

METAL COMPONENT ENGINEERING LIMITED

Company Registration No. 198804700N

INDEPENDENT AUDITOR'S COMMENTS ON FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Pursuant to Rule 704(4) of the Listing Manual Section B: Rules of Catalist ("**Catalist Rules**") of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), the board of directors (the "**Board**") of Metal Component Engineering Limited (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce that the Company's independent auditor, Foo Kon Tan LLP, had, without qualifying its audit opinion, included in the Independent Auditor's Report a material uncertainty related to going concern in the audited financial statements of the Group for the financial year ended 31 December 2018 (the "**Audited Financial Statements**"). A copy of the Independent Auditor's Report and an extract of Notes 2(a) and 29 to the Audited Financial Statements are attached to this announcement for information.

Notwithstanding the above, the Board is of the opinion that the Group will continue as a going concern. Please refer to the extract of Note 2(a) to the Audited Financial Statements for the Board's opinion.

The Board is of the opinion that sufficient information has been disclosed for trading of the Company's securities to continue in an orderly manner and confirmed that all material disclosures have been provided for trading of the Company's shares to continue.

Shareholders of the Company ("**Shareholders**") are advised to read the Audited Financial Statements in its 2018 annual report, which will be despatched to Shareholders in due course.

The Board wishes to advise Shareholders and potential investors to exercise caution when dealing in the shares of the Company. In the event of any doubt, they should consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers.

BY ORDER OF THE BOARD

Chua Kheng Choon
Chairman and Chief Executive Officer
8 April 2019

*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, ZICO Capital Pte. Ltd. ("**Sponsor**"), for compliance with 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.

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.

Extracted from the Independent Auditor's Report to the Audited Financial Statements of Metal Component Limited for the financial year ended 31 December 2018.

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 2018, 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 2018 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2(a) to the financial statements. The Group incurred net loss, total comprehensive loss and net operating cash outflows of S\$5,488,337, S\$5,855,164 and S\$1,306,739, respectively, for the financial year ended 31 December 2018. In addition, as at 31 December 2018, the Group and the Company had net current liabilities of S\$1,821,015 and S\$3,087,970, respectively. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's and the Company's ability to continue as going concern. Our opinion is not modified in respect of this matter.

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
<p>Impairment testing of non-financial assets (the Group's property, plant and equipment and the Company's investments in subsidiaries)</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>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.</p>

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 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 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.

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 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 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.

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 Ho Teik Tiong.

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants
Singapore
8 April 2019

Extracted from Notes 2(a) to the Audited Financial Statements of Metal Component Engineering Limited for the financial year ended 31 December 2018.

2(a) Going concern

The Group incurred net loss, total comprehensive loss and net operating cash outflows of S\$5,488,337 (2017:S\$8,727,364), S\$5,855,164 (2017: S\$2,499,866) and S\$1,306,739 (2017: S\$383,643), respectively, for the financial year ended 31 December 2018. In addition, as at 31 December 2018, the Group and the Company had net current liabilities of S\$1,821,015 (2017: net current assets of S\$3,283,410) and S\$3,087,970 (2017: S\$1,312,473), 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\$15,222,947 (2017: S\$21,026,111) and S\$14,138,865 (2017: S\$16,948,165), respectively, as at 31 December 2018.
- (ii) The net assets of the Group are largely supported by the fair value of its leasehold land and buildings of S\$10,611,108 (2017: S\$11,564,529) (Note 3) as at 31 December 2018, 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\$2,421,444 (2017: S\$5,144,096) and S\$435,417 (2017: \$1,096,457), respectively, as at 31 December 2018.
- (iii) The net current liabilities of the Company as at 31 December 2018 were mainly attributed to amounts owing to subsidiaries totalling S\$10,631,809 (2017: S\$8,022,135), 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 29 of the financial statements, on 15 February 2019, the Company entered into a conditional sale and purchase agreement to acquire 51% of the issued and paid-up share capital of Asiafame Group Limited. The Target Group had a net profit of about S\$450,000 for the financial year ended 31 December 2017, and is expected to contribute earnings to the Group's profit or loss for the financial year ending 31 December 2019. The purchase consideration is wholly financed through bonds which will be repaid three years from the date of issuance, and therefore does not affect the Group's cash flows for the following three years. The acquisition is conditional upon the Company undertaking a placement of new ordinary shares to raise additional funds of at least S\$4,000,000, which will further improve the liquidity of the Group.

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.

Extracted from Note 29 to the Audited Financial Statements of Metal Component Engineering Limited for the financial year ended 31 December 2018.

29 Events after the reporting period

On 15 February 2019, the Company entered into a conditional sale and purchase agreement with World Forum Development Limited and Gold Paradise International Limited (the “Vendors”) whereby the Company agreed to acquire from the Vendors 51% of the issued and paid-up share capital of Asiafame Group Limited (the “Target”). The Target is an investment holding company incorporated in the British Virgin Islands. Its subsidiaries are based in Changsha, Hunan Province, the PRC, and are principally engaged in providing third party testing and inspection services in the PRC. The services provided include, but are not limited to, foundation inspection, construction material inspection, structural inspection and road and bridges inspection.

The aggregate consideration amounted to S\$8,360,000, of which (i) on completion date, S\$4,860,000 shall be paid by the Company by way of the issuance to each of the Vendors, a non-convertible, redeemable, transferable, zero coupon bond in the principal amount of S\$2,430,000 and with a maturity date of three years from the date of issuance of the bond (the “Maturity Date”), and (ii) subject to the Target Group’s net profit after tax for the financial period from 1 January 2019 to 31 March 2019 being equal to or more than RMB 1,800,000 as indicated in its audited financial statements prepared in accordance with the International Financial Reporting Standards, within 30 days from the date of receipt by the Company of the audited financial statements, S\$3,500,000 shall be paid by way of the issuance to each of the Vendors, a non-convertible, redeemable, transferable, zero coupon bond in the principal amount of S\$1,750,000 maturing on the Maturity Date.

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.