



METAL COMPONENT ENGINEERING LIMITED

CLEAR PATH FORWARD

ANNUAL REPORT 2015



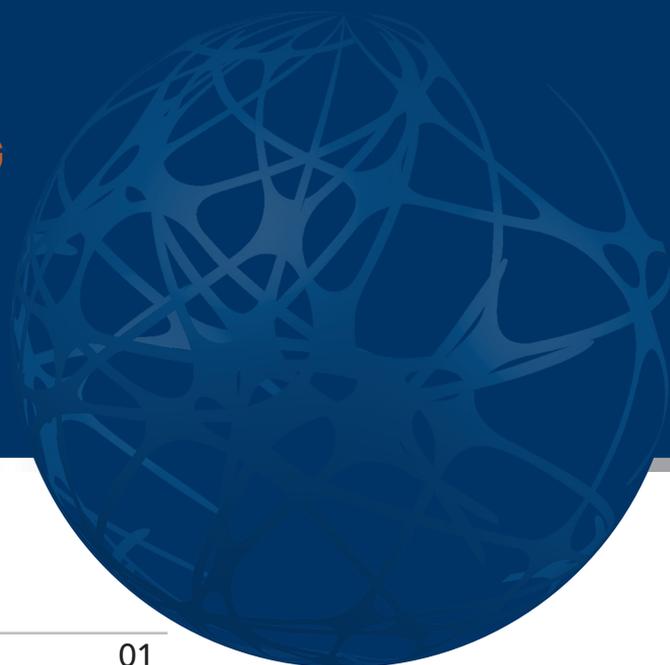
This annual report has been prepared by the Company and its contents have been reviewed by the Company's sponsor, Canaccord Genuity Singapore Pte. Ltd. ("Sponsor") for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("SGX-ST"). The Sponsor has not independently verified the contents of this annual report.

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. Leong Huey Miin, Director, Corporate Finance, Canaccord Genuity Singapore Pte. Ltd., at 77 Robinson Road #21-02 Singapore 068896, telephone (65) 6854-6160.

OUR VISION

TO BE A WORLD-CLASS
**MECHANICAL MANUFACTURING
SOLUTIONS PROVIDER**



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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



BOARD OF DIRECTORS

Chua Kheng Choon
Chairman and CEO

Chua Han Min
Deputy CEO and Executive Director

Tan Soo Yong
Executive Director

Lim Chin Tong
Non-Executive and Lead Independent Director

Cheah Chow Seng
Independent Non-Executive Director

Lim Swee Kwang
Independent Non-Executive Director

AUDIT COMMITTEE

Lim Chin Tong (Chairman)
Cheah Chow Seng
Lim Swee Kwang

REMUNERATION COMMITTEE

Lim Swee Kwang (Chairman)
Lim Chin Tong
Cheah Chow Seng

NOMINATING COMMITTEE

Cheah Chow Seng (Chairman)
Lim Chin Tong
Lim Swee Kwang

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

SPONSOR

Canaccord Genuity Singapore Pte. Ltd.
77 Robinson Road
#21-02
Singapore 068896

AUDITOR

Foo Kon Tan LLP
Certified Public Accountants
47 Hill Street #05-01
Singapore Chinese Chamber of
Commerce & Industry Building
Singapore 179365
Partner-in-charge: Robin Chin Sin Beng
Date of appointment: 29 October 2012

REGISTERED OFFICE AND BUSINESS ADDRESS

10 Ang Mo Kio St 65
#04-02 Techpoint
Singapore 569059
Tel: (65) 6759 5575
Fax: (65) 6759 5565
www.mce.com.sg
Registration No.: 198804700N

