



Securities Investors Association (Singapore)

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Issuer: Metal Component Engineering Limited

Security: Metal Component Engineering Limited

Meeting details:

Date: 29 April 2019

Time: 9.00 a.m.

Venue: Casuarina Room, Serangoon Gardens Country Club, 22 Kensington Park Road
Singapore 557271

Company Description

Metal Component Engineering Limited is a Singapore-based investment holding company engaged in providing mechanical manufacturing solutions in Asia. The Company is engaged in metal stamping and manufacturing of tools and fixtures. The Company operates through four segments: Singapore, Thailand, Malaysia and China. The Company focuses on data storage, office automation peripherals, automated teller machine (ATM) and kiosk products, as well as automotive industries. It offers services from design, prototyping, tool and die fabrication (soft tools, hard tools and hybrid solutions), precision stamping production and surface finishing. In addition, the Company offers electromechanical assembly solutions, ranging from welding to mechanical structure integration, and supply chain management. Its subsidiaries include Metal Component Technologies (Wuxi) Co., Ltd, MCE Industries (Shanghai) Co., Ltd and Metal Computer Component (Suzhou) Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5DX)

Q1. On 8 April 2019, the company announced that its independent auditor has included an assessment of the Material Uncertainty Related to Going Concern in its audit report on the company's audited consolidated financial statements for the financial year ended 31 December 2018.

As noted by the auditors:

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.

Notwithstanding the factors listed out by the auditors, the directors are of the view that the going concern assumption is appropriate for the preparation of these financial statements, due to the following:

- The Group and the Company had net assets of S\$15,222,947 and S\$14,138,865 respectively, as at 31 December 2018
 - Fair value of its leasehold land and buildings of S\$10,611,108 (Note 3) as at 31 December 2018
 - The Group's cash and bank balances amounting to S\$2,421,444, and other factors
- (i) Would the board help shareholders understand the pro-active efforts taken by the board and by management to (a) improve the cash flow generation and (b) improve the operations of the group?**
- (ii) Please share its cash flow projections to help shareholders understand the liquidity risks faced by the group.**
- (iii) Does the board have plans to dispose of the leasehold land and buildings in Qingpu District, Chonggu Town to improve the group's cash flow?**
- (iv) Would the board consider it opportune to carry out a comprehensive strategic review of the group's operations to assess the core competencies of the group, its management team and its financial strength and to fine-tune its strategies so as to create long-term sustainable value for all shareholders?**

Q2. On the operational front, the group has closed the plating line in Suzhou and Shanghai plant in FY2017. Would the board/management consider providing more information in the annual report to help shareholders understand the group better? Specifically:

- (i) Please identify the three remaining plants and help shareholders understand their capacity and manufacturing capability.**
- (ii) What are the key products (components and tools) and who are the major customers? Please also help shareholders understand the identities (if not, profiles) of the key customers.**
- (iii) Please clearly articulate the business model and identify the key value drivers.**
- (iv) As seen on page 12 (Five-year financial highlights), revenue has fallen for 4 straight years, with the group making losses in 4 of the last 5 years and net gearing increasing from 0 to 51%. Has the management analysed its competitiveness?**

Q3. On 15 February 2019, the company announced the proposed acquisition of 51.0% of the issued and paid-up share capital of Asiafame Group Limited for an aggregation consideration of up to \$8.36 million.

The target, based in Changsha, Hunan Province, the PRC, is 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 audited consolidated financial statement for the financial period ended 31 March 2018, the target group made a net profit after tax of RMB3,131,000 (equivalent to approximately S\$626,000) in 1Q2018 although the net profit after tax for FY2017 was RMB2,249,000 (equivalent to approximately S\$450,000).

The net book value and the net tangible asset value of the target group as at 31 March 2018 amounted to approximately RMB 9,906,000 (equivalent to approximately S\$1,981,000).

- (i) What is the level of involvement in the deal sourcing, deal structuring and the due diligence of the proposed acquisition?**
- (ii) How much does the board/management know about testing and inspection services in Changsha?**

- (iii) Given that the target group's 2017 full year earning was just \$626,000, would the company be paying approximately 27x price-to-earnings based on the 2017 full year results?**

The target has a NAV of \$1.98 million (100%) and the acquisition for 51% would cost the company \$8.36 million.

- (iv) Would the board, especially the independent directors, help shareholders understand why no valuation was carried out prior to the conditional sales and purchase agreement?**
- (v) What guidance did the board give to management to be prudent in its deal making?**