) 16:</u> | | | | | |
| - Reclassification from property, plant and equipment (Note 3) | - | 1,730 | - | 189,861 | 191,591 |
| At 1 January 2019 | - | 1,730 | - | 189,861 | 191,591 |
| Depreciation for the year | 889,460 | 5,176 | 5,921 | 312,324 | 1,212,881 |
| Currency translation differences | (7,244) | 173 | (2) | 2,491 | (4,582) |
| At 31 December 2019 | 882,216 | 7,079 | 5,919 | 504,676 | 1,399,890 |
| <u>Net book value</u> | | | | | |
| At 31 December 2019 | 2,267,507 | 65,022 | 29,128 | 3,908,108 | 6,269,765 |
| At 1 January 2019 | 2,536,931 | 19,030 | - | 2,962,912 | 5,518,873 |

Information on the Group's leasing activities are disclosed in Note 26.

There were impairment indicators for the Group's right-of-use assets. Refer to Note 5 for the impairment assessment on right-of-use assets.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

5 Subsidiaries

| | 2019 S\$ | 2018 S\$ |
|---|-------------------|-------------|
| The Company | | |
| <u>Unquoted equity investments, at cost</u> | | |
| At 1 January | 25,819,163 | 25,819,163 |
| Increase in investment in subsidiary | 1,463,932 | - |
| At 31 December | 27,283,095 | 25,819,163 |
| <u>Allowance for impairment losses</u> | | |
| At 1 January | 8,215,357 | 7,222,335 |
| Allowance made | 1,463,932 | 993,022 |
| At 31 December | 9,679,289 | 8,215,357 |
| Carrying amount | 17,603,806 | 17,603,806 |

Impairment testing of investments in subsidiaries, property, plant and equipment and right-of-use assets

For the financial year ended 31 December 2019, management of the Group had carried out an impairment assessment over the investments in subsidiaries, property, plant and equipment, right-of-use assets and identified the China subsidiaries as significant cash-generating-units ("CGUs") to have indications of possible impairment issues at 31 December 2019 and 2018 as they were in a loss-making position for the past few year and with net cash outflow from operations.

Impairment testing of property, plant and equipment and right-of-use assets

As at 31 December 2019, the carrying amount of the Group's property, plant and equipment amounted to S\$18,314,218 (2018: S\$20,210,985). As at 31 December 2019, the carrying amount of the Group's right-of-use assets amounted to S\$6,269,765 (2018: S\$Nil).

In view of the operating losses and cash outflows incurred by the businesses in the PRC, management has assessed that there are indications of impairment of the related property, plant and equipment and right-of-use assets. Accordingly, they are tested for impairment. The carrying amount of the China CGU's property, plant and equipment amounted to S\$14,760,009 (2018: S\$17,460,913). As at 31 December 2019, the carrying amount of the China CGU's right-of-use assets amounted to S\$835,130 (2018: S\$Nil)

Management has engaged a firm of independent professional valuers to carry out valuations on the related plant and equipment and right-of-use assets to determine their fair values, having considered the appropriate professional qualifications and recent experience of the valuers in the location and category of the plant and equipment being valued. In determining the fair values of the plant and equipment and right-of-use assets, the valuers used the market approach and cost approach. No impairment losses were recognised for the financial years ended 31 December 2019 and 31 December 2018 as the recoverable amounts of the plant and equipment and right-of-use assets based on fair value less costs of disposal are higher than their carrying amounts as at 31 December 2019 and 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

5 Subsidiaries (cont'd)

Impairment testing of property, plant and equipment and right-of-use assets (cont'd)

In determining the fair values of the plant and equipment and right-of-use assets, the valuers used the market approach and cost approach. No impairment losses were recognised for the financial years ended 31 December 2019 and 31 December 2018 as the recoverable amounts of the plant and equipment and right-of-use assets based on fair value less costs of disposal are higher than their carrying amounts as at 31 December 2019 and 31 December 2018.

Valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in measuring the Level 3 fair value hierarchy, as well as the significant unobservable inputs used:

| Valuation method | Basis | Key unobservable inputs | Inter-relationship between key unobservable inputs and fair value measurement |
|--|---|--|---|
| <u>Plant and machinery, building improvements and renovations, office equipment, furniture and fittings, motor vehicles and computers and right-of-use assets</u> | | | |
| Market comparison approach and depreciated replacement cost approach | Current market selling/purchase prices of comparable assets are available | Current market selling/purchase prices | A significant increase in market selling/purchase prices would result in a significantly higher fair value measurement, and vice versa. |

Impairment of cost of investment in subsidiaries

As at 31 December 2019, the carrying amount of the investment in subsidiaries of the China CGU amounted to S\$11,154,108 (2018: S\$10,613,634).

The recoverable amount is determined based on fair value less costs of disposal, which is based on the revalued net assets of the subsidiaries. In deriving the revalued net assets of the subsidiaries, the fair values of the underlying assets are estimated based on their expected selling prices, and the fair values of the underlying liabilities are based on the estimated cash outflows to settle the obligations. Accordingly, an impairment loss of S\$1,463,932 (2018: S\$993,022) has been recognised in the Company's profit or loss to write down the carrying amount of the investment in MCE Technologies (Suzhou) Co., Ltd to its recoverable amount. No impairment loss has been recognised in respect of the investment in MCE Industries (Shanghai) Co., Ltd as the recoverable amount exceeds the carrying amount of the investment in subsidiary as at 31 December 2019 and 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

5 Subsidiaries (cont'd)

Impairment of cost of investment in subsidiaries (cont'd)

Details of the subsidiaries are:

| Name | Principal activities | Country of incorporation/ Principal place of business | Percentage of equity held | |
|--|---|--|---------------------------|-----------|
| | | | 2019 % | 2018 % |
| <u>Held by the Company</u> | | | | |
| Metal Precision Services Pte Ltd ^(a) | Provision of services relating to metal wire cutting and milling (inactive) | Singapore | 100 | 100 |
| MCE Technologies Sdn Bhd ^(b) | Metal stamping and manufacturing of tools and fixtures | Malaysia | 100 | 100 |
| MCE Manufacturing Sdn Bhd ^(b) | Dormant | Malaysia | 100 | 100 |
| MCT (Thailand) Co., Ltd. ^(c) | Metal stamping and manufacturing of tools and fixtures | Thailand | 100 | 100 |
| Metal Component Engineering (Shanghai) Co., Ltd ^(d) | Metal stamping and manufacturing of tools and fixtures (inactive) | People's Republic of China | 100 | 100 |
| Metal Component Technologies (Wuxi) Co., Ltd ^(d) | Metal stamping and manufacturing of tools and fixtures (inactive) | People's Republic of China | 100 | 100 |
| MCE Industries (Shanghai) Co., Ltd ^(d) | Metal stamping and manufacturing of tools and fixtures (inactive) | People's Republic of China | 100 | 100 |
| MCE Technologies (Suzhou) Co., Ltd ^(d) | Metal stamping and manufacturing of tools and fixtures | People's Republic of China | 100 | 100 |
| <u>Held by MCE Industries (Shanghai) Co., Ltd</u> | | | | |
| MCE Corporation (Shanghai) Co., Ltd ^(d) | Trading of tools, components, product assemblies and related products | People's Republic of China | 100 | 100 |

(a) Audited by Foo Kon Tan LLP, a member firm of HLB International

(b) Audited by HLB Ler Lum, Malaysia, a member firm of HLB International

(c) Audited by Grant Thornton Limited, Thailand

(d) Audited by Grant Thornton Zhi Tong, People's Republic of China

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

6 Deferred taxation

| The Group | 2019 S\$ | 2018 S\$ |
|--|----------------|-------------|
| Deferred tax assets | | |
| At 1 January | 85,894 | 42,966 |
| Recognised in profit or loss (Note 23) | 77,327 | 43,422 |
| Exchange difference on translation | (214) | (494) |
| At 31 December | 163,007 | 85,894 |
| To be settled after one year | 163,007 | 85,894 |

| The Group | 2019 S\$ | 2018 S\$ |
|---|--------------------|-------------|
| Deferred tax liabilities | | |
| At 1 January | (1,990,602) | (2,126,722) |
| Recognised in other comprehensive income (Note 3) | (411,423) | 136,120 |
| At 31 December | (2,402,025) | (1,990,602) |
| To be settled after one year | (2,402,025) | (1,990,602) |

Deferred taxation comprises the following:

| The Group | 2019 S\$ | 2018 S\$ |
|--------------------------|--------------------|-------------|
| Deferred tax assets | 163,007 | 85,894 |
| Deferred tax liabilities | (2,402,025) | (1,990,602) |
| | (2,239,018) | (1,904,708) |

The balance comprises tax on the following temporary differences:

| The Group | 2019 S\$ | 2018 S\$ |
|-------------------------------|--------------------|-------------|
| Unused tax losses | 163,007 | 85,894 |
| Property, plant and equipment | (2,402,025) | (1,990,602) |
| | (2,239,018) | (1,904,708) |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

6 Deferred taxation (cont'd)

Unrecognised temporary differences relating to investments in subsidiaries

On 22 February 2008, the Ministry of Finance and the State Administration of Taxation of the PRC issued a joint circular Caishui [2008] No. 1 which states that the distribution of dividends after 1 January 2008 from profits derived before 1 January 2008 will be exempted from withholding tax on distribution to non-resident shareholders. Whereas, dividends distributed out of profits generated thereafter, shall be subject to Enterprise Income Tax ("EIT") at 10% and withheld by foreign invested enterprises, pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Detailed Implementation Regulations. Non-resident shareholders in countries under double tax treaty with the PRC may enjoy a reduced withholding tax at 5% if certain conditions are met.

Accordingly, there were no deferred tax liabilities arising from undistributed profits of the PRC subsidiaries accumulated up till 31 December 2007 (the "exemption period"). After the exemption period, deferred tax liabilities would be required to the extent per SFRS(I) 1-12 *Income Taxes* on profits accumulated from 1 January 2008.

No deferred tax liabilities have been recognised for withholding tax that would be payable on undistributed earnings of the subsidiaries in the PRC as the Group has control over any distribution and has determined that portion of the undistributed earnings of the subsidiaries will not be distributed in the foreseeable future.

As at 1 January 2018, such temporary differences for which no deferred tax liabilities have been recognised aggregate to S\$319,009 and the deferred tax liabilities are estimated at S\$15,950. As at 31 December 2019 and 31 December 2018, there are no undistributed earnings of the subsidiaries in the PRC.

Unrecognised temporary differences relating to unused tax losses and credits

Deferred tax assets have not been recognised in respect of the following items:

| | The Group | | The Company | |
|---|-------------------|-------------|-------------------|-------------|
| | 2019 S\$ | 2018 S\$ | 2019 S\$ | 2018 S\$ |
| Unutilised tax losses | 32,598,825 | 26,075,868 | 13,315,231 | 6,636,731 |
| Unabsorbed capital allowances | 2,166,514 | 2,166,514 | 1,681,536 | 1,681,536 |
| | 34,765,339 | 28,242,382 | 14,996,767 | 8,318,267 |
| Tax effect on above temporary differences | 6,911,045 | 5,841,860 | 2,549,450 | 1,414,105 |

The unused tax losses and unabsorbed capital allowances are allowed to be carried forward and used to offset against future taxable profits of the Company and its subsidiaries in which the items arose, subject to agreement by the relevant tax authorities and compliance with the applicable tax regulations in the respective countries in which the Company and its subsidiaries operate. Deferred tax assets have not been recognised in respect of these items due to the uncertainty whether future taxable profits will be available against which the Company and its subsidiaries can utilise the benefits.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

6 Deferred taxation (cont'd)

The above unused tax losses and unabsorbed capital allowances have no expiry date under the respective tax jurisdictions, except for the following amounts of unused tax losses:

| The Group | 2019 S\$ | 2018 S\$ |
|--------------|---------------------------|-------------|
| Expiring in: | | |
| - 2019 | - | 804,830 |
| - 2020 | 1,628,369 | 1,643,533 |
| - 2021 | 3,032,819 | 3,061,061 |
| - 2022 | 8,221,166 | 8,253,505 |
| - 2023 | 753,242 | 774,201 |
| - 2024 | 55,461 | - |
| | 13,691,057 | 14,537,130 |

7 Inventories

| | The Group | | The Company | |
|--|---------------------------|-------------|---------------------------|-------------|
| | 2019 S\$ | 2018 S\$ | 2019 S\$ | 2018 S\$ |
| Raw materials (at cost) | 1,162,901 | 822,208 | - | - |
| Work in progress (at cost) | 1,706,565 | 2,278,566 | - | - |
| Finished goods (at net realisable value) | 561,180 | 1,122,347 | - | - |
| | 3,430,646 | 4,223,121 | - | - |

The costs recognised as expense for raw materials and consumables together with changes in finished goods and work in progress in the consolidated statement of profit or loss and other comprehensive income amounted to S\$22,424,153 (2018: S\$25,317,774) for the financial year ended 31 December 2019.