CORPORATE STRUCTURE

**Metal Precision Services
Pte. Ltd.**

**MCE Technologies
Sdn. Bhd.**

**MCE Manufacturing
Sdn. Bhd.**

MCT (Thailand) Co., Ltd

**Metal Component Technologies
(Wuxi) Co., Ltd.**

**Metal Computer Component
(Suzhou) Limited**

**Metal Component Engineering
(Shanghai) Co., Ltd.**

**MCE Industries (Shanghai)
Co., Ltd.**

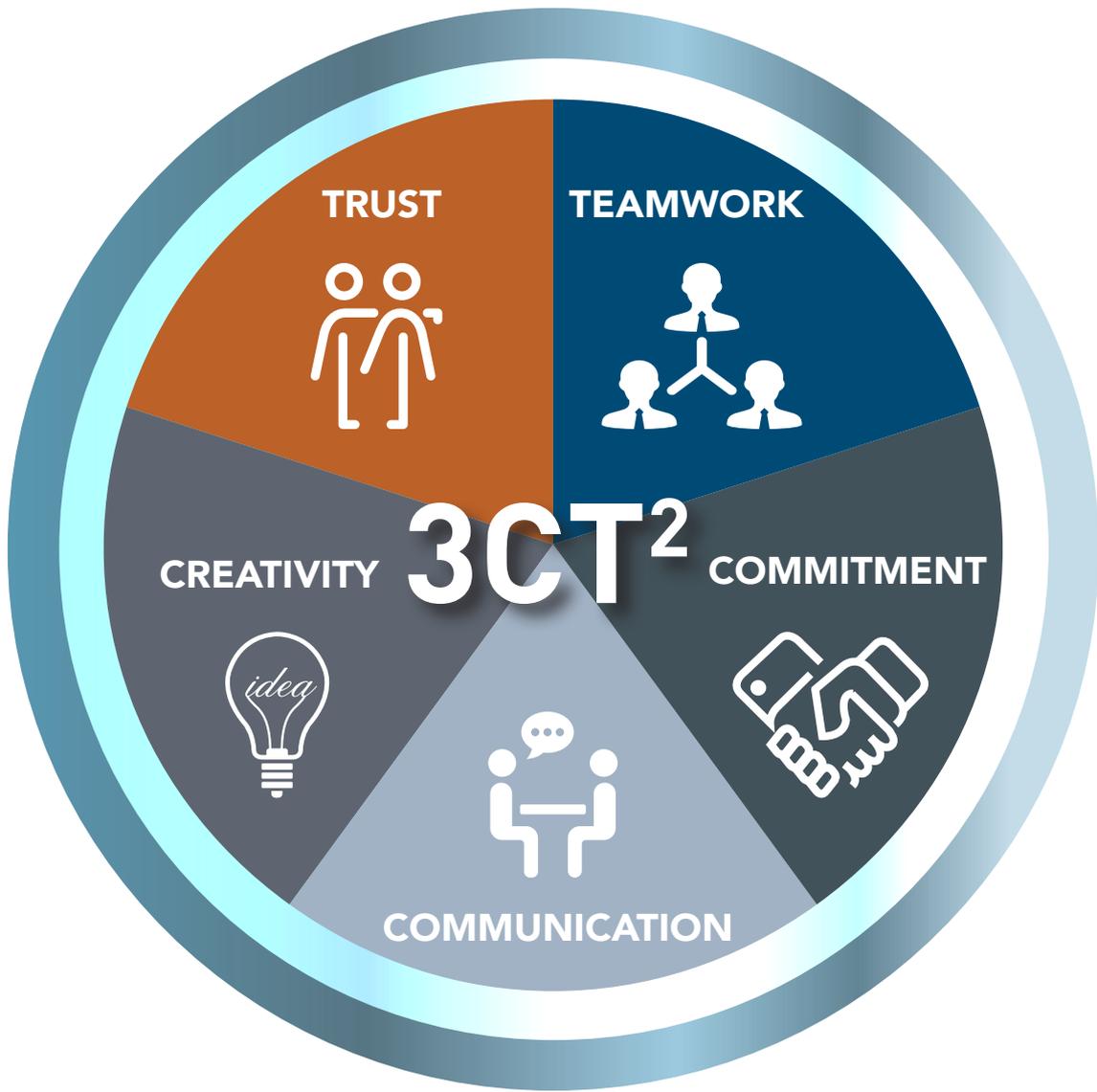
**MCE Corporation (Shanghai)
Co., Ltd.**



METAL COMPONENT ENGINEERING LIMITED



CORE VALUES



CHAIRMAN'S MESSAGE



Going forward, we will focus on two business segments - Precision Metal Stamping business and Industrial Product business as our pillars of growth.



