METAL COMPONENT ENGINEERING LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No: 198804700N)

CONDITIONAL SALE AND PURCHASE AGREEMENT IN RESPECT OF THE PROPOSED ACQUISITION OF 51.0% OF THE ENTIRE ISSUED AND PAID-UP SHARE CAPITAL OF ASIAFAME GROUP LIMITED

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1. INTRODUCTION

The board of directors (the "**Board**" or "**Directors**") of Metal Component Engineering Limited (the "**Company**", together with its subsidiaries, the "**Group**") wishes to announce that the Company had, on 15 February 2019, entered into a conditional sale and purchase agreement (the "**Agreement**") with World Forum Development Limited ("**World Forum**") and Gold Paradise International Limited ("**Gold Paradise**", and together with World Forum shall collectively be referred to as the "**Vendors**") whereby the Company has agreed to acquire, and the Vendors have agreed to sell, 51.0% of the issued and paid-up share capital of Asiafame Group Limited (the "**Target**", and together with its subsidiaries, the "**Target Group**") on the terms and subject to the conditions of the Agreement (the "**Proposed Acquisition**").

2. INFORMATION ON THE VENDORS AND THE TARGET GROUP

The information on the Vendors and the Target Group in this paragraph 2 was provided by the Vendors. In respect of such information, the Company and the Directors have not independently verified the accuracy and correctness of the same and the Company's responsibility is limited to the proper extraction and reproduction herein in the context that the information is being disclosed in this announcement.

2.1 Information on the Vendors

The Vendors are private companies incorporated in the British Virgin Islands with their main business activity being that of investment holding. The ultimate beneficial owner of World Forum is Mr Lu Wenge and the ultimate beneficial owners of Gold Paradise are Ms Luk Yee Lin Ellen (72.5%), Mr Andrew Bek (15%), Ms Ai Mizoguchi (11%), Mr Cheng Wang (1%) and Mr Kenji Takashi (0.5%).

None of the Vendors and their ultimate beneficial owners are related to the Company, the Directors or controlling shareholders of the Company, and their respective associates. As of the date of this announcement, none of the Vendors and their ultimate beneficial owners hold any shares in the share capital of the Company.

2.2 Information on the Target Group

The Target is an investment holding company incorporated in the British Virgin Islands. The shareholders of the Target are the Vendors, namely World Forum and Gold Paradise, which each own 50% of the issued and paid-up share capital of the Target.

The Target Group comprise the Target and its wholly-owned subsidiaries, namely (i) Cheung Kwok Holding Limited (长国集团有限公司), an investment holding company incorporated in Hong Kong; (ii) Chang Sha Jiu Cheng Inspection Co. Ltd. (长沙九成监测管理有限公司) ("**PRC Subsidiary 1**"); and (iii) Hunan Chudi Hengda Testing Co., Ltd. (湖南楚地恒大监测有限公司) (together with PRC Subsidiary 1, to be referred to as the "**PRC Subsidiaries**"). The PRC Subsidiaries, established in the People's Republic of China ("**PRC**") and based in Changsha, Hunan Province, the PRC, 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.

Based on the Target Group's audited consolidated financial statements for the financial year ended 31 December 2017 ("**FY2017**"):

(i) the net profit after tax of the Target Group for FY2017 was approximately RMB 2,249,000 (equivalent to approximately S$450,000); and

(ii) the net book value and the net tangible asset value of the Target Group as at 31 December 2017 each amounted to approximately RMB 6,774,000 (equivalent to approximately S$1,355,000).

Based on the Target Group's audited consolidated financial statements for the financial period ended 31 March 2018 ("**1Q2018**"):

(i) the net profit after tax of the Target Group for 1Q2018 was approximately RMB 3,131,000 (equivalent to approximately S$626,000); and

(ii) the net book value and the net tangible asset value of the Target Group as at 31 March 2018 each amounted to approximately RMB 9,906,000 (equivalent to approximately S$1,981,000).

No independent valuation of the Target Group was available as at the date of the Agreement.

Exchange rate applied to the figures above is based on RMB 1 = S$0.20.

3. RATIONALE FOR THE PROPOSED ACQUISITION

The existing business of the Group is to provide mechanical manufacturing solutions focusing on data storage, office automation peripherals, ATM and kiosk products. In the financial results announcement of the Company for the 6-month financial period ended 30 June 2018 ("**1H2018**"), the Company announced, *inter alia*, that the Company is facing a decrease in global demand for its customers' products thereby adversely affecting sales in Singapore and also the closures of the plating lines in the Suzhou and Shanghai plants resulting in the absence of sales in those plants. The Company further announced that in order to mitigate the uncertain sales demand in the next 12 months, the Group had embarked with high urgency on key initiatives that will further streamline operations in all its sites, especially in China in areas of manpower deployment and staff cost, operational efficiencies and key account management.

In addition to the above, the Board is of the view that the Company should set new business directions in implementing growth initiatives and execute new investment strategies, which may include business diversification strategies. As such, the Board is of the view that the Proposed Acquisition is in the best interests of the Company and its shareholders ("**Shareholders**") as the Target Group is profitable and will enable the Company to venture into a specialized industry of providing third party testing and inspection services in respect of foundation inspection, construction material inspection, structural inspection and road and bridges inspection. The Proposed Acquisition also presents a good opportunity for the Company to diversify its business and revenue stream. The Company will be seeking Shareholders' approval at an extraordinary general meeting to be convened in due course for the diversification of the business of the Company in relation to the Proposed Acquisition ("**Business Diversification**").

Barring any unforeseen circumstances, the Directors are thus of the view that the Proposed Acquisition, if completed, will generate a sustainable revenue stream for the Group and represents a strategic diversification strategy for the Group towards improving its financial performance and position over a longer term.

4. PRINCIPAL TERMS OF THE PROPOSED ACQUISITION

4.1 Sale Shares

Pursuant to the Agreement, the Company will acquire an aggregate of 102 fully paid-up ordinary shares in the capital of the Target (the "**Sale Shares**") from the Vendors, representing 51.0% of the issued and paid-up capital of the Target, free from all encumbrances and together with all rights attaching thereto. Following the completion of the Proposed Acquisition ("**Completion**"), the Target will become a 51.0%-owned subsidiary of the Company.

4.2 Consideration

The aggregate consideration for the Sale Shares amounted to S$8,360,000 (the "**Consideration**"), and was arrived at following arm's length negotiations, on a willing buyer willing seller basis, and taking into account the audited net profit of the Target Group for FY2017 and 1Q2018.

Pursuant to the Agreement, the Consideration shall be payable in two tranches in the following manner:

(a) on the date of Completion, an aggregate amount of S$4,860,000 (the "**Initial Consideration**") shall be paid by the Company to the Vendors 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 (3) years from the date of the bond certificate issued in relation to the bond (the "**Maturity Date**"); and

(b) subject to the Target Group's net profits after tax ("**NPAT**") for the financial period from 1 January 2019 to 31 March 2019 (the "**1Q2019**") being equal to or more than RMB 1,800,000 as indicated in the audited financial statements of the Target Group, prepared in accordance with the International Financial Reporting Standards, in respect of 1Q2019, an aggregate amount of S$3,500,000 (the "**Deferred Consideration**") shall be paid by the Company to the Vendors 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, within thirty (30) days from the date of receipt by the Company of the audited financial statements of the Target Group in respect of the 1Q2019.

   For the avoidance of doubt, there is no profit guarantee provided by the Vendors to the Company.

   Where the Target Group's audited NPAT in respect of the 1Q2019 is less than RMB 1,800,000, the Deferred Consideration shall be adjusted based on the following formula:

$$\text{Adjusted Deferred Consideration} = \frac{\text{Target Group's NPAT for 1Q2019}}{\text{RMB 2,000,000}} \times \text{S\$3,500,000}$$

   In the event the Deferred Consideration is adjusted in the manner set out above, the principal amount of the bonds to be issued to each of the Vendors shall accordingly be adjusted and be equivalent to fifty percent (50%) of the adjusted Deferred Consideration respectively.

   Where the Target Group's NPAT is equal to or more than RMB 1,800,000, the maximum aggregate amount of Deferred Consideration payable to the Vendors is capped at S$3,500,000.

The Company intends to fund the redemption of the bonds by a combination of internal resources as well as fund-raising from the equity market, commercial banks, sophisticated investors and strategic partners.