Inventories are stated at the lower of cost and net realisable value, after allowance for write-down of certain inventories to net realisable value.

The movement in allowance for write-down of inventories is as follows:

| | The Group | |
|------------------------------------|---------------------------|-------------|
| | 2019 S\$ | 2018 S\$ |
| At 1 January | 883,693 | 1,136,068 |
| Allowance reversed (Note 18) | (20,123) | (152,267) |
| Allowance utilised | - | (94,302) |
| Exchange difference on translation | 631 | (5,806) |
| At 31 December | 864,201 | 883,693 |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

7 Inventories (cont'd)

For the financial year ended 31 December 2019, reversal of write-down on inventories (finished goods) of S\$20,123 (2018: S\$152,267) was made by the Group when the related inventories were sold above their carrying amounts.

For the financial year ended 31 December 2018, allowances of S\$94,302 for the Group were utilised against the corresponding inventories when they were sold or written off during the financial year.

8 Trade and other receivables

| | The Group | | The Company | |
|---|-------------------|-------------|--------------------|-------------|
| | 2019 S\$ | 2018 S\$ | 2019 S\$ | 2018 S\$ |
| Trade receivables | | | | |
| - third parties | 9,978,199 | 11,777,771 | 2,243,376 | 1,899,468 |
| - subsidiaries | - | - | 11,454,284 | 10,756,580 |
| | 9,978,199 | 11,777,771 | 13,697,660 | 12,656,048 |
| Less: Allowance for impairment losses | (189,577) | (291,761) | (6,191,644) | (32,000) |
| | 9,788,622 | 11,486,010 | 7,506,016 | 12,624,048 |
| Amounts due from subsidiaries (non-trade) | - | - | 2,818,400 | 2,763,120 |
| Less: Allowance for impairment losses | - | - | (1,916,491) | (1,890,370) |
| | - | - | 901,909 | 872,750 |
| Deposits | 808,288 | 768,415 | 15,251 | 44,157 |
| Other receivables | 141,165 | 340,881 | 27,944 | 68,596 |
| Financial assets at amortised cost | 10,738,075 | 12,595,306 | 8,451,120 | 13,609,551 |
| Input taxes, net | 56,868 | 216,509 | 11,259 | 44,559 |
| Tax recoverable | - | 439 | - | - |
| Total | 10,794,943 | 12,812,254 | 8,462,379 | 13,654,110 |

The Group has factored trade receivables with an aggregate carrying amount of S\$1,690,370 (2018: S\$2,733,877) to banks in exchange for cash at the end of the reporting period (Note 13.5). The Group has retained its rights to receive cash flows from the trade receivables and all risks and rewards in respect of the trade receivables. The transactions have been accounted for as secured borrowings (bills payable to banks) as the banks have full recourse to the Group in the event of default by the debtors.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

8 Trade and other receivables (cont'd)

The movement in allowance for impairment losses in respect of trade receivables is as follows:

| | The Group | | The Company | |
|------------------------------------|------------------|-------------|------------------|-------------|
| | 2019 S\$ | 2018 S\$ | 2019 S\$ | 2018 S\$ |
| At 1 January | 291,761 | 379,346 | 32,000 | 166,346 |
| Allowance made | 16,974 | 153,507 | 6,159,644 | 32,000 |
| Allowance utilised | (118,468) | (237,538) | - | (166,346) |
| Exchange difference on translation | (690) | (3,554) | - | - |
| At 31 December | 189,577 | 291,761 | 6,191,644 | 32,000 |

Trade receivables that have been determined to be impaired at the end of the reporting period relate to debtors that are in financial difficulties or have defaulted on payments. These trade receivables are not secured by any collateral or credit enhancements. The increase in the Company's impairment losses relates to trade amounts due from a subsidiary which have been incurring persistent losses and net operating outflows. Accordingly, an allowance of S\$6,159,644 (2018: S\$Nil) was made to impair the trade amounts due from subsidiary as at 31 December 2019.

The non-trade amounts due from subsidiaries, which represent advances to and payments on behalf of the subsidiaries, are unsecured, interest-free and repayable on demand.

The movement in allowance for impairment losses in respect of non-trade amounts due from subsidiaries is as follows:

| The Company | 2019 S\$ | 2018 S\$ |
|----------------|------------------|-------------|
| At 1 January | 1,890,370 | 1,838,009 |
| Allowance made | 26,121 | 52,361 |
| At 31 December | 1,916,491 | 1,890,370 |

The allowance for impairment losses relates to non-trade amounts due from certain subsidiaries which have been incurring persistent losses and operating cash outflows. Accordingly, an allowance of S\$26,121 (2018: S\$52,361) was made by the Company to impair the non-trade amounts due from these subsidiaries as at 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

8 Trade and other receivables (cont'd)

Trade and other receivables are denominated in the following currencies:

| | The Group | | The Company | |
|----------------------|-------------------|-------------|------------------|-------------|
| | 2019 S\$ | 2018 S\$ | 2019 S\$ | 2018 S\$ |
| Singapore dollar | 84,058 | 173,467 | 1,494,599 | 1,504,774 |
| Malaysian ringgit | 523,697 | 671,708 | 3,247 | 3,247 |
| Renminbi | 3,533,670 | 4,011,106 | 31,008 | 70,497 |
| Thai baht | 2,147,631 | 2,775,863 | - | - |
| United States dollar | 4,505,887 | 5,180,110 | 6,933,525 | 12,075,592 |
| | 10,794,943 | 12,812,254 | 8,462,379 | 13,654,110 |

The Group and the Company generally extend credit period of 45 to 90 days (2018: 45 to 90) to customers, depending on the length of business relationship, payment history, background and financial strength of the customers. The Group and the Company actively review the trade receivable balances and follow up on outstanding debts with the customers.

The credit risk for trade receivables from third parties based on the information provided to key management is as follows:

| | The Group | | The Company | |
|-----------------------------|------------------|-------------|------------------|-------------|
| | 2019 S\$ | 2018 S\$ | 2019 S\$ | 2018 S\$ |
| <u>By geographical area</u> | | | | |
| Southeast Asia | 3,429,304 | 4,174,946 | 1,137,411 | 1,098,148 |
| China | 5,882,947 | 7,307,047 | 597,594 | 765,303 |
| North America | 468,927 | 4,017 | 468,927 | 4,017 |
| Others | 7,444 | - | 7,444 | - |
| | 9,788,622 | 11,486,010 | 2,211,376 | 1,867,468 |

Trade and other receivables that are neither past due nor impaired relate to creditworthy debtors with a good payment record with the Group and the Company.

9 Prepayments

Prepayments comprise payments to tooling suppliers and insurance companies for goods or services not received.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

10 Cash and bank balances

| | The Group | | The Company | |
|---------------|------------------|-------------|----------------|-------------|
| | 2019 S\$ | 2018 S\$ | 2019 S\$ | 2018 S\$ |
| Cash in banks | 2,425,895 | 2,413,316 | 243,420 | 433,917 |
| Cash on hand | 9,788 | 7,828 | 1,500 | 1,500 |
| | 2,435,683 | 2,421,144 | 244,920 | 435,417 |

Bank deposits of S\$105,476 (2018: S\$105,704) for the Group were pledged as security to obtain a bank borrowing in Malaysia for financial year ended 31 December 2019. There was bank deposit of S\$98,525 pledged to obtain bankers' guarantee to meet customs requirements in the PRC for the financial year ended 31 December 2018.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

| The Group | 2019 S\$ | 2018 S\$ |
|----------------------------------|------------------|-------------|
| Cash and bank balances | 2,435,683 | 2,421,144 |
| Less: Bank overdraft (Note 13.4) | (136,117) | (80,639) |
| Less: Bank deposits pledged | (105,476) | (204,229) |
| | 2,194,090 | 2,136,276 |

Cash and bank balances are denominated in the following currencies:

| | The Group | | The Company | |
|----------------------|------------------|-------------|----------------|-------------|
| | 2019 S\$ | 2018 S\$ | 2019 S\$ | 2018 S\$ |
| Singapore dollar | 92,639 | 221,644 | 76,517 | 213,008 |
| Malaysian ringgit | 202,914 | 192,529 | - | - |
| Renminbi | 537,532 | 483,077 | - | - |
| Thai baht | 939,720 | 195,568 | - | - |
| United States dollar | 662,878 | 1,328,326 | 168,403 | 222,409 |
| | 2,435,683 | 2,421,144 | 244,920 | 435,417 |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

11 Share capital

| | 2019 | 2018 | 2019 | 2018 |
|---|---------------------------|-------------|-------------------|------------|
| The Group and the Company | Number of ordinary shares | | S\$ | S\$ |
| <u>Issued and fully paid, with no par value</u> | | | | |
| At 1 January and 31 December | 374,119,000 | 374,119,000 | 21,638,661 | 21,638,661 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. All shares rank equally with regard to the Company's residual assets.

12 Reserves

| | The Group | | The Company | |
|--------------------------------------|---------------------|--------------|---------------------|-------------|
| | 2019 | 2018 | 2019 | 2018 |
| | S\$ | S\$ | S\$ | S\$ |
| Share option reserve | 120,042 | 72,400 | 120,042 | 72,400 |
| Foreign currency translation reserve | (418,400) | (562,594) | - | - |
| Revaluation reserve | 7,206,075 | 5,971,806 | - | - |
| Statutory reserve | 1,944,142 | 1,944,142 | - | - |
| Accumulated losses | (13,680,306) | (13,841,468) | (15,787,591) | (7,572,196) |
| | (4,828,447) | (6,415,714) | (15,667,549) | (7,499,796) |

Share option reserve

Share option reserve represents the equity-settled share options granted to employees. The reserve is made up of the cumulative value of services received from employees recorded on grant of equity-settled share options.

Foreign currency translation reserve

Foreign currency translation reserve arises from the translation of financial statements of foreign entities whose functional currencies are different from the Group's presentation currency.

Revaluation reserve

Revaluation reserve relates to the revaluation of leasehold land and buildings under the revaluation model (Note 3).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

12 Reserves (cont'd)

Statutory reserve

In accordance with the relevant laws and regulations of the PRC, each subsidiary in the PRC is required to make appropriation to a Statutory Reserve Fund ("SRF"). At least 10% of the statutory net profit for each year, as determined in accordance with the applicable PRC accounting standards and regulations, must be allocated to the SRF until the cumulative total of the SRF reaches at least 50% of the registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital. The SRF is not available for dividend distribution to owners. The directors have decided that 10% of the net profit, as reported in the statutory financial statements of the PRC subsidiaries, be appropriated each year to the SRF.

13 Borrowings

| | | The Group | | The Company | |
|-----------------------------------|------|------------------|------------|------------------|------------------|
| | | 2019 | 2018 | 2019 | 2018 |
| | | S\$ | S\$ | S\$ | S\$ |
| Non-current | | | | | |
| Obligations under finance leases | 13.1 | - | 1,037,235 | - | 533,755 |
| Loans from financial institutions | 13.2 | 99,194 | 225,080 | - | - |
| | | 99,194 | 1,262,315 | - | 533,755 |
| Current | | | | | |
| Obligations under finance leases | 13.1 | - | 606,818 | - | 401,860 |
| Loans from financial institutions | 13.2 | 4,364,440 | 5,746,001 | 900,000 | 1,200,000 |
| Loan from a subsidiary | 13.3 | - | - | 1,002,450 | 1,002,450 |
| Bank overdraft | 13.4 | 136,117 | 80,639 | - | - |
| Bills payable to banks | 13.5 | 2,765,235 | 2,481,720 | 1,447,742 | 843,929 |
| | | 7,265,792 | 8,915,178 | 3,350,192 | 3,448,239 |
| | | 7,364,986 | 10,177,493 | 3,350,192 | 3,981,994 |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

13 Borrowings (cont'd)

13.1 Obligations under finance leases

| | The Group | | The Company | |
|---|-------------|-------------|-------------|-------------|
| | 2019 S\$ | 2018 S\$ | 2019 S\$ | 2018 S\$ |
| Minimum lease payments payable: | | | | |
| Due not later than one year | - | 652,228 | - | 447,518 |
| Due later than one year and not later than five years | - | 1,196,934 | - | 591,747 |
| | - | 1,849,162 | - | 1,039,265 |
| Less: Finance charges allocated to future periods | - | (205,109) | - | (103,650) |
| Present value of minimum lease payments | - | 1,644,053 | - | 935,615 |
| Present value of minimum lease payments: | | | | |
| Due not later than one year | - | 606,818 | - | 401,860 |
| Due later than one year and not later than five years | - | 1,037,235 | - | 533,755 |
| | - | 1,644,053 | - | 935,615 |
| Represented by: | | | | |
| Current | - | 606,818 | - | 401,860 |
| Non-current | - | 1,037,235 | - | 533,755 |
| | - | 1,644,053 | - | 935,615 |

As at 31 December 2018, the Group and the Company lease certain plant and equipment under finance leases. The average lease term is 3 to 5 years and the interest rates for the finance leases range are 3.25% to 5.64% per annum. All finance leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

As at 31 December 2018, the finance leases are secured by the underlying assets, comprising plant and machinery of S\$1,760,238 for the Group (Note 3).

Obligations under finance leases were reclassified to lease liabilities on adoption of SFRS(I) 16 Leases on 1 January 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

13 Borrowings (cont'd)

13.2 Loans from financial institutions

| | The Group | | The Company | |
|---|------------------|------------------|----------------|-------------|
| | 2019 S\$ | 2018 S\$ | 2019 S\$ | 2018 S\$ |
| Short-term bank loans | | | | |
| - secured (a) | 3,339,040 | 4,427,749 | - | - |
| - unsecured (b) | 900,000 | 1,200,000 | 900,000 | 1,200,000 |
| | 4,239,040 | 5,627,749 | 900,000 | 1,200,000 |
| Long-term loans from financial institutions | | | | |
| - secured (c) | 224,594 | 343,332 | - | - |
| | 224,594 | 343,332 | - | - |
| | 4,463,634 | 5,971,081 | 900,000 | 1,200,000 |
| Represented by: | | | | |
| Current | 4,364,440 | 5,746,001 | 900,000 | 1,200,000 |
| Non-current | 99,194 | 225,080 | - | - |
| | 4,463,634 | 5,971,081 | 900,000 | 1,200,000 |

Loans from financial institutions comprise the following:

- Short-term bank loans with interest rates of 5.30% to 5.44% (2018: 5.2% to 5.7%) per annum, secured by the leasehold land and buildings with carrying value of S\$11,789,304 (2018: S\$10,611,108) as at 31 December 2019 and corporate guarantee of a PRC subsidiary.
- Short-term unsecured bank loans with interest rate of 4.28% (2018: 4.44% to 5.3%) per annum.
- Long-term bank loan with effective interest rate of 5.82% (2018: 6.11%) per annum repayable in 33 monthly instalments (2018: 33 monthly instalments) secured by a corporate guarantee from the Company.

13.3 Loan from a subsidiary

| | 2019 S\$ | 2018 S\$ |
|------------------------------------|-------------|-------------|
| The Company | | |
| Loan from a subsidiary (unsecured) | 1,002,450 | 1,002,450 |

The short-term unsecured loan from a subsidiary bears interest at a rate of 6% per annum and is repayable on 17 January 2020.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

13 Borrowings (cont'd)

13.4 Bank overdraft

| | 2019 S\$ | 2018 S\$ |
|--------------------------|-------------|-------------|
| The Group | | |
| Bank overdraft (secured) | 136,117 | 80,639 |

The bank overdraft bears interest at 8.25% (2018: 8.9%) per annum for the Group.

The Group's bank overdraft of S\$136,117 (2018: S\$80,639) is secured through a corporate guarantee from the Company.

13.5 Bills payable to banks

| | The Group | | The Company | |
|------------------------------------|------------------|------------------|------------------|----------------|
| | 2019 S\$ | 2018 S\$ | 2019 S\$ | 2018 S\$ |
| Bills payable to banks (secured) | 1,447,630 | 1,637,791 | 130,137 | - |
| Bills payable to banks (unsecured) | 1,317,605 | 843,929 | 1,317,605 | 843,929 |
| | 2,765,235 | 2,481,720 | 1,447,742 | 843,929 |

The bills payable to banks bear interest at variable rates ranging from 3.9% to 5.9% (2018: 4.0% to 5.93%) per annum and 3.9% to 4.1% (2018: 4.0% to 4.89%) per annum for the Group and the Company, respectively.

The Group's bills payable to banks of S\$1,447,630 (2018: S\$1,637,791) are secured through a corporate guarantee from the Company and/or certain trade receivables with an aggregate carrying amount of S\$1,690,370 (2018: S\$2,733,877) (Note 8).

13.6 Currency risk

Borrowings are denominated in the following currencies:

| | The Group | | The Company | |
|----------------------|------------------|-------------------|------------------|------------------|
| | 2019 S\$ | 2018 S\$ | 2019 S\$ | 2018 S\$ |
| Singapore dollar | 1,842,238 | 2,156,640 | 900,000 | 2,156,640 |
| Malaysian ringgit | 641,425 | 753,761 | - | - |
| Renminbi | 1,849,118 | 2,085,025 | - | - |
| Thai baht | 1,036,781 | 2,016,429 | - | - |
| United States dollar | 2,937,661 | 3,165,638 | 2,450,192 | 1,825,354 |
| | 7,364,986 | 10,177,493 | 3,350,192 | 3,981,994 |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

13 Borrowings (cont'd)

13.7 Weighted average effective interest rates

The weighted average effective interest rates of interest-bearing borrowings at the end of the reporting period are as follows:

| | The Group | | The Company | |
|-----------------------------------|------------|-----------|-------------|-----------|
| | 2019 % | 2018 % | 2019 % | 2018 % |
| Obligations under finance leases | - | 5.4 | - | 5.3 |
| Loans from financial institutions | 5.2 | 5.0 | 4.3 | 4.7 |
| Loan from a subsidiary | - | - | 6.0 | 6.0 |
| Bank overdraft | 8.3 | 8.9 | - | - |
| Bills payable to banks | 4.1 | 5.5 | 3.8 | 4.7 |

13.8 Carrying amounts and fair values

The carrying amounts of short-term borrowings approximate their fair values. The carrying amounts and fair values of long-term borrowings at the end of the reporting period are as follows:

| | Carrying amount S\$ | Fair value S\$ |
|---|---------------------------|----------------------|
| The Group | | |
| 31 December 2019 | | |
| Long-term loan from financial institution | 224,594 | 225,917 |
| 31 December 2018 | | |
| Obligations under finance leases | 1,644,053 | 1,679,554 |
| Long-term loan from financial institution | 343,332 | 345,522 |
| The Company | | |
| 31 December 2018 | | |
| Obligations under finance leases | 935,615 | 965,578 |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

13 Borrowings (cont'd)

13.8 Carrying amounts and fair values (cont'd)

The fair values are determined from the discounted cash flow analyses, using the implicit discount rates based upon the borrowing rates which the directors expect would be available to the Group and the Company at the end of the reporting period, as follows:

| | 2019 | 2018 |
|---|-------------|------|
| | % | % |
| The Group | | |
| Obligations under finance leases | - | 6.1 |
| Long-term loan from financial institution | 5.8 | 6.2 |
| The Company | | |
| Obligations under finance leases | - | 6.1 |

The fair value hierarchy of the above long-term borrowings is Level 2.

14 Lease liabilities

| | The Group | | The Company | |
|----------------------------------|------------------|------|------------------|------|
| | 2019 | 2018 | 2019 | 2018 |
| | S\$ | S\$ | S\$ | S\$ |
| Undiscounted lease payments due: | | | | |
| - Year 1 | 1,957,440 | - | 455,309 | - |
| - Year 2 | 1,033,719 | - | 385,056 | - |
| - Year 3 | 653,013 | - | 147,645 | - |
| - Year 4 | 512,078 | - | 65,937 | - |
| - Year 5 | 85,224 | - | - | - |
| | 4,241,474 | - | 1,053,947 | - |
| Less: Unearned interest cost | (378,050) | - | (111,710) | - |
| Lease liabilities | 3,863,424 | - | 942,237 | - |
| Presented as: | | | | |
| - Non-current | 2,054,832 | - | 533,822 | - |
| - Current | 1,808,592 | - | 408,415 | - |
| | 3,863,424 | - | 942,237 | - |

Interest expense on lease liabilities of \$188,868 is recognised within "finance costs" in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

14 Lease liabilities (cont'd)

Rental expenses not capitalised in lease liabilities but recognised within "Other operating expenses" in profit or loss are set out below:

| | 2019 S\$ | 2018 S\$ |
|-----------------------------|----------------|-------------|
| The Group | | |
| Rental on operating leases. | 644,082 | - |

Total cash outflows for all leases in the year amount to \$1,461,373.

The Group's and the Company's lease liabilities are secured by the lessors' title to the leased assets.

Further information about the financial risk management as disclosed in Note 29.

15 Trade and other payables

| | The Group | | The Company | |
|---|-------------------|-------------|-------------------|-------------|
| | 2019 S\$ | 2018 S\$ | 2019 S\$ | 2018 S\$ |
| Trade payables | | | | |
| - third parties | 8,380,577 | 10,669,909 | 1,748,408 | 2,069,130 |
| - subsidiaries | - | - | 11,737,442 | 9,121,935 |
| | 8,380,577 | 10,669,909 | 13,485,850 | 11,191,065 |
| Amounts due to subsidiaries (non-trade) | - | - | 1,589,634 | 1,567,949 |
| Accrued expenses | 2,892,422 | 2,315,481 | 1,089,171 | 580,272 |
| Other payables | 930,033 | 426,268 | 96,355 | 122,162 |
| | 3,822,455 | 2,741,749 | 2,775,160 | 2,270,383 |
| Financial liabilities at amortised cost | 12,203,032 | 13,411,658 | 16,261,010 | 13,461,448 |
| Provision for retirement benefits | 119,305 | 49,439 | - | - |
| Total | 12,322,337 | 13,461,097 | 16,261,010 | 13,461,448 |

The average credit period taken to settle trade payables is approximately 150 days (2018: 150 days).

The non-trade amounts due to subsidiaries, which represent advances from and payments on behalf by the subsidiaries, are unsecured, interest-free and repayable on demand.

Other payables mainly relate to amounts payable for office expenses, utilities, renovations and professional fees.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

15 Trade and other payables (cont'd)

Trade and other payables (excluding contract liability and provision for retirement benefits) are denominated in the following currencies:

| | The Group | | The Company | |
|----------------------|-------------------|-------------|-------------------|-------------|
| | 2019 S\$ | 2018 S\$ | 2019 S\$ | 2018 S\$ |
| Singapore dollar | 1,528,632 | 755,063 | 1,616,922 | 845,355 |
| Euro | - | 1,694 | - | - |
| Malaysian ringgit | 3,095,061 | 2,031,354 | - | - |
| Renminbi | 4,668,811 | 6,555,367 | 1,391,213 | 1,443,087 |
| Thai baht | 594,459 | 952,901 | - | - |
| United States dollar | 2,435,374 | 3,164,718 | 13,252,875 | 11,173,006 |
| | 12,322,337 | 13,461,097 | 16,261,010 | 13,461,448 |

16 Contract liability

Contract liability relates to advance billings for tools made to customers, for which revenue has not been earned. Contract liability for sale of tools has decreased mainly due to lesser contracts in which the Group billed and received consideration ahead of the provision of services. Revenue recognised in the current financial year that was included in contract liability at the beginning of the year amounted to S\$760,489 (2018: S\$870,139).

17 Revenue

Significant categories of revenue, excluding intra-group transactions and applicable goods and services tax and value-added tax, are detailed as follows:

| | 2019 S\$ | 2018 S\$ |
|---------------------------------------|-------------------|-------------|
| The Group | | |
| Revenue from contracts with customers | | |
| - Sale of goods | 45,459,822 | 46,856,446 |

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

17 Revenue (cont'd)

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

| Type of product or service | Nature and timing of satisfaction of performance obligations, including significant payment terms | Revenue recognition under SFRS(I) 15 |
|----------------------------|---|---|
| Sale of components | <p>Customer obtains control of goods when the goods are delivered to the warehouse of the customer and accepted by the customer, and the title and risks and rewards of the goods are transferred to the customer.</p> <p>Invoices for sale of goods are issued to the customers when the products are delivered. Payment for these products is due within 45 to 90 days. No element of financing is deemed present as the credit terms are consistent with market practice. Hence, no interest is charged to the customers.</p> <p>No discounts are generally given to customers. Discounts, if any, as determined on a case-by-case basis, are netted against revenue that is recognised on products sold.</p> <p>No formal warranty terms are given for products sold. Nonetheless, customers have the right to return the products sold if they are defective, as assessed on a case-by-case basis.</p> | <p>Revenue is recognised at a point in time, when customer obtains control of goods, i.e. on delivery and acceptance of the goods by the customer, when the title and risks and rewards are transferred to the customer.</p> |
| Sale of tools | <p>Customer obtains control of tools when the tools are manufactured, meet the required specifications, pass the testing conducted and accepted by the customer. This is when the ownership of the tools and any intellectual property contained therein are transferred to the customer.</p> <p>An upfront deposit comprising 30% to 50% of the sales price is collected upon the signing of contract with the customer. Progress billings to the customer are based on a payment schedule in the contract that is dependent on the achievement of specified milestones. Nonetheless, the milestones typically coincide and are at the final stage of construction as they relate to the testing and acceptance of the tools by the customer. The manufacturing of tools generally takes less than a year to complete.</p> | <p>The criteria for satisfaction of performance obligations over time is not met. Under the terms of the contract, notwithstanding that the Group does not have an alternative use for the tools under construction, the Group does not have an enforceable right to payment for work completed to date. Payments are made by the customer when the tools have been tested and accepted by the customer.</p> <p>Accordingly, revenue is recognised at a point in time, when customer obtains control of tools, i.e. on acceptance of the tools by the customer, when the title and risks and rewards are transferred to the customer.</p> |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

18 Other income

| The Group | 2019 S\$ | 2018 S\$ |
|---|----------------|-------------|
| Gain on disposal of other assets | - | 32,299 |
| Gain on disposal of property, plant & machinery | 57,863 | - |
| Government grants | 82,154 | 98,898 |
| Interest income from bank balances | 6,447 | 2,997 |
| Reversal of impairment losses on trade receivables (Note 8) | 118,468 | - |
| Reversal of write-down on inventories (Note 7) | 20,123 | 152,267 |
| Sundry income | 43,755 | 22,671 |
| | 328,810 | 309,132 |

19 Employee benefits expense

| The Group | 2019 S\$ | 2018 S\$ |
|---|-------------------|-------------|
| Directors: | | |
| Directors' fees | 81,265 | 102,666 |
| Directors' remuneration other than fees: | | |
| - salaries and other related costs | 279,240 | 404,540 |
| - contributions to defined contribution plans | 6,480 | 6,480 |
| | 366,985 | 513,686 |
| Key management personnel (other than directors): | | |
| - salaries and other related costs | 696,626 | 1,166,525 |
| - contributions to defined contribution plans | 55,251 | 86,674 |
| - equity-settled share-based payment transactions | 18,592 | 18,592 |
| | 770,469 | 1,271,791 |
| Total key management personnel compensation | 1,137,454 | 1,785,477 |
| Other than key management personnel: | | |
| - salaries and other related costs | 10,559,515 | 12,149,449 |
| - contributions to defined contribution plans | 1,085,795 | 1,379,299 |
| - equity-settled share-based payment transactions | 31,229 | 33,408 |
| | 11,676,539 | 13,562,156 |
| Total employee benefits expense | 12,813,993 | 15,347,633 |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

20 Other charges

| The Group | 2019 S\$ | 2018 S\$ |
|---|----------------|----------------|
| Foreign exchange loss, net | 174,563 | 283,284 |
| Loss on disposal of property, plant and equipment | - | 94,509 |
| | 174,563 | 377,793 |

21 Finance costs

| The Group | 2019 S\$ | 2018 S\$ |
|-------------------------------------|----------------|----------------|
| Interest expenses on: | | |
| - bank overdraft | 11,632 | 18,769 |
| - bills payable to banks | 172,147 | 180,185 |
| - finance leases | - | 67,163 |
| - lease liabilities | 188,868 | - |
| - loans from financial institutions | 314,966 | 274,425 |
| | 687,613 | 540,542 |

22 Other operating expenses

Other operating expenses comprise the following items which are individually material:

| The Group | 2019 S\$ | 2018 S\$ |
|-------------------------------|------------------|-------------|
| Carriage inwards and outwards | 550,927 | 604,419 |
| Chemical, lubricants and gas | 405,381 | 371,225 |
| Electricity and water | 1,226,766 | 1,348,294 |
| Factory expenses | 485,018 | 568,089 |
| Operating lease expense | 644,082 | 2,001,101 |
| Repair and maintenance | 395,673 | 375,507 |
| Tooling services | 182,465 | 374,556 |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

23 Taxation

| The Group | 2019 S\$ | 2018 S\$ |
|--|-----------------|-------------|
| Current taxation | | |
| - current year | 681 | 66 |
| - over provision in respect of prior years | (8,602) | (306) |
| | (7,921) | (240) |
| Deferred taxation (Note 6) | | |
| - recognition of deferred tax assets on previously unrecognised tax losses | (77,327) | (43,422) |
| | (85,248) | (43,662) |

The tax expense on the results of the financial year varies from the amount of income tax determined by applying the applicable rate of income tax on losses as a result of the following:

| The Group | 2019 S\$ | 2018 S\$ |
|--|------------------|-------------|
| Profit/(Loss) before taxation | 116,948 | (5,531,999) |
| Tax at statutory rates applicable to different jurisdictions | 23,290 | (1,115,466) |
| Tax effect on non-deductible expenses | 81,774 | 236,770 |
| Tax effect on non-taxable income | (33,561) | (6,094) |
| Tax exempt income and incentives | (242,506) | (138,888) |
| Deferred tax assets on temporary differences not recognised | 171,684 | 1,023,744 |
| Recognition of deferred tax assets on previously unrecognised tax losses | (77,327) | (43,422) |
| Under provision of current taxation in respect of prior years | (8,602) | (306) |
| | (85,248) | (43,662) |

Singapore

The corporate income tax rate applicable to the Company and Metal Precision Services Pte Ltd is 17% (2018: 17%) for the financial year ended 31 December 2019.

Malaysia

The corporate income tax rate applicable to MCE Technologies Sdn Bhd and MCE Manufacturing Sdn Bhd is 24% (2018: 24%) for the financial year ended 31 December 2019.

Thailand

The corporate income tax rate in Thailand is 20% (2018: 20%) for the financial year ended 31 December 2019. Nonetheless, MCT (Thailand) Co., Ltd. is exempted from corporate income tax up to eight years, under the Board of Investment of Thailand.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

23 Taxation (cont'd)

The People's Republic of China

In accordance with the Enterprise Income Tax ("EIT") Law of the PRC, the PRC subsidiaries are subject to the applicable EIT rate of 25% (2018: 25%) for the financial year ended 31 December 2019, except for a PRC subsidiary which is subject to a concessionary tax rate of 15% as a high-tech enterprise established in the Special Economic Zone in Shanghai.

Non-deductible expenses mainly relate to private motor vehicles and related expenses, write-down on inventories, and foreign exchange losses.

24 Earnings/(Loss) per share

| | 2019 | 2018 |
|---|--------------------|-------------|
| The Group | | |
| Profit/(Loss) for the year attributable to ordinary shareholders (S\$) | 202,196 | (5,488,337) |
| Weighted average number of ordinary shares In issue for basic earnings per share | 374,119,000 | 374,119,000 |
| Basic and diluted earnings/(loss) per share (cents) | 0.05 | (1.47) |

At the end of the reporting period, the 12,492,500 (2018: 12,905,000) outstanding share options were excluded from the calculation of the diluted weighted average number of ordinary shares in issue as their effect would have been anti-dilutive. The basic and diluted loss per share is the same as the Group does not have any potentially dilutive shares as at 31 December 2019 and 2018.

25 Equity-settled share-based payment transactions

The Company adopted the MCE Share Option Scheme on 4 November 2003. The MCE Share Option Scheme is administered by the Remuneration Committee. Options are exercisable at a price based on the average of the last done prices for the shares of the Company on the Singapore Exchange Securities Trading Limited for five consecutive market days preceding the date of grant. The vesting period is one year from the date of grant. If the options remain unexercised after a period of five years for non-executive directors and ten years for executive directors and employees from the date of grant, the options expire. Options are cancelled by forfeiture if any director or employee ceases to be under appointment or employment of the Company or any of its subsidiaries within the Group before the options vest.

The MCE Share Option Scheme expired on or about 3 November 2013. At the Annual General Meeting on 25 April 2014, the MCE Share Option Scheme 2014 was adopted by the Company's shareholders to replace the MCE Share Option Scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

25 Equity-settled share-based payment transactions (cont'd)

Details of options granted to directors and employees under the MCE Share Option Scheme and MCE Share Option Scheme 2014 are as follows:

| Date of grant | Balance at 1.1.2019 | Options granted | Options expired | Options forfeited | Balance at 31.12.2019 | Exercise price | Exercise period |
|---------------------------|---------------------|-----------------|-----------------|-------------------|-----------------------|----------------|------------------------|
| 4.9.2013 ⁽ⁱ⁾ | 3,060,000 | - | - | - | 3,060,000 | S\$0.050 | 4.9.2014 to 4.9.2023 |
| 22.6.2018 ⁽ⁱⁱ⁾ | 9,845,000 | - | - | (412,500) | 9,432,500 | S\$0.034 | 22.6.2019 to 22.6.2028 |
| | <u>12,905,000</u> | <u>-</u> | <u>-</u> | <u>(412,500)</u> | <u>12,492,500</u> | | |

⁽ⁱ⁾ For executive directors and employees

⁽ⁱⁱ⁾ For employees

The number and weighted average exercise prices of share options are as follows:

| | Weighted average exercise price 2019 S\$ | Number of options 2019 | Weighted average exercise price 2018 S\$ | Number of options 2018 |
|----------------------------------|---|--------------------------|---|------------------------|
| Outstanding at beginning of year | 0.038 | 12,905,000 | 0.049 | 3,660,000 |
| Granted during the year | - | - | 0.034 | 11,990,000 |
| Expired during the year | - | - | 0.050 | (300,000) |
| Forfeited during the year | 0.034 | (412,500) | 0.036 | (2,445,000) |
| Outstanding at end of year | 0.038 | <u>12,492,500</u> | 0.038 | <u>12,905,000</u> |
| Exercisable at end of year | 0.038 | <u>12,492,500</u> | 0.049 | <u>3,060,000</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

25 Equity-settled share-based payment transactions (cont'd)

The following table summarises information about options outstanding at the end of the reporting period:

| Exercise price 2019 | Number of options 2019 | Weighted average remaining contractual life (years) 2019 | Exercise price 2018 | Number of options 2018 | Weighted average remaining contractual life (years) 2018 |
|------------------------|------------------------------|--|---------------------------|------------------------------|--|
| S\$0.05 | 3,060,000 | 3.68 | S\$0.05 | 3,060,000 | 4.68 |
| S\$0.034 | 9,432,500 | 9.48 | S\$0.034 | 9,845,000 | 10.48 |
| | <u>12,492,500</u> | <u>8.06</u> | | <u>12,905,000</u> | <u>9.11</u> |

26 Leases

Where the Group is the lessee,

(a) Factory premise

The Group leases factory for operation purposes.

This factory premise is recognised within the Group's right-of-use assets (Note 4)

The Group makes monthly lease payments for the use of factory premise.

There are no externally imposed covenants on these lease arrangements.

(b) Motor vehicles

The Group leases motor vehicles for operation purposes.

These motor vehicles are recognised within the Group's right-of-us assets (Note 4)

The Group makes monthly lease payment for the use of these motor vehicles.

There are no externally imposed covenants on these lease agreements.

(c) Office and other equipment

The Group leases photocopiers for office use.

This office equipment is recognised within the Group's right-of-use assets (Note 4)

The Group makes monthly lease payments for the use of photocopiers.

There are no externally imposed covenants on these lease arrangements.

(d) Plant and machinery

The Group rents heavy equipment to generate revenue.

This heavy equipment is recognised within the Group's right-of-use assets (Note 4)

The Group makes monthly lease payments for the use of heavy equipment.

There are no externally imposed covenants on these lease arrangements.

Information regarding the Group's right-of-use assets and lease liabilities are disclosed in Notes 4 and 14.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

27 Commitments

Operating lease commitments

Where the Group is a lessee

The Group and the Company leases factory and office premise, office equipment and employee accommodation under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. The office lease has a remaining term of 1 year. As at 31 December 2018, the future minimum lease payments for all operating leases contracted for but not recognised as liabilities, are as follows:

| | The Group | | The Company | |
|---|-------------|-------------|-------------|-------------|
| | 2019 S\$ | 2018 S\$ | 2019 S\$ | 2018 S\$ |
| Not later than one year | - | 1,482,794 | - | 62,963 |
| Later than one year and not later than five years | - | 1,595,443 | - | 74,325 |
| | - | 3,078,237 | - | 137,288 |

As disclosed in Note 2(b), the Group has adopted SFSR(l) 16 on 1 January 2019. These lease payments have been recognised as right-of-use assets and lease liabilities on the statement of financial position as at 1 January 2019, except for short-term and low value leases.

Capital commitments

Capital expenditures contracted for at the reporting date but not recognised in the financial statements, excluding those relating to investment in associates, are as follows:

| | The Group | | The Company | |
|---------------------------------|-------------|-------------|-------------|-------------|
| | 2019 S\$ | 2018 S\$ | 2019 S\$ | 2018 S\$ |
| Purchase of plant and machinery | 568,782 | - | 568,782 | - |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

28 Operating segments

For management reporting purposes, the Group is organised into business units based on their geographical locations, and has four reportable operating segments, namely Singapore, Thailand, Malaysia and China.

There are no operating segments that have been aggregated to form the above reportable operating segments.

The Group's CEO, who is the chief operating decision maker, monitors the operating results of its business units for the purpose of making decisions about resource allocation and performance assessment.

Information regarding the results of each reportable segment is included in the following tables. Performance is measured based on segment profit (before interest, taxation and unallocated expenses), as included in the internal management reports that are reviewed by the Group's CEO, which in certain respects, as explained in the following tables, is different from profit in the consolidated financial statements. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Inter-segment pricing is determined on an arm's length basis.

The Group's finance costs and income taxes are managed on a group basis and are not allocated to operating segments.

There are two major customers (2018: three major customers) which individually amounted to 10% or more of the Group's revenue for the financial year ended 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

28 Operating segments (cont'd)

| | Singapore S\$ | Thailand S\$ | Malaysia S\$ | China S\$ | Elimination S\$ | Total S\$ |
|--|-------------------|-------------------|-------------------|-------------------|---------------------|-------------------|
| 2019 | | | | | | |
| External sales | 15,882,028 | 11,050,689 | 1,562,538 | 16,964,567 | - | 45,459,822 |
| Inter-segment sales | 5,311,793 | 198,659 | 10,758,035 | 2,549,925 | (18,818,412) | - |
| Total revenue | 21,193,821 | 11,249,348 | 12,320,573 | 19,514,492 | (18,818,412) | 45,459,822 |
| Segment (loss)/profit | (7,361,223) | 1,291,167 | 364,690 | (1,165) | 7,128,891 | 1,422,360 |
| Finance costs | | | | | | (687,613) |
| Unallocated expenses ^① | | | | | | (617,799) |
| Profit before taxation | | | | | | 116,948 |
| Taxation | | | | | | 85,248 |
| Profit for the year | | | | | | 202,196 |
| Other segment information: | | | | | | |
| Segment assets | 29,510,399 | 8,525,076 | 14,207,336 | 23,294,240 | (31,852,071) | 43,684,980 |
| Segment liabilities | 21,655,203 | 3,050,365 | 10,905,895 | 19,575,260 | (28,311,957) | 26,874,766 |
| Non-current assets: | | | | | | |
| Property, plant and equipment | 109,757 | 2,097,622 | 1,739,458 | 5,662,248 | 8,705,133 | 18,314,218 |
| Right-of-use assets | - | 1,462,510 | 3,972,125 | 835,130 | - | 6,269,765 |
| Additions of property, plant and equipment | 20,520 | 599,803 | 1,426,925 | 27,593 | (534,114) | 1,540,727 |
| Additions of right-of-use assets | - | 438,615 | 1,471,984 | - | - | 1,910,599 |
| Depreciation of property, plant and equipment | 67,535 | 368,128 | 384,620 | 755,545 | 327,489 | 1,903,317 |
| Depreciation of right-of-use assets | - | 249,839 | 557,378 | 405,664 | - | 1,212,881 |
| (Gain)/Loss on disposal of property, plant and equipment | (34) | - | (60,663) | (8,688) | 11,522 | (57,863) |
| Write-down on inventories made/(reversed) | - | 8,104 | 11,522 | (39,749) | - | (20,123) |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

28 Operating segments (cont'd)

| | Singapore S\$ | Thailand S\$ | Malaysia S\$ | China S\$ | Elimination S\$ | Total S\$ |
|--|-------------------|------------------|------------------|-------------------|---------------------|--------------------|
| 2018 | | | | | | |
| External sales | 13,371,219 | 9,749,229 | 1,217,813 | 22,518,185 | - | 46,856,446 |
| Inter-segment sales | 5,875,124 | 7,337 | 8,145,874 | 4,309,362 | (18,337,697) | - |
| Total revenue | 19,246,343 | 9,756,566 | 9,363,687 | 26,827,547 | (18,337,697) | 46,856,446 |
| Segment (loss)/profit | (1,708,660) | 698,981 | 88,187 | (3,074,868) | (156,811) | (4,153,171) |
| Finance costs | | | | | | (540,542) |
| Unallocated expenses [Ⓜ] | | | | | | (838,286) |
| Loss before taxation | | | | | | (5,531,999) |
| Taxation | | | | | | 43,662 |
| Loss for the year | | | | | | (5,488,337) |
| Other segment information: | | | | | | |
| Segment assets | 34,873,791 | 7,659,637 | 9,331,612 | 24,546,916 | (34,703,419) | 41,708,537 |
| Segment liabilities | 18,816,807 | 3,643,466 | 6,333,561 | 21,953,267 | (24,261,511) | 26,485,590 |
| Non-current assets: | | | | | | |
| Property, plant and equipment | 156,784 | 2,653,777 | 2,801,587 | 7,129,137 | 7,469,700 | 20,210,985 |
| Additions of property, plant and equipment | 34,181 | 1,992,317 | 320,922 | 1,201,676 | (645,227) | 2,903,869 |
| Depreciation of property, plant and equipment | 200,046 | 489,500 | 527,582 | 1,363,301 | (8,958) | 2,571,471 |
| Gain on disposal of other assets | (32,299) | - | - | - | - | (32,299) |
| (Gain)/Loss on disposal of property, plant and equipment | - | (199) | (177,559) | 246,478 | 25,789 | 94,509 |
| Impairment losses on trade receivables | 32,000 | - | - | 121,507 | - | 153,507 |
| Write-down on inventories made/(reversed) | - | - | 36,602 | (188,869) | - | (152,267) |

[Ⓜ] Unallocated expenses relate to directors' remuneration and other corporate related expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

28 Operating segments (cont'd)

Reconciliation of reportable segment revenue, profit or loss, assets and liabilities:

| | 2019 S\$ | 2018 S\$ |
|---|---------------------|--------------|
| <u>Revenue</u> | | |
| Total revenue for reportable segments | 45,459,822 | 46,856,446 |
| Consolidated revenue | 45,459,822 | 46,856,446 |
| <u>Profit or loss</u> | | |
| Total profit/(loss) for reportable segments from operations | 1,422,360 | (4,153,171) |
| Finance expense | (687,613) | (540,542) |
| Unallocated expenses | (617,799) | (838,286) |
| Consolidated profit/(loss) before tax | 116,948 | (5,531,999) |
| <u>Segment assets</u> | | |
| Total assets for reportable segments | 75,374,044 | 76,326,062 |
| Deferred tax assets | 163,007 | 85,894 |
| Elimination | (31,852,071) | (34,703,419) |
| Consolidated total assets | 43,684,980 | 41,708,537 |
| <u>Segment liabilities</u> | | |
| Total liabilities for reportable segments | 52,784,698 | 48,756,499 |
| Current tax liabilities | 2,402,025 | 1,990,602 |
| Elimination | (28,311,957) | (24,261,511) |
| Consolidated total liabilities | 26,874,766 | 26,485,590 |

29 Financial risk management objectives and policies

The Group and the Company have documented financial risk management policies. These policies set out the Group's and the Company's overall business strategies and its risk management philosophy. The Group and the Company are exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk, foreign currency risk and market price risk. The Group's and the Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise adverse effects from the unpredictability of financial markets on the Group's and the Company's financial performance.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

29 Financial risk management objectives and policies (cont'd)

The Group's and the Company's risk management policies are established to identify and analyse the risks faced by the Group and the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's and the Company's activities. The Group and the Company, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

There has been no change to the Group's and the Company's exposure to these financial risks or the manner in which they manage and measure the risks. Market risk exposures are measured using sensitivity analysis for interest rate risk (Note 29.3) and foreign currency risk (Note 29.4).

The Group and the Company do not hold or issue derivative financial instruments for trading purposes or to hedge against fluctuations, if any, in interest rates and foreign exchange.

29.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the Group or the Company to incur a financial loss. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For trade receivables, the Group and the Company adopt the practice of dealing only with those customers of appropriate credit history, and obtaining sufficient security where appropriate to mitigate credit risk. For other financial assets, the Group and the Company adopt the policy of dealing only with high credit quality counterparties.

The Group's and the Company's objective is to seek continual growth while minimising losses incurred due to increased credit risk exposure.

The Group and the Company have established a credit policy under which the creditworthiness of each new customer is evaluated individually before the Group and the Company grant credit to the customer. Credit limits are established for each customer, which represents the maximum open amount without requiring approval from the directors. Payments will be required to be made upfront by customers which do not meet the Group's and the Company's credit requirements.

Amounts due from customers are closely monitored and reviewed on a regular basis to identify any non-payment or delay in payment, and to understand the reasons, so that appropriate actions can be taken promptly. Through on-going credit monitoring and existing collection procedures in place, credit risk is mitigated substantially.

Amount not paid after the credit period granted will be considered past due. The credit terms granted to customers are based on the Group's and the Company's assessment of their creditworthiness and in accordance with the Group's and the Company's policy.

The Group's trade receivables comprise two major debtors (2018: two major debtors) that represented 86% (2018: 66%) of trade receivables. The Company's trade receivables (excluding trade amounts due from subsidiaries) comprise four major debtors (2018: two major debtors) that represented 64% (2018: 35%) of trade receivables.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

29 Financial risk management objectives and policies (cont'd)

29.1 Credit risk (cont'd)

The Group and the Company have trade and other receivables and cash and bank balances that are subject to the expected credit loss model. While other receivables and cash and bank balances are subject to the impairment requirements of IFRS 9, the identified impairment loss is insignificant.

Trade receivables

The Group and the Company apply the SFRS(I) 9 simplified approach to measuring expected credit losses ("ECLs") which uses a lifetime ECL allowance for all trade receivables.