Dear Shareholders

FY2015 continues to be an exciting year for MCE. It marked a growth in our top line from a shift of our business focus from the Hard Disc Drive Components ("HDD") business to the Mechanical Integration ("MI") and also saw us making inroads to a new business segment, namely the digital textile printer business.

Financial Review

The Group's recorded a revenue of S\$71.4 million for FY2015, an increase of 3.4% from the S\$69.1 million reported in FY2014. The increase was contributed from gains in the MI business by 46.4%, partially offset by decrease in revenue in the HDD and Precision Components ("PC") businesses by 14.2% and 2.2% respectively.

Group's profit after tax was at S\$0.5 million for FY2015 as compared to a loss of S\$2.8 million for FY2014, mainly due to the increase in revenue and a shift of business focus towards the MI business, which mitigated the adverse impact of the declining HDD business on the Group's profitability.

With improved profitability and better control over working capital such as inventory and trade accounts receivables, the Group's net cash was at \$0.4 million as at 31 December 2015 as compared to a net debt of S\$2.3 million as at 31 December 2014.

Operational Review

The Group's manufacturing footprint comprises six manufacturing sites in three countries, namely China, Malaysia and Thailand that is supported by a Corporate Headquarters in Singapore.

MCE China

The Group has three manufacturing sites in China – Shanghai Qingpu, Wuxi and Suzhou. The Qingpu site focused on Mechanical Installation business, while the sites in Wuxi and Suzhou serve customers in the HDD and Printer/Automotive Components businesses.

In FY2015, China continued to be the major contributor to the Group's revenue with sales of S\$30.9 million (FY2014 - S\$28.0 million). The 10% growth in revenue was from its Printer and Automotive businesses that had offset the reduced sales from the HDD business.

Following the signing of the MOU in FY2014 with one of China's leading manufacturer of digital textile printers, Shanghai Qingpu had started shipping about 700 sets of textile printers after completing its product and prototype phase in FY2015.

MCE Malaysia

Revenue from Malaysia had decreased from S\$5.4 million in FY2014 to S\$3.0 million in FY2015, due



CHAIRMAN'S MESSAGE



to less orders from one of its customers for a product that is reaching the end of the product life in FY2015. Despite the reduced sales, it still achieved a S\$0.2 million profit as some of its new programs had reached mass-run stage in FY2015.

MCE Thailand

Revenue from Thailand had increased by 31% from S\$5.4 million in FY2014 to S\$7.1 million in FY2015, mainly due to the ramp-up of orders for a new project. As the operational leverage was only reached during the second half of FY2015, MCE Thailand recorded a loss of S\$0.2 million in FY2015.

Forward Looking

Against the backdrop of a steadily declining HDD business and an increasingly challenging business environment, the Group will continue to address new business opportunities and remain focussed on improving its operating efficiencies and marketing efforts to secure higher-margin product mix.

It will focus on two business segments – Precision Metal Stamping business (HDD, Printer and Automotive) and Industrial Product business (Digital Textile Printer).

The Group will undertake a major restructuring of its precision metal stamping business in China to improve its operating margin and to mitigate the adverse impact of the declining HDD business.

It is also poised for the expected mass production of the digital textile printers for the China market in FY2016.

Additionally, the Group will expand its marketing and tooling capability to secure more high value-added projects to improve its capability, utilisation rate and long-term profitability.

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, management team and staff for your continued support to the Group over the years.

Thank you.

Chua Kheng Choon
Chairman and Chief Executive Director

BOARD OF DIRECTORS



Chua Kheng Choon, our CEO and Chairman, 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 sub-contractor 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.