4.3 Completion

Under the terms of the Agreement, Completion is conditional upon, *inter alia*, the following conditions being satisfied on or before the Completion date ("**Conditions Precedent**"):

(a) the Company being satisfied in its sole and absolute discretion with the results of the due diligence (whether legal, financial, contractual, tax or otherwise) on the Target Group including, without limitation, the title to and the status and condition of any properties (whether movable or immovable), assets (whether tangible or intangible), liabilities, businesses, operations, records, financial position, accounts, results, legal and corporate structure, its subsidiaries and associated companies;

(b) all necessary requirements under the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") Listing Manual Section B: Rules of Catalist ("**Catalist Rules**") and all necessary consents or approvals (if any) being granted by third parties or governmental or regulatory bodies or competent authorities having jurisdiction over the Proposed Acquisition or the transactions contemplated under the Agreement (including without limitation, the consent or approval of the SGX-ST (as applicable) in respect of the circular to be despatched to the Shareholders in relation to the Proposed Acquisition and/or the Business Diversification (if required and/or deemed necessary by the Company)) and where any such consent or approval is subject to any conditions, such conditions being reasonably acceptable to the party on which they are imposed, and (if required) such conditions being fulfilled before Completion and such consents or approvals not being revoked or repealed on or before Completion;

(c) the receipt of approvals of the respective board of directors of the Company, the Vendors and the Target for the transfer of the Sale Shares;

(d) the Company receiving any necessary approvals from its Shareholders at an extraordinary general meeting in respect of the Proposed Acquisition and/or Business Diversification as the Company and/or the SGX-ST deems necessary;

(e) the appointment of such directors nominated by the Company to form part of the Target's board of directors and the appointment of such legal representative(s) (or person(s) of equivalent authority, however described) nominated by the Company to the Target's subsidiaries (as applicable);

(f) there being no adverse change (as determined by the Company in its sole and absolute discretion) in the global economy and the prospects, operations or financial condition of the Target occurring on or before Completion;

(g) the Company receiving the audited consolidated financial statements of the Target Group for the financial year ended 31 December 2018 indicating that the Target Group has NPAT of not less than RMB 8,000,000;

(h) the Company commissioning an independent valuer to prepare a valuation report on the Target Group, and such valuation being not less than the Consideration and the Company being satisfied with such valuation;

(i) the parties having executed a bond subscription agreement on mutually agreed terms to set out the terms and conditions in respect of the bonds; and

(j) the Company undertaking a placement of new ordinary shares to raise funds of at least S$4,000,000 prior to Completion.

Completion of the Proposed Acquisition will take place not later than 14 business days after all the Conditions Precedent are fulfilled (or if not fulfilled, are waived by the relevant party) in accordance with the Agreement.

If the Conditions Precedent have not been fulfilled or waived by mutual consent on or before 31 August 2019 or such date as all the parties may agree in writing, the Agreement shall lapse and cease to have effect, save for those provisions which by their nature survive termination of the Agreement.

5. RELATIVE FIGURES UNDER RULE 1006 OF THE CATALIST RULES

Based on the latest announced unaudited consolidated financial statements of the Group for 1H2018, the relative figures for the Proposed Acquisition computed on the bases set out in Rule 1006 (a) to (e) of the Catalist Rules are as follows:

Rule 1006	**Bases**	**Relative figures for the Proposed Acquisition (%)**
(a)	The net asset value of the assets to be disposed of, compared with the Group's net asset value	Not applicable
(b)	The net profits(1) attributable to the assets acquired, compared with the Group's net profits(1)	Not meaningful(2)
(c)	The aggregate value of the consideration given or received, compared with the Company's market capitalisation based on the total number of issued shares excluding treasury shares	89.03(3)
(d)	The number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue	Not applicable
(e)	The aggregate volume or amount of proven and probable reserves to be disposed of, compared with the aggregate of the Group's proven and probable reserves	Not applicable

Notes:

(1) Under Rule 1002(3)(b) of the Catalist Rules, "**Net Profits**" is defined to be profit or loss before income tax, minority interests and extraordinary items.

(2) The relative figure for Rule 1006(b) is not meaningful as the Group recorded a loss before income tax, non-controlling interests and extraordinary items of approximately S$2,698,000 for 1H2018.

(3) The market capitalisation of the Company is computed based on its total number of shares in the capital of the Company ("**Shares**") of 374,119,000 and the volume-weighted average price of the Company's Shares of S$0.0251 per Share on 14 February 2019, being the last traded market day immediately preceding the date of the Agreement. The Company has no treasury shares.

As the relative figure computed on the basis set out in Rule 1006(c) exceeds 75% but is less than 100%, the Proposed Acquisition constitutes a "Major Transaction" as defined under Chapter 10 of the Catalist Rules. Accordingly, the Proposed Acquisition is subject to the approval by Shareholders in a general meeting.

For the avoidance of doubt, the Company will also be seeking Shareholders' approval at an extraordinary general meeting to be convened in due course for the Business Diversification.

6. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

6.1 Assumptions

The unaudited *pro forma* financial effects of the Proposed Acquisition on the Group as set out below are purely for illustration purposes only and do not reflect the actual future results and financial position of the Group after the completion of the Proposed Acquisition.

The unaudited *pro forma* financial effects of the Proposed Acquisition set out below have been prepared based on the latest audited consolidated financial statements of the Group for FY2017, the audited financial statements of the Target Group for FY2017, as well as the following bases and key assumptions:

(a) the financial effects on the consolidated net tangible assets ("**NTA**") per Share are computed based on the assumption that the Proposed Acquisition was completed on 31 December 2017;

(b) the financial effects on the consolidated loss per Share ("**LPS**") are computed based on the assumption that the Proposed Acquisition was completed on 1 January 2017;

(c) the fair value adjustments on the net assets of the Group and positive or negative goodwill arising from the Proposed Acquisition, if any, have not been considered for the purpose of computing the financial effects of the Proposed Acquisition and will be determined on the date of completion of the Proposed Acquisition. Any goodwill or negative goodwill arising from the Proposed Acquisition will be accounted for in accordance with the accounting policies of the Group; and

(d) the expenses incurred in connection with the Proposed Acquisition are estimated to be approximately S$200,000.

6.2 NTA per Share

	Before the Proposed Acquisition	**After the Proposed Acquisition**
NTA (S$'000)	21,026	13,821
Number of Shares	374,119,000	374,119,000
NTA per Share (Singapore cents)	5.62	3.69

6.3 LPS

	Before the Proposed Acquisition	**After the Proposed Acquisition**
Net loss attributable to Shareholders (S$'000)	(8,727)	(8,698)
Weighted average number of Shares	374,119,000	374,119,000
LPS (Singapore cents)	(2.33)	(2.32)

7. INTERESTS OF THE DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the Directors or substantial shareholders of the Company (other than in their capacity as Directors or Shareholders of the Company) has any interest, direct or indirect, in the Proposed Acquisition.

8. DOCUMENT FOR INSPECTION

A copy of the Agreement will be made available for inspection during normal business hours at the registered office of the Company at 7030 Ang Mo Kio Avenue 5, #08-85 Northstar @ AMK, Singapore 569880 for three (3) months from the date of this announcement.

9. CIRCULAR TO SHAREHOLDERS

A circular setting out further information on, amongst others, the Proposed Acquisition and the change in the nature of the business and risk profile of the Company arising from the Proposed Acquisition will be despatched to the Shareholders in due course together with the notice to convene the extraordinary general meeting. The Company will make further announcements relating to the Proposed Acquisition as and when necessary.

10. SERVICE CONTRACTS

No person is proposed to be appointed as a director of the Company in connection with the Proposed Acquisition.

There are no service contracts to be entered into at Completion, as the management team of the Target Group will be kept to continue to manage the business and affairs of the Target Group.

Accordingly, no service contract is proposed to be entered into between the Company and any person.

11. CAUTIONARY STATEMENT

Shareholders and potential investors are advised to exercise caution in trading the shares of the Company. There is no certainty or assurance as at the date of this announcement that the Proposed Acquisition will be completed. The Company will make the necessary announcements when there are further developments. Shareholders are advised to read this announcement and any further announcements by the Company carefully. Persons who are in doubt as to the action they should take should consult their stock brokers, bank managers, solicitors or other professional advisors.

BY ORDER OF THE BOARD
METAL COMPONENT ENGINEERING LIMITED

Lee Wei Hsiung
Company Secretary
15 February 2019

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*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 number: 66364201.