To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 months and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the trade receivables. The Group and the Company have identified the GDP and the unemployment rate of the countries in which it operates to be the most relevant factors and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, below is the information about the credit risk exposure on the Group's and the Company's trade receivables using provision matrix:

| | Current S\$ | Past due 0 to 30 days S\$ | Past due 31 to 60 days S\$ | Past due 61 to 90 days S\$ | Past due more than 90 days S\$ | Total S\$ |
|-------------------------------|------------------|------------------------------------|-------------------------------------|-------------------------------------|---|------------------|
| 2019 | | | | | | |
| Gross carrying amount | 7,886,479 | 1,504,301 | 313,623 | 5,252 | 268,544 | 9,978,199 |
| Expected credit loss rate (%) | - | - | - | - | 70.59 | |
| Loss allowance | - | - | - | - | 189,577 | 189,577 |
| 2018 | | | | | | |
| Gross carrying amount | 9,364,607 | 1,636,211 | 384,369 | 93,761 | 298,823 | 11,777,771 |
| Expected credit loss rate (%) | - | - | - | - | 97.64 | |
| Loss allowance | - | - | - | - | 291,761 | 291,761 |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

29 Financial risk management objectives and policies (cont'd)

29.1 Credit risk (cont'd)

| The Company | Current S\$ | Past due 0 to 30 days S\$ | Past due 31 to 60 days S\$ | Past due 61 to 90 days S\$ | Past due more than 90 days S\$ | Total S\$ |
|-------------------------------|------------------|------------------------------------|-------------------------------------|-------------------------------------|---|------------------|
| 2019 | | | | | | |
| Gross carrying amount | 1,562,266 | 415,911 | 148,574 | 5,252 | 111,373 | 2,243,376 |
| Expected credit loss rate (%) | - | - | - | - | 28.73 | |
| Loss allowance | - | - | - | - | 32,000 | 32,000 |
| 2018 | | | | | | |
| Gross carrying amount | 1,197,245 | 387,973 | 95,864 | 39,028 | 179,358 | 1,899,468 |
| Expected credit loss rate (%) | - | - | - | - | 17.84 | |
| Loss allowance | - | - | - | - | 32,000 | 32,000 |

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage in a repayment plan with the Group and the Company.

Other receivables (non-trade)

Loss allowance for other receivables is measured at an amount equal to lifetime ECLs which is consistent with the approach adopted for trade receivables. The ECLs on other receivables are estimated by reference to track record of the counterparties, their business and financial conditions where information is available, and knowledge of any events or circumstances impeding recovery of the amounts. At the end of the reporting period, no loss allowance for other receivables was required.

Amounts due from subsidiaries

Except for the amounts due from certain loss-making PRC subsidiaries which are credit-impaired, the amounts due from subsidiaries are considered to have low credit risk as the Company has control over the operating, investing and financing activities of its subsidiaries. The use of advances to assist with the subsidiaries' cash flow management is in line with the Group's capital management. There has been no significant increase in the credit risk of the amounts due from subsidiaries since initial recognition. In determining the ECLs, management has taken into account the finances and business performance of the subsidiaries, and a forward-looking analysis of the financial performance of operations of the subsidiaries.

Management has assessed and impaired S\$6,159,644 (2018:S\$Nil) relating to trade receivables from a PRC subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

29 Financial risk management objectives and policies (cont'd)

29.1 Credit risk (cont'd)

Exposure to credit risk

As the Group and the Company do not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statements of financial position, except for letters of financial support and corporate guarantee issued by the Company to and on behalf of a subsidiary.

The Company has given formal undertakings, which are unsecured, to provide financial support to certain subsidiaries in the Group.

At the end of the reporting period, the Company has issued corporate guarantee of S\$1,808,342 (2018: S\$2,191,000) to a bank for the borrowings undertaken by a subsidiary (Notes 13.4 and 13.5). These bank borrowings amounted to S\$1,808,342 (2018: S\$2,061,762) at the end of reporting period. The credit risk, being the principal risk to which the Company is exposed, represents the loss that would be recognised upon a default by the subsidiary.

The current interest rates charged by the lender on the loans to the subsidiary are at market rates and are consistent with the borrowing costs of the subsidiary without any corporate guarantee.

At the end of the reporting period, the Company does not consider it probable that a claim will be made against it under the corporate guarantee.

To mitigate credit risk arising from corporate guarantees, management continually monitors the risk and has established processes including performing credit evaluations of the parties for which the Group provides corporate guarantees. Corporate guarantees are only for intra-group financing purposes and given by the Company on behalf of its subsidiaries.

The Group's and the Company's major classes of financial assets are bank deposits and trade receivables. Cash is held with established financial institutions. Further details of credit risks on trade and other receivables are disclosed in Note 8.

29.2 Liquidity risk

Liquidity risk is the risk that the Group and the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments that are settled by delivering cash or another financial asset. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

29 Financial risk management objectives and policies (cont'd)

29.2 Liquidity risk (cont'd)

The table below analyses the maturity profile of the Group's and the Company's financial liabilities based on contractual undiscounted cash flows:

| | Carrying amount S\$ | Contractual cash flows S\$ | Less than 1 year S\$ | Between 1 and 5 years S\$ |
|---|------------------------|-------------------------------|-------------------------|------------------------------|
| The Group | | | | |
| 2019 | | | | |
| <u>Non-derivative financial liabilities</u> | | | | |
| Borrowings (Note 13) | 7,364,986 | 7,466,198 | 7,364,432 | 101,766 |
| Lease liabilities (Note 14) | 3,863,424 | 4,241,474 | 1,957,440 | 2,284,034 |
| Trade and other payables, excluding provision for retirement benefits (Note 15) | 12,203,032 | 12,203,032 | 12,203,032 | - |
| | 23,431,442 | 23,910,704 | 21,524,904 | 2,385,800 |
| 2018 | | | | |
| <u>Non-derivative financial liabilities</u> | | | | |
| Borrowings (Note 13) | 10,177,493 | 10,921,509 | 9,303,646 | 1,617,863 |
| Trade and other payables, excluding provision for retirement benefits (Note 15) | 13,411,658 | 13,411,658 | 13,411,658 | - |
| | 23,589,151 | 24,333,167 | 22,715,304 | 1,617,863 |
| The Company | | | | |
| 2019 | | | | |
| <u>Non-derivative financial liabilities</u> | | | | |
| Borrowings (Note 13) | 3,350,192 | 3,411,376 | 3,411,376 | - |
| Trade and other payables (Note 15) | 16,261,010 | 16,261,010 | 16,261,010 | - |
| Intra-group financial guarantee | 1,808,342 | 1,839,895 | 1,738,130 | 101,765 |
| | 21,419,544 | 21,512,281 | 21,410,516 | 101,765 |
| 2018 | | | | |
| <u>Non-derivative financial liabilities</u> | | | | |
| Borrowings (Note 13) | 3,981,994 | 4,133,187 | 3,541,440 | 591,747 |
| Trade and other payables (Note 15) | 13,461,448 | 13,461,448 | 13,461,448 | - |
| Intra-group financial guarantee | 2,061,752 | 2,092,275 | 1,854,374 | 237,901 |
| | 19,505,194 | 19,686,910 | 18,857,262 | 829,648 |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

29 Financial risk management objectives and policies (cont'd)

29.2 Liquidity risk (cont'd)

Except for the Company's cash flows arising from its intra-group corporate guarantee (Note 29.1), it is not expected that the cash flows included in the maturity analysis of the Group and the Company could occur significantly earlier, or at significantly different amounts.

At the end of the reporting period, the Company does not consider it probable that a claim will be made against it under the intra-group corporate guarantee.

There are no terms and conditions attached to the guarantee contracts that would have a material effect on the amount, timing and uncertainty of the Company's future cash flows.

The Group and the Company ensure that there are adequate funds to meet all their obligations in a timely and cost-effective manner. The Group and the Company maintain sufficient level of cash and bank balances and have available adequate amount of committed credit facilities from financial institutions to meet their working capital requirements.

29.3 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The Group's and the Company's exposure to interest rate risk arises primarily from certain loans from financial institutions, bank overdrafts, bills payable to banks and bank balances at floating rates. Finance leases and other loans from financial institutions bear interest at fixed rates. All other financial assets and liabilities are interest-free.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

29 Financial risk management objectives and policies (cont'd)

29.3 Interest rate risk (cont'd)

At the end of the reporting period, the carrying amount of the interest-bearing financial instruments is as follows:

| | The Group | | The Company | |
|-------------------------------------|--------------------|-------------|--------------------|-------------|
| | 2019 S\$ | 2018 S\$ | 2019 S\$ | 2018 S\$ |
| Fixed rate instruments | | | | |
| Financial liabilities | | | | |
| - obligations under finance leases | - | (1,644,053) | - | (935,615) |
| - loan from a subsidiary | - | - | (1,002,450) | (1,002,450) |
| - loans from financial institutions | (3,339,040) | (3,946,179) | - | - |
| | (3,339,040) | (5,590,232) | (1,002,450) | (1,938,065) |
| Variable rate instruments | | | | |
| Financial assets | | | | |
| - bank balances | 2,425,895 | 2,413,316 | 243,420 | 433,917 |
| Financial liabilities | | | | |
| - loans from financial institutions | (1,124,594) | (2,024,902) | (900,000) | (1,200,000) |
| - bank overdraft | (136,117) | (80,639) | - | - |
| - bills payable to banks | (2,765,235) | (2,481,720) | (1,447,742) | (843,929) |
| | (4,025,946) | (4,587,261) | (2,347,742) | (2,043,929) |
| | (1,600,051) | (2,173,945) | (2,104,322) | (1,610,012) |

Fair value sensitivity analysis for fixed rate instruments

The Group and the Company do not account for any fixed rate assets or liabilities at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

At the end of the reporting period, if interest rates had been 100 (2018: 100) basis points higher/lower with all other variables held constant, the Group's and the Company's results net of tax and equity would have been S\$16,001 lower/higher (2018: S\$21,739) and S\$21,043 lower/higher (2018: S\$16,100), respectively, arising as a result of higher/lower interest expense on floating rate loans from financial institutions, bank overdraft and bills payable to banks, offset by higher/lower interest income from floating rate bank balances, and *vice versa*.

The magnitude represents management's assessment of the likely movement in interest rates under normal economic conditions. This analysis has not taken into account the associated tax effects and assumes that all other variables, in particular foreign currency rates, remain constant.

The Group's and the Company's policy is to obtain the most favourable interest rates available without increasing its interest rate exposure.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

29 Financial risk management objectives and policies (cont'd)

29.4 Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency risk arises when transactions are denominated in foreign currencies.

The Group and the Company have transactional currency exposures arising from transactions that are denominated in a currency other than the respective functional currencies of group entities, namely Malaysian ringgit, Thai baht and Renminbi for the subsidiaries in Malaysia, Thailand and the PRC respectively, and Singapore dollar for the Company and its Singapore incorporated subsidiary. The foreign currency in which these transactions are denominated is primarily United States dollar. Arising from the Group's and the Company's sales and purchases denominated in United States dollar, the Group's and the Company's trade receivable and trade payable balances at the end of the reporting period have similar exposures.

At the end of the reporting period, the Company has balances due from/to subsidiaries, which are denominated in Renminbi, Thai baht and United States dollar. The Company also holds cash at banks denominated in United States dollar for working capital purposes. In addition, certain borrowings obtained by the Company for trade financing purposes are denominated in United States dollar.

Consequently, the Group and the Company are exposed to movements in foreign currency exchange rates.

The Group's and the Company's exposures in financial instruments to the various foreign currencies (other than the respective functional currencies of group entities) are mainly as follows:

| | Renminbi S\$ | United States dollar S\$ |
|-----------------------------|--------------------|--------------------------------|
| The Group | | |
| 2019 | | |
| Trade and other receivables | 31,008 | 4,993,818 |
| Cash and bank balances | - | 662,878 |
| Borrowings | - | (2,937,661) |
| Trade and other payables | (1,391,969) | (3,306,967) |
| Net exposure | (1,360,961) | (587,932) |
| 2018 | | |
| Trade and other receivables | 70,497 | 5,180,110 |
| Cash and bank balances | - | 1,328,326 |
| Borrowings | - | (3,165,638) |
| Trade and other payables | (1,445,332) | (3,164,718) |
| Net exposure | (1,374,835) | 178,080 |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

29 Financial risk management objectives and policies (cont'd)

29.4 Foreign currency risk (cont'd)

| The Company | Renminbi | United States |
|-----------------------------|--------------------|---------------------|
| | S\$ | dollar S\$ |
| 2019 | | |
| Trade and other receivables | 31,008 | 7,103,550 |
| Cash and bank balances | - | 168,403 |
| Borrowings | - | (2,453,191) |
| Trade and other payables | (1,391,213) | (14,225,319) |
| Net exposure | (1,360,205) | (9,406,557) |
| 2018 | | |
| Trade and other receivables | 70,497 | 12,075,592 |
| Cash and bank balances | - | 222,409 |
| Borrowings | - | (1,825,354) |
| Trade and other payables | (1,443,087) | (11,173,006) |
| Net exposure | (1,372,590) | (700,359) |

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the Renminbi (RMB) and United States dollar (USD) exchange rates (against Singapore dollar), with all other variables held constant, of the Group's and the Company's results net of tax and equity.

| | The Group | | The Company | |
|----------------------------------|-----------------|-------------|------------------|-------------|
| | 2019 S\$ | 2018 S\$ | 2019 S\$ | 2018 S\$ |
| RMB - strengthened 5% (2018: 5%) | (68,048) | (68,742) | (68,010) | (68,630) |
| - weakened 5% (2018: 5%) | 68,048 | 68,742 | 68,010 | 68,630 |
| USD - strengthened 5% (2018: 5%) | (29,397) | 8,904 | (470,328) | (35,018) |
| - weakened 5% (2018: 5%) | 29,397 | (8,904) | 470,328 | 35,018 |

29.5 Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices.

The Group and the Company do not hold any quoted or marketable financial instruments, hence, are not exposed to any movement in market prices.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

30 Capital management

The Group's and the Company's objectives when managing capital are:

- To safeguard the Group's and the Company's ability to continue as going concern;
- To support the Group's and the Company's stability and growth;
- To provide capital for the purpose of strengthening the Group's and the Company's risk management capability; and
- To provide an adequate return to shareholders.

The Group and the Company actively and regularly review and manage its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and the Company, and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group and the Company currently do not adopt any formal dividend policy.

There were no changes in the Group's and the Company's approach to capital management during the financial year.

The Group and the Company are not subject to externally imposed capital requirements, except as disclosed below.

As disclosed in Note 12, the subsidiaries in the PRC are required by the relevant laws and regulations of the PRC to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is restricted. This externally imposed capital requirement has been complied with by the PRC subsidiaries for the financial years ended 31 December 2019 and 31 December 2018.

The Group and the Company monitor capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt comprises borrowings, lease liabilities and trade and other payables, less cash and bank balances. Total capital represents equity attributable to owners of the Company less the PRC subsidiaries' restricted statutory reserve fund.

| | The Group | | The Company | |
|--|--------------------|-------------|-------------------|-------------|
| | 2019 S\$ | 2018 S\$ | 2019 S\$ | 2018 S\$ |
| Borrowings (Note 13) | 7,364,986 | 10,177,493 | 3,350,192 | 3,981,994 |
| Lease liabilities (Note 14) | 3,863,424 | - | 942,237 | - |
| Trade and other payables, excluding provision for retirement benefits (Note 15) | 12,203,032 | 13,411,658 | 16,261,010 | 13,461,448 |
| Total debt | 23,431,442 | 23,589,151 | 20,553,439 | 17,443,442 |
| Less: Cash and bank balances (Note 10) | (2,435,683) | (2,421,144) | (244,920) | (435,417) |
| Net debt | 20,995,759 | 21,168,007 | 20,308,519 | 17,008,025 |
| Equity attributable to owners of the Company | 16,810,214 | 15,222,947 | 5,971,116 | 14,138,865 |
| Less: Statutory reserve (Note 12) | (1,944,142) | (1,944,142) | - | - |
| Total capital | 14,866,072 | 13,278,805 | 5,971,116 | 14,138,865 |
| Total capital and net debt | 35,861,831 | 34,446,812 | 26,279,635 | 31,146,890 |
| Gearing ratio | 59% | 61% | 77% | 55% |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

31 Financial instruments

Accounting classifications of financial assets and financial liabilities

The carrying amounts of financial assets and financial liabilities in each category are as follows:

| The Group | Amortised cost S\$ | Other financial liabilities at amortised cost S\$ | Total S\$ |
|---|--|--|-------------------|
| 2019 | | | |
| <u>Financial assets</u> | | | |
| Trade and other receivables, excluding input taxes (Note 8) | 10,738,075 | - | 10,738,075 |
| Cash and bank balances (Note 10) | 2,435,683 | - | 2,435,683 |
| | 13,173,758 | - | 13,173,758 |
| <u>Financial liabilities</u> | | | |
| Borrowings (Note 13) | - | 7,364,986 | 7,364,986 |
| Lease liabilities (Note 14) | - | 3,863,424 | 3,863,424 |
| Trade and other payables, excluding provision for retirement benefits (Note 15) | - | 12,203,033 | 12,203,033 |
| | | 23,431,443 | 23,431,443 |
| | | | |
| The Group | Loans and receivables at amortised cost S\$ | Other financial liabilities at amortised cost S\$ | Total S\$ |
| 2018 | | | |
| <u>Financial assets</u> | | | |
| Trade and other receivables, excluding input taxes and tax recoverable (Note 8) | 12,595,306 | - | 12,595,306 |
| Cash and bank balances (Note 10) | 2,421,144 | - | 2,421,144 |
| | 15,016,450 | - | 15,016,450 |
| <u>Financial liabilities</u> | | | |
| Borrowings (Note 13) | - | 10,177,493 | 10,177,493 |
| Trade and other payables, excluding provision for retirement benefits (Note 15) | - | 13,411,658 | 13,411,658 |
| | - | 23,589,151 | 23,589,151 |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

31 Financial instruments (cont'd)

Accounting classifications of financial assets and financial liabilities (cont'd)

| The Company | Amortised cost S\$ | Other financial liabilities at amortised cost S\$ | Total S\$ |
|---|--|--|-------------------|
| 2019 | | | |
| <u>Financial assets</u> | | | |
| Trade and other receivables, excluding input taxes (Note 8) | 8,451,120 | - | 8,451,120 |
| Cash and bank balances (Note 10) | 244,920 | - | 244,920 |
| | 8,696,040 | - | 8,696,040 |
| <u>Financial liabilities</u> | | | |
| Borrowings (Note 13) | - | 3,350,193 | 3,350,193 |
| Lease liabilities (Note 14) | - | 942,237 | 942,237 |
| Trade and other payables (Note 15) | - | 16,261,010 | 16,261,010 |
| | - | 20,553,440 | 20,553,440 |
| | | | |
| The Company | Loans and receivables at amortised cost S\$ | Other financial liabilities at amortised cost S\$ | Total S\$ |
| 2018 | | | |
| <u>Financial assets</u> | | | |
| Trade and other receivables, excluding input taxes (Note 8) | 13,609,551 | - | 13,609,551 |
| Cash and bank balances (Note 10) | 435,417 | - | 435,417 |
| | 14,044,968 | - | 14,044,968 |
| <u>Financial liabilities</u> | | | |
| Borrowings (Note 13) | - | 3,981,994 | 3,981,994 |
| Trade and other payables (Note 15) | - | 13,461,448 | 13,461,448 |
| | - | 17,443,442 | 17,443,442 |

31 Financial instruments (cont'd)

Fair values

The carrying amount of financial assets and liabilities with a maturity of less than one year is assumed to approximate their fair values.

However, the Group and the Company do not anticipate that the carrying amounts recorded at the end of the reporting period would be significantly different from the values that would eventually be received or settled.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

31 Financial instruments (cont'd)

Fair values (cont'd)

The face value less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year, comprising trade and other receivables (excluding input taxes and tax recoverable), cash and bank balances, short-term borrowings, and trade and other payables (excluding contract liability and provision for retirement benefits), are assumed to approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group and the Company for similar financial instruments.

Financial assets and financial liabilities subject to enforceable master netting arrangements that are not otherwise set-off

The Group and the Company regularly purchase raw materials from and sell finished products to two counterparties. The Group and the Company and both counterparties do not have an arrangement to settle the amount due to or from each other on a net basis but have the right to set off in the case of default and insolvency or bankruptcy.

The Group's and the Company's trade receivables and trade payables subject to an enforceable master netting arrangement that are not otherwise set-off are as follows:

| | Carrying amounts S\$ | Related amounts not set off in the statement of financial position S\$ | Net amounts S\$ |
|-------------------|----------------------------|---|-----------------------|
| The Group | | | |
| 2019 | | | |
| Trade receivables | 4,049,235 | (49,377) | 3,999,858 |
| Trade payables | 49,377 | (49,377) | - |
| 2018 | | | |
| Trade receivables | 5,265,565 | (31,857) | 5,233,708 |
| Trade payables | 31,857 | (31,857) | - |
| The Company | | | |
| 2019 | | | |
| Trade receivables | - | - | - |
| Trade payables | - | - | - |
| 2018 | | | |
| Trade receivables | - | - | - |
| Trade payables | - | - | - |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

31 Financial instruments (cont'd)

Transferred financial assets that are not derecognised in their entirety

| The Group | 2019 S\$ | 2018 S\$ |
|--|--------------------|--------------------|
| Carrying amount of assets: | | |
| Trade receivables (Note 8) | 1,690,370 | 2,733,877 |
| Carrying amount of associated liabilities: | | |
| Bills payable to banks (Note 13.5) | <u>(1,447,630)</u> | <u>(1,637,791)</u> |

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as is prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the assets or liability that are not based on observable market data.

Financial assets and liabilities not measured at fair value but for which fair values are disclosed *

| The Group | Level 1 S\$ | Level 2 S\$ | Level 3 S\$ | Total S\$ |
|---|----------------|----------------|----------------|------------------|
| 2019 | | | | |
| Long-term loans from financial institutions | - | - | 225,917 | <u>225,917</u> |
| 2018 | | | | |
| Obligations under finance leases | - | - | 1,679,554 | 1,679,554 |
| Long-term loans from financial institutions | - | - | 345,522 | 345,522 |
| | - | - | 2,025,076 | <u>2,025,076</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

31 Financial instruments (cont'd)

| The Company | Level 1 S\$ | Level 2 S\$ | Level 3 S\$ | Total S\$ |
|----------------------------------|----------------|----------------|----------------|--------------|
| 2018 | | | | |
| Obligations under finance leases | - | - | 965,578 | 965,578 |

* Exclude financial assets and financial liabilities whose carrying amounts measured on the amortised cost basis approximate their fair values due to their short-term or repayable on demand nature and where the effect of discounting is immaterial.

The carrying amounts of interest-bearing loans that reprice within six months of the end of the reporting period approximate their fair values. The fair values of all other interest-bearing loans are calculated based on discounted expected future principal and interest cash flows.

32 Events after the reporting period

On 28 January 2020, the Company entered into a conditional sale and purchase agreement with Hong Sheng Holding (Singapore) Pte. Ltd. (the "Buyer") for a proposed sale of 100% equity interest in MCE Industries (Shanghai) Co., Ltd ("MCE Industries"). MCE Industries is a wholly-owned enterprise established in the PRC on 12 November 2004, and is based in Qing Pu District, Shanghai, the PRC ("Qing Pu"). MCE Industries owns a leasehold land (the "Land") and property located at No. 18 Area 3, No. 8228, Beiqing Highway, Zhonggu Town, in Qing Pu, with a land area of 25,000 square meters and six buildings with a total built-up area of approximately 9,753 square meters (the "Property"). The land use rights to the Property has a tenure of 50 years, which commenced on 20 December 2006 and will expire on 19 December 2056. The Property had been vacant after the closure of MCE Industries' manufacturing plant in October 2017 and MCE Industries had been dormant ever since.

The aggregate consideration amounted to RMB75.5 million (S\$14.8 million), of which payment are by three tranches. Within 30 days after the signing of the Agreement, the Buyer should pay RMB25.0 million (S\$4.90 million) to the Company ("First Tranche"). The payment for the First Tranche have been completed on 13 March 2020. Upon the receipt of the release certificate of MCE Industries' letter of guarantee and the release certificate of the Property's mortgage from MCE Industries' bank, the Buyer shall pay RMB37.0 million (S\$7.25 million) ("Second Tranche") to the Company within 60 days after the signing the Agreement. Upon the receipt of the equity transfer change registration certificate of MCE Industries from the Company, the Buyer shall pay RMB13.5 million (S\$2.65 million) ("Third Tranche") to the Company within 105 days after the signing the Agreement.

The financial effects of the proposed acquisition have not been disclosed as it is still not complete at the time these financial statements are authorised for issue.

SUPPLEMENTARY FINANCIAL INFORMATION

Disclosure required by the Catalist Rules

Properties

| Location/ Description | Tenure | Land Area |
|--|--|-----------|
| No. 18 Third Zone, 8228 Beijing Road Qingpu Shanghai, The People's Republic of China | 50-year lease from 20 December 2006 to 19 December 2056 | 25,000sqm |

Detached factory building

SHAREHOLDINGS STATISTICS

As at 16 March 2020

SHARE CAPITAL

| | |
|-------------------------------|-----------------------------|
| Issued and paid-up capital | : S\$21,638,661 |
| Number of issued shares | : 374,119,000 |
| Number of treasury shares | : NIL |
| Number of subsidiary holdings | : NIL |
| Class of shares | - Ordinary shares |
| Voting rights | - 1 vote per ordinary share |

ANALYSIS OF SHAREHOLDINGS

| Range of Shareholdings | No. of Shareholders | % | No. of Shares | % |
|------------------------|---------------------|--------|---------------|--------|
| 1 - 99 | 8 | 0.91 | 111 | 0.00 |
| 100 - 1,000 | 118 | 13.47 | 114,765 | 0.03 |
| 1,001 - 10,000 | 219 | 25.00 | 1,197,206 | 0.32 |
| 10,001 - 1,000,000 | 498 | 56.85 | 73,184,497 | 19.56 |
| 1,000,001 and above | 33 | 3.77 | 299,622,421 | 80.09 |
| | 876 | 100.00 | 374,119,000 | 100.00 |

TOP 20 SHAREHOLDERS

| No. | Name of Shareholder | No. of Shares | % |
|-----|---------------------------------------|---------------|-------|
| 1 | Raffles Nominees(Pte) Limited | 56,899,300 | 15.21 |
| 2 | Citibank Nominees Singapore Pte Ltd | 40,750,000 | 10.89 |
| 3 | Chua Kheng Choon | 27,630,666 | 7.39 |
| 4 | HSBC (Singapore) Nominees Pte Ltd | 25,488,500 | 6.81 |
| 5 | DBS Nominees Pte Ltd | 22,158,200 | 5.92 |
| 6 | Lim Chin Tong | 13,998,700 | 3.74 |
| 7 | Heng Hock Liang | 13,859,000 | 3.70 |
| 8 | DB Nominees (Singapore) Pte Ltd | 13,150,000 | 3.52 |
| 9 | OCBC Securities Private Ltd | 11,062,881 | 2.96 |
| 10 | Seow Yongli | 9,167,600 | 2.45 |
| 11 | Lim Andy | 7,760,000 | 2.07 |
| 12 | UOB Kay Hian Pte Ltd | 7,219,000 | 1.93 |
| 13 | Tan Chew Hiah | 6,735,000 | 1.80 |
| 14 | United Overseas Bank Nominees Pte Ltd | 4,530,800 | 1.21 |
| 15 | Chua Han Min | 4,515,600 | 1.21 |
| 16 | Ng Tiam Moy | 4,385,000 | 1.17 |
| 17 | Phillip Securities Pte Ltd | 4,041,933 | 1.08 |
| 18 | Chan Clarence | 2,444,600 | 0.65 |
| 19 | Maybank Kim Eng Securities Pte.Ltd. | 2,183,804 | 0.58 |
| 20 | Ng Kiam Lee | 2,117,000 | 0.57 |
| | | 280,097,584 | 74.86 |

Shareholdings Held in Hands of Public

Based on information available to the Company as at 16 March 2020, 80.66% of the issued ordinary shares of the Company is held by the public and therefore Rule 723 of the Listing Manual Section B: Rules of Catalist of the Singapore Exchange Securities Trading Limited has been complied with.

SHAREHOLDINGS STATISTICS

As at 16 March 2020

SUBSTANTIAL SHAREHOLDERS

| Name of substantial shareholder | Direct interests | | Deemed interests | |
|--|------------------|-------|------------------|------|
| | Number of Shares | % | Number of Shares | % |
| Cal-Comp Electronics (Thailand) Public Company Limited | 37,805,800 | 10.11 | - | - |
| Chua Kheng Choon ⁽¹⁾ | 27,737,666 | 7.41 | 6,735,000 | 1.80 |

Note:

1. Mr Chua Kheng Choon's beneficial interests are partly held in the name of nominees and his deemed interest in 6,735,000 Shares held in the name of his spouse.

PROPOSED RESOLUTIONS

(For Forthcoming Annual General Meeting)

As announced by the Company on 2 April 2020, the Annual General Meeting (“**AGM**”) of the Company for the financial year ended 31 December 2019 (“**FY2019**”) has been postponed and will be convened on or before 29 June 2020. Accordingly, this Annual Report is not accompanied by the Notice of AGM and the Proxy Form. The Notice of AGM, together with the Proxy Form and any supporting documents, will be sent to shareholders of the Company at a later date. Shareholders are advised to refer to further announcement(s) to be made by the Company via SGXNet.

Following are the proposed resolutions to be voted/passed at the AGM of the Company for FY2019.

AS ORDINARY BUSINESS

1. To receive and adopt the Directors’ Statement and the Audited Financial Statements of the Company for the financial year ended 31 December 2019 (“**FY2019**”), together with the Auditors’ Report thereon. **(Resolution 1)**
2. To re-elect Mr Koh Gim Hoe as a director of the Company (“**Director**”), who is retiring pursuant to Regulation 92 of the Company’s Constitution, and who, being eligible, offered himself for re-election as a Director.
[See Explanatory Note (i)] **(Resolution 2)**
3. To approve the payment of Directors’ fees of S\$110,000 for the financial year ending 31 December 2020, to be paid quarterly in arrears, at the end of each calendar quarter (FY2019: S\$110,000). **(Resolution 3)**
4. To re-appoint Foo Kon Tan LLP as the Company’s Auditors and to authorise the Directors to fix their remuneration. **(Resolution 4)**
5. To transact any other ordinary business which may be properly transacted at an Annual General Meeting of the Company.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following as Ordinary Resolutions, with or without any modifications:

7. Authority to allot and issue shares

“That pursuant to Section 161 of the Companies Act, Chapter 50 (the “**Companies Act**”) and Rule 806 of the Listing Manual Section B: Rules of Catalist (“**Catalist Rules**”) of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”), the Directors of the Company be authorised and empowered to:

- (a) (i) allot and issue shares in the capital of the Company (“**Shares**”) whether by way of rights, bonus or otherwise; and/or
- (ii) make or grant offers, agreements or options (collectively, “**Instruments**”) that might or would require Shares to be issued, including but not limited to, the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into Shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may, in their absolute discretion, deem fit; and

PROPOSED RESOLUTIONS

(For Forthcoming Annual General Meeting)

- (b) (notwithstanding the authority conferred by this Ordinary Resolution may have ceased to be in force) issue Shares in pursuance of any Instruments made or granted by the Directors of the Company while this Ordinary Resolution is in force, provided that:
- (1) the aggregate number of Shares (including Shares to be issued in pursuance of the Instruments, made or granted pursuant to this Ordinary Resolution) and Instruments to be issued pursuant to this Ordinary Resolution shall not exceed 100% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of Shares to be issued (including Shares to be issued pursuant to the Instruments) other than on a pro-rata basis to existing shareholders of the Company shall not exceed 50% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);
 - (2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of Shares (including Shares to be issued pursuant to the Instruments) that may be issued under sub-paragraph (1) above, the percentage of the total number of issued Shares shall be calculated based on the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) in the capital of the Company at the time of the passing of this Ordinary Resolution, after adjusting for:
 - (a) new Shares arising from the conversion or exercise of the Instruments or any convertible securities outstanding at the time of passing of this Ordinary Resolution;
 - (b) (where applicable) new Shares arising from the exercise of share options or vesting of share awards, provided that such share awards or share options (as the case may be) were granted in compliance with Part VIII of the Catalist Rules; and
 - (c) any subsequent bonus issue, consolidation or sub-division of Shares,adjustments in accordance with sub-paragraph (2)(a) or sub-paragraph (2)(b) above are only to be made in respect of new shares arising from convertible securities, share options or share awards which were issued and outstanding or subsisting at the time of the passing of this Ordinary Resolution;
 - (3) in exercising the authority conferred by this Ordinary Resolution, the Company shall comply with the provisions of the Catalist Rules for the time being in force (unless such compliance has been waived by SGX-ST), all applicable legal requirements under the Companies Act and the Constitution of the Company for the time being in force; and
 - (4) unless revoked or varied by the Company in a general meeting, such authority conferred by this Ordinary Resolution shall continue in force until (i) the conclusion of the next Annual General Meeting of the Company or (ii) the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.”

[See Explanatory Note (ii)]

(Resolution 5)

PROPOSED RESOLUTIONS

(For Forthcoming Annual General Meeting)

8. Authority to allot and issue Shares under the MCE Share Option Scheme 2003

“That the Directors of the Company be authorised and empowered to allot and issue Shares in the capital of the Company to all the holders of options granted by the Company prior to the subsistence of this authority under the MCE Share Option Scheme 2003 (“**2003 Scheme**”) upon the exercise of such options and in accordance with the terms and conditions of the 2003 Scheme.

[See Explanatory Note (iii)]

(Resolution 6)

9. Authority to offer and grant share options, and to allot and issue Shares under the MCE Share Option Scheme 2014 (“2014 Scheme”)

“That pursuant to Section 161 of the Companies Act, the Directors of the Company be authorised and empowered to grant share options in accordance with the provisions of the 2014 Scheme and to allot and issue from time to time, such number of Shares as may be required to be issued pursuant to the exercise of the share options under the 2014 Scheme, provided that the aggregate number of new Shares which may be issued pursuant to the 2014 Scheme shall not exceed 15% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.”

[See Explanatory Note (iv)]

(Resolution 7)

Explanatory Notes:

- (i) Mr Koh Gim Hoe will, upon re-election as a Director, remain as the Lead Independent Director, the Chairman of the Nominating Committee and the Remuneration Committee, and a member of the Audit Committee. The Board considers Mr Koh Gim Hoe to be independent for the purpose of Rule 704(7) of the Catalist Rules. Mr Koh Gim Hoe does not have any relationship, including family relationships, with the rest of the Directors, the Company, its related corporation, its officers or its substantial shareholders, which may affect his independence. Key information on Mr Koh Gim Hoe required pursuant to Rule 720(5) of the Catalist Rules can be found under the sections entitled “Board of Directors”, “Corporate Governance Report – Principle 4” and “Directors’ Statement” of the Company’s Annual Report 2019.
- (ii) Ordinary Resolution 5 proposed in item 7 above, if passed, will authorise and empower the Directors from the date of this Annual General Meeting of the Company until the date of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or the date such authority is revoked by the Company in a general meeting, whichever is the earliest, to allot and issue Shares, make or grant Instruments convertible into Shares and to issue Shares pursuant to such Instruments, up to a number not exceeding, in total, 100% of the total number of issued Shares (excluding treasury shares and subsidiary holding, if any) in the capital of the Company, of which up to 50% of the total number of issued Shares (excluding treasury shares and subsidiary holding, if any) in the capital of the Company may be issued other than on a pro-rata basis to existing shareholders. For determining the aggregate number of Shares that may be issued, the percentage of Shares that may be issued (including Shares that are to be issued pursuant to the Instruments) will be calculated based on the issued Shares in the capital of the Company at the time this Ordinary Resolution 5 is passed after adjusting for new Shares arising from the conversion or exercise of the Instruments or any convertible securities, new Shares arising from exercising share options or vesting of share awards outstanding and subsisting at the time of passing of Resolution 5 and any subsequent bonus issue, consolidation or sub-division of Shares.

PROPOSED RESOLUTIONS

(For Forthcoming Annual General Meeting)

- (iii) Ordinary Resolution 6 proposed in item 8 above, if passed, will authorise and empower the Directors, from the date of passing Resolution 6 until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier, to allot and issue Shares in the Company pursuant to the exercise of options under the 2003 Scheme, provided that the aggregate number of shares to be issued shall not exceed 15% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) from time to time. The 2003 Scheme expired on or about 3 November 2013. Options previously granted under the 2003 Scheme remain valid and exercisable until the end of the relevant exercise period.

- (iv) Ordinary Resolution 7 proposed in item 9 above, if passed, will authorise and empower the Directors, from the date of passing Resolution 7 until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier, to grant share options and to allot and issue Shares in the Company pursuant to the exercise of options under the 2014 Scheme, provided that the aggregate number of shares to be issued shall not exceed 15% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) from time to time. The 2014 Scheme was adopted and approved by Shareholders on 25 April 2014.

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