Chua Han Min, is the Deputy CEO and Executive Director of MCE. Mr. Chua is responsible for the Precision Metal Stamping business unit, that comprises of the metal stamping operations in Malaysia, Thailand and China (Wuxi and Suzhou). Mr Chua has more than 30 years of experience in the field of manufacturing engineering. Prior to joining MCE, he was with Philips Singapore Pte Ltd, King Radio (S) Pte Ltd and Hewlett-Packard (S) Pte Ltd. Mr Chua holds a Masters in Science (Mechanical Engineering) from the National University of Singapore and a Masters in Business Administration from the University of South Australia.



Tan Soo Yong, is the Executive Director of MCE. Mr. Tan is responsible for the Industrial Product business unit, that operated out of Qingpu, Shanghai. He joined MCE initially as a Marketing Manager, before he was promoted to General Manager of MCE Shanghai, playing a key role in the set-up of our first China subsidiary. Mr Tan holds a Technician Diploma in Mechanical Engineering, an Advanced Diploma in Industrial Engineering from Singapore Polytechnic, as well as a Bachelor of Science in Business Administration from Oklahoma City University, U.S. He also attended the Berkeley-Nanyang Advanced Management Program at Berkeley University and NTU. Mr Tan holds a Masters in Business Administration from the Nanyang Executive MBA programme (EMBA) at NTU.



BOARD OF DIRECTORS



Lim Chin Tong, is our Lead Independent Director. He is currently an Executive Director of Manufacturing Integration Technology Ltd (MIT), a manufacturer of semiconductor, solar and other high tech capital equipment. Mr Lim's career spanned many years in the government sector with the Economic Development Board before he moved to the private sector with Xpress Holdings Ltd in 2000. Apart from MIT and MCE, he had previously served on the Boards of several SGX and ASX listed companies. In the academic field, Mr Lim sat on the Board of Governors of Nanyang Polytechnic for multiple terms until 2013 and currently sits on the Boards of its subsidiary companies, NYP Ventures Pte Ltd and NYP International Pte Ltd. He graduated with a Bachelor of Science (Honours) degree in Mechanical Engineering from the University of Leeds (UK) and a Diploma in Business Administration from NUS. Mr Lim also attended the Program for Management Development at the Harvard Business School.



Cheah Chow Seng, is our Independent Director. He held various appointments in Hewlett-Packard Singapore (Private) Limited ("HP") from 1979 to 2008, his most recent position prior to retirement, being Vice-President of Manufacturing Operations for HP's printing and imaging group. In this position, Mr Cheah played a leadership role in shaping HP's printing group global manufacturing strategy, and developing its manufacturing ecosystem, especially in Asia. He left HP in 2008 to pursue personal interests. Mr Cheah holds a Bachelor and Masters Degree in Mechanical Engineering and Computer Aided Design from the Heriot-Watt University, UK. He also attended the Wharton School Executive Management Program. In September 2005, Mr Cheah was awarded the White Magnolia Award by the Shanghai municipal government for his contributions to the Shanghai city industrial development.



Lim Swee Kwang, is our independent director. He is currently Group Executive Vice President of Hyflux Limited where he oversees the Group's technology development, technology acquisition and management of strategic partnerships. Prior to this, he has 30 years of experience in the electronics industry where he held senior management positions in product development and business management, primarily in Hewlett Packard Singapore and Venture Corporation Limited. Mr Lim graduated with a Bachelor's degree in Science Mechanical Engineering (Summa Cum Laude) from University of Michigan, Ann Arbor, USA and a Masters of Science Industrial & System Engineering from the National University of Singapore.

KEY MANAGEMENT



Mak Peng Leong Philip, is appointed as the Chief Financial Officer and Company Secretary of the Group on 7 July 2015. He is responsible for the Group's overall financial management, internal control and compliance requirements. Mr Mak also sit in the Executive Committee meeting and participate in the strategic and policy making decisions of the Group. Prior to joining the Group, Mr Mak has 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 MBA from the University of South Australia in Adelaide, Australia. He is also a fellow member with the Institute of Singapore Chartered Accountants, as well as, the Association of Chartered Certified Accountants in UK.

Tio Wee Seeng, our Business Development Director. Mr Tio is responsible for developing business strategy and driving business development efforