

METAL COMPONENT ENGINEERING LIMITED

(Company Registration No. 198804700N)

ANNOUNCEMENT OF THE UNAUDITED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2019 ("HY2019")

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, ZICO Capital Pte. Ltd. (Sponsor), in accordance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited (SGX-ST) Listing Manual Section B: Rules of Catalist. The Sponsor has not independently verified the contents of this announcement. This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made, or reports contained in this announcement.

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METAL COMPONENT ENGINEERING LIMITED

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HALF YEAR FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

- 1 (a) An income statement and statement of comprehensive income or a statement of comprehensive income for the group together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Note	GROUP		Increase/ (Decrease) %
		HY2019 (Unaudited) S\$'000	HY2018 (Unaudited) S\$'000	
Revenue		22,953	23,578	-2.7
Other income	A	88	220	-60.0
Raw materials and consumables used		(11,471)	(12,496)	-8.2
Employee benefits expense		(6,406)	(8,180)	-21.7
Depreciation expense	B	(1,905)	(1,276)	49.3
Other operating expenses		(2,982)	(4,252)	-29.9
Other charges	C	(73)	(50)	46.0
Finance costs	D	(347)	(242)	43.4
Loss before taxation		(143)	(2,698)	-94.7
Taxation		-	-	-
Loss for the period		(143)	(2,698)	-94.7

Other comprehensive (loss)/income:
Items that may be reclassified subsequently to profit or loss

Currency translation differences arising from consolidation	359	112	NM
Total comprehensive profit/(loss) for the period attributable to owners of the Company	216	(2,586)	NM

NM - Not meaningful

Explanatory notes to the Consolidated Statement of Profit or Loss and Other Comprehensive Income:

	HY2019 S\$'000	HY2018 S\$'000	Increase/ (Decrease)
A) Major items for other income:			
Gain on disposal of property, plant and equipment	23	53	-56.6
Reversal of write-down on inventories	-	127	-100.0
Interest income	2	3	-33.3
Government grant	63	17	NM
Sundry income	-	20	-100.0
B) Major items for depreciation			
Depreciation of property, plant and equipment	1,189	1,276	-6.8
Depreciation of right-of-use assets	716	-	NM
C) Major items for other charges:			
Foreign exchange loss, net	73	50	46.0
D) Major items for finance costs			
Borrowings	286	242	18.2
Lease liabilities	61	-	NM

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1 (b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

	GROUP		COMPANY	
	As at 30-Jun-19 (Unaudited) S\$'000	As at 31-Dec-18 (Audited) S\$'000	As at 30-Jun-19 (Unaudited) S\$'000	As at 31-Dec-18 (Audited) S\$'000
ASSETS				
Non-Current Assets				
Property, plant and equipment	19,784	20,211	130	157
Subsidiaries	-	-	18,824	17,604
Right-of-use assets	2,282	-	87	-
Deferred tax assets	85	86	-	-
	22,151	20,297	19,041	17,761
Current Assets				
Inventories	3,507	4,223	-	-
Trade and other receivables	14,076	14,767	10,848	14,177
Cash and bank balances	1,851	2,421	397	435
	19,434	21,411	11,245	14,612
Total assets	41,585	41,708	30,286	32,373
EQUITY AND LIABILITIES				
Capital and Reserves				
Share capital	21,639	21,639	21,639	21,639
Accumulated losses	(14,076)	(13,841)	(7,915)	(7,572)
Other reserves	7,834	7,425	122	72
Total equity attributed to owners of the Company	15,397	15,223	13,846	14,139
Non-Current Liabilities				
Deferred tax liabilities	1,991	1,991	-	-
Lease liabilities	1,049	-	88	-
Borrowings	1,087	1,262	396	534
	4,127	3,253	484	534
Current Liabilities				
Trade and other payables	12,642	14,308	13,554	14,252
Lease liabilities	1,325	-	-	-
Borrowings	8,085	8,915	2,402	3,448
Current tax payable	9	9	-	-
	22,061	23,232	15,956	17,700
Total liabilities	26,188	26,485	16,440	18,234
Total equity and liabilities	41,585	41,708	30,286	32,373

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- 1 (b)(ii) In relation to the aggregate amount of the group's borrowings and debt securities, specify the following as at the end of the current financial period reported on with comparative figures as at the end of the immediately preceding financial year:-

	GROUP	
	As at 30 Jun 2019	As at 31 Dec 2018
	S\$'000	S\$'000
Payable within 1 year or on demand		
Secured	6,013	6,871
Unsecured	2,072	2,044
	8,085	8,915
Payable after 1 year		
Secured	1,087	1,262
Unsecured	-	-
	1,087	1,262
TOTAL	9,172	10,177

Details of any collaterals

Certain borrowings are secured by pledge on certain plant and machinery as well as certain trade receivables of the Group.

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1 (c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	GROUP	
	HY2019 (Unaudited) S\$'000	HY2018 (Unaudited) S\$'000
Cash flows from operating activities		
Loss before taxation	(143)	(2,698)
Adjustments for :		
Depreciation of property, plant and equipment	1,189	1,276
Depreciation of right-of-use assets	716	-
Interest income	(2)	(3)
Interest expense on borrowings	286	242
Interest expense on lease liabilities	61	-
Share-based payment expense	51	-
Gain on disposal of property, plant and equipment	(23)	(53)
Write-down of inventories reversed	-	(127)
Operating profit/(loss) before working capital changes	2,135	(1,363)
Changes in bank deposits restricted in use	49	(52)
Changes in inventories	749	(56)
Changes in prepayments	(134)	15
Changes in trade and other receivables	980	3,789
Changes in trade and other payables	(1,545)	(3,411)
Net cash generated from/ (used in) operating activities	2,234	(1,078)
Cash flows from investing activities		
Interest received	2	3
Proceeds from disposal of property, plant and equipment	56	21
Purchase of property, plant and equipment	(761)	(1,157)
Net cash used in investing activities	(703)	(1,133)
Cash flows from financing activities		
Interest paid on borrowings	(286)	(242)
Repayment of lease liabilities	(778)	-
Proceeds from borrowings	13,243	295
Repayment of borrowings	(14,298)	(642)
Net cash used in financing activities	(2,119)	(589)
Net decrease in cash and cash equivalents	(588)	(2,800)
* Cash and cash equivalents at beginning of period	2,242	4,526
Exchange differences on translation of cash and cash equivalents at beginning of period	18	11
* Cash and cash equivalents at end of period	1,672	1,737
* Cash and cash equivalents are net of bank overdrafts and bank deposits pledged		
Cash and cash equivalents consist the following:		
Cash and cash equivalents and on hand	1,851	2,139
Bank overdraft	(130)	(300)
Bank deposits restricted in use	(49)	(102)
	1,672	1,737

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1 (d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

The Group	Share Capital	Accumulated losses	Share Option Reserve	Revaluation Reserve	Foreign Currency Translation Reserve	Statutory Reserve	Total Equity
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
Balance as at 1 January 2018	21,639	(8,357)	24	6,380	(604)	1,944	21,026
Loss for the period	-	(2,698)	-	-	-	-	(2,698)
Expiry/forfeiture of share options	-	2	(2)	-	-	-	-
Currency translation differences	-	-	-	-	112	-	112
Balance as at 30 June 2018	21,639	(11,053)	22	6,380	(492)	1,944	18,440

The Group	Share Capital	Accumulated losses	Share Option Reserve	Revaluation Reserve	Foreign Currency Translation Reserve	Statutory Reserve	Total Equity
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
Balance as at 1 January 2019	21,639	(13,841)	72	5,972	(563)	1,944	15,223
Adjustment on adoption of SFRS(I) 16	-	(93)	-	-	-	-	(93)
Adjusted balance as at 1 January 2019	21,639	(13,934)	72	5,972	(563)	1,944	15,130
Loss for the period	-	(143)	-	-	-	-	(143)
Share-based payment transactions	-	-	51	-	-	-	51
Expiry/forfeiture of share options	-	1	(1)	-	-	-	-
Currency translation differences	-	-	-	-	359	-	359
Balance as at 30 June 2019	21,639	(14,076)	122	5,972	(204)	1,944	15,397

The Company	Share Capital	Accumulated losses	Share Option Reserve	Total Equity
	S\$'000	S\$'000	S\$'000	S\$'000
Balance as at 1 January 2018	21,639	(4,715)	24	16,948
Loss for the period	-	(188)	-	(188)
Expiry/forfeiture of share options	-	2	(2)	-
Balance as at 30 June 2018	21,639	(4,901)	22	16,760

The Company	Share Capital	Accumulated losses	Share Option Reserve	Total Equity
	S\$'000	S\$'000	S\$'000	S\$'000
Balance as at 1 January 2019	21,639	(7,572)	72	14,139
Loss for the period	-	(344)	-	(344)
Share-based payment transactions	-	-	51	51
Expiry/forfeiture of share options	-	1	(1)	-
Balance as at 30 June 2019	21,639	(7,915)	122	13,846

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- 1 (d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State the number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

a) Share capital

	No. of shares	Share capital (\$'000)
Issued share capital as at 31 December 2018 and 30 June 2019	374,119,000	21,639

b) Share options scheme

As at 30 June 2019, unissued shares of the Company in respect of MCE Share Option Scheme are as follows:

	Balance as at 01.01.2019	Granted during the period	Lapsed during the period	Balance as at 30.06.2019	Balance as at 30.06.2018
MCE Share Option Scheme	12,905,000	-	(165,000)	12,740,000	3,360,000

Save for the above, there were no other outstanding convertibles as at 30 June 2019 and as at 30 June 2018.

The Company did not have any treasury shares or subsidiary holdings as at 30 June 2019 and as at 30 June 2018.

- 1 (d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.**

	COMPANY	
	As at 30-Jun-19	As at 31-Dec-18
Number of ordinary shares in issue	374,119,000	374,119,000

- 1 (d)(iv) A statement showing all sales, transfers, cancellation and/or use of treasury shares as at the end of the current financial period reported on.**

Not applicable as the Company has no treasury shares during and as at the end of the current financial period reported on.

- 1 (d)(v) A statement showing all sales, transfers, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.**

Not applicable as the Company has no subsidiary holdings during and as at the end of the current financial period reported on.

- 2 Whether the figures have been audited, or reviewed and in accordance with which auditing standard or practice**

The figures have not been audited or reviewed by the Company's auditors.

- 3 Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter)**

Not applicable.

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Except as disclosed in Note 5, there were no significant changes in accounting policies and methods of computation adopted in the financial statements for the current reporting period as compared to the most recently audited annual financial statements for the year ended 31 December 2018.

5 If there were any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change

The Group adopted SFRS(I) 16 *Leases* on 1 January 2019, using the modified retrospective approach with the cumulative effect of initial application as an adjustment to the opening balance of retained earnings at 1 January 2019. There is no restatement of comparative information.

SFRS(I) 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard. i.e. lessors continue to classify leases as finance or operating leases.

ROU assets are measured using the cost model and are carried at cost less accumulated depreciation and accumulated impairment loss, if any, subsequent to initial recognition. The carrying amount for lease liabilities subsequent to initial recognition would take into account interest on the lease liabilities, lease payments made and any reassessment or lease modifications.

The Group has office and factory premises and office equipment under operating leases, which are recognised as ROU assets with corresponding lease liabilities under SFRS(I) 16. As at 1 January 2019, ROU assets have increased by S\$3.0 million and lease liabilities have increased by S\$3.1million, with an adjustment of S\$93,000 to the opening balance of accumulated losses.

6 Earnings per ordinary share ("EPS") of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends

	GROUP	
	HY2019	HY2018
Loss per share (Cents)		
- on weighted average number of ordinary shares	(0.04)	(0.72)
- on fully diluted basis	(0.04)	(0.72)
Loss attributable to owners of the Company (S\$'000)	(143)	(2,698)
Weighted average number of ordinary shares in issue		
- for basic loss per share	374,119,000	374,119,000
- for diluted loss per share ⁽¹⁾	374,119,000	374,119,000

Note :

(1) Share options granted under the MCE Share Option Scheme (see note (1)(d)(ii)(b)) were excluded in the diluted weighted average number of ordinary shares calculation as its effect would have been anti-dilutive.

7 Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the (a) current period reported on and (b) immediately preceding financial year

	GROUP		COMPANY	
	As at 30-Jun-19	As at 31-Dec-18	As at 30-Jun-19	As at 31-Dec-18
Net asset value per ordinary share based issued capital as at end of the period/year (cents)	4.12	4.07	3.70	3.78
Number of ordinary shares in issue at the end of the period/year ('000)	374,119	374,119	374,119	374,119

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- 8 A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:**
- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
 - (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current period reported on.**

The Group recorded a revenue of S\$23.0 million in the half year financial period ended 30 June 2019 (%HY2019+), a slight 2.7% decrease from S\$23.6 million in the corresponding half year financial period ended 30 June 2018 (%HY2018+). The decrease in revenue was mainly attributable to the Sino-US trade war that had adversely affected the global demand for our customers' products in and from China, partly offset by an increase in sales in Thailand and Malaysia from existing and new customers.

Percentage of cost of direct materials to sales decreased from 53% in HY2018 to 50% in HY2019, mainly due to changes in product mix.

Other income in HY2019 was at S\$88,000 as compared to S\$220,000 in HY2018. The decrease was mainly due to the absence of income from the reversal of write-down on inventories in HY2019 (HY2018: S\$127,000).

Employee benefits expense decreased by S\$1.8 million, from S\$8.2 million in HY2018 to S\$6.4 million in HY2019, mainly due to a reduction in headcount and pay-cut taken by directors of the Company and the management of the Group, to alleviate employee benefits expense in HY2019. Correspondingly, percentage of employee benefits expense to sales was reduced to 27.9% in HY2019, as compared to 34.7% in HY2018.

Depreciation expense increased by S\$0.6 million, from S\$1.3 million in HY2018 to S\$1.9 million in HY2019. This was mainly due to the recognition of depreciation of right-of-use assets of S\$0.7 million in HY2019 that arose from the adoption of SFRS (I) 16 Leases which became effective on 1 January 2019. Please refer to section 5 of this announcement for further details on the adoption of SFRS (I) 16 Leases. The increase was partially offset by a decrease in depreciation of property, plant and equipment of S\$100,000 in HY2019.

Other operating expenses which comprised mainly electricity and water bills, as well as factory expenses and rentals, decreased by S\$1.3 million, to S\$3.0 million in HY2019 from S\$4.3 million in HY2018. This was mainly due to (a) accounting of lease rentals as right-of-use assets which was expensed as depreciation or finance cost instead of rental expenses, and (b) stringent cost cutting measures undertaken to reduce manufacturing overheads.

Other charges increased by 46%, from S\$50,000 in HY2018 to S\$73,000 in HY2019, mainly due to increase in foreign exchange loss.

Finance costs increased by S\$105,000, to S\$347,000 in HY2019 from S\$242,000 in HY2018, mainly due to the inclusion of lease interest costs from right-of-use assets.

As a result of the above, the Group recorded a lower net loss of S\$143,000 in HY2019, as compared to a net loss of S\$2.7 million in HY2018.

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STATEMENT OF CASH FLOWS / WORKING CAPITAL & BALANCE SHEET REVIEW

In HY2019, the Group recorded a net cash outflow of S\$0.6 million, as compared to net cash outflow of S\$2.8 million in HY2018. In HY2019, the Group generated net cash of S\$2.2 million from operations and used net cash of S\$0.7 million and S\$2.1 million in its investing activities and financing activities respectively.

Net cash generated from operations in HY2019 was S\$2.2 million, mainly due to operating income before working capital changes of S\$2.1 million and changes in working capital of S\$0.1 million. Net cash used in investing activities in HY2019 was S\$0.7 million, mainly for the purchase of plant and equipment.

Net cash used in financing activities in HY2019 was S\$2.1 million, mainly for the net repayment of bank loan of S\$1.1 million, repayment of finance lease liabilities of S\$0.7 million and interest expenses of S\$0.3 million.

Correspondingly, the Group's cash and bank balances decreased by S\$0.6 million, from S\$2.4 million as at 31 December 2018 to S\$1.8 million as at 30 June 2019. Bank borrowings decreased by S\$1.0 million, from S\$10.2 million as at 31 December 2018 to S\$9.2 million as at 30 June 2019.

Consequently, Group's net debt decreased from S\$7.7 million as at 31 December 2018 to S\$7.3 million as at 30 June 2019.

As at 30 June 2019, the Group had a negative working capital of S\$2.6 million, as compared to a negative working capital of S\$1.8 million as at 31 December 2018. Whilst the Group had not completed any fund raising activities in HY2019, the overall improvement in financial results in HY2019 as well as the banks' continued support ensured that we had met our financial obligations when fall due. Nevertheless, we will continue to explore fund raising activities to strengthen our financial position.

Trade receivable days and trade payable days stood at 85 and 79 days respectively as at 30 June 2019, as compared to 89 and 92 as at 31 December 2018 respectively. Inventory days decreased from 37 days as at 31 December 2018 to 33 days as at 30 June 2019. Consequently, the Group's net working capital days increased from 34 days as at 31 December 2018 to 39 days as at 30 June 2019, mainly attributed to changes in sales mix and regulation of account payable days past due.

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9 Where a forecast, or a prospect statement, has been previously disclosed to our shareholders, any variance between it and the actual results

No forecast, or a prospect statement was previously disclosed to shareholders.

10 A commentary at the date of the announcement of the significant trend and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months

To mitigate the uncertain sales demand in the next 12 months, 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. Barring unforeseen circumstances, by focusing on its core competencies and be more cost effective, the Group expects its business to operate in a leaner and more efficient manner that will improve profitability and generate positive cashflow from our operations.

On February 2019, the Company announced that it had entered into a conditional sales and purchase agreement (%SPA+) with World Forum Development Limited and Gold Paradise International Limited, for the proposed acquisition of 51% interest in Asiafame Group Limited (the %Proposed Acquisition+). Pursuant to the conditions precedent of the Proposed Acquisition, the Company will need to undertake a placement of new ordinary shares in the capital of the Company to raise funds of at least S\$4.0 million prior to the completion of the Proposed Acquisition (%Placement+). The Proposed Acquisition has a long stop date of 31 August 2019, and as at the date of this announcement, there had been no progress on the Placement and the Proposed Acquisition. The Company will make the necessary announcement as and when there is material development on the Proposed Acquisition as well as the Placement.

11 Dividend

(a) Current Financial Period Reported On	Nil
(b) Prior Financial Period Reported On	Nil
(c) Date Payable	Not applicable
(d) Books closure date	Not applicable

12 If no dividend has been declared/recommended, a statement to that effect and the reasons for the decision.

No dividend has been declared/recommended for HY2019 as the Group recorded net loss in HY2019 and is in a negative working capital position as at 30 June 2019.

13 If the Group has obtained a general mandate from shareholders for Interested Person Transactions (IPTs), the aggregate value of such transactions as required under Rule 920(1)(a)(ii).

The Group did not obtain a general mandate from its shareholders for IPTs. There was no interested person transaction entered into by the Group with value of S\$100,000 or more during HY2019.

14 Issuer to confirm that it has procured undertaking from all its directors and executive officers in the format set out in Appendix 7H under Rule 720(1).

The Board of Directors confirms that, they have procured undertakings from all its directors and executive officers in the format set out in Appendix 7H under Rule 720(1).

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15 Statement by Directors

Pursuant to SGX Catalist Rule 705(5)

On behalf of the Board of Directors of the Company, we hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the unaudited consolidated financial results for the half year ended 30 June 2019 to be false or misleading in any material aspect.

On behalf of the Board of Directors,

Chua Kheng Choon
Chairman and Chief Executive Officer

Koh Gim Hoe
Lead Independent Director

14 August 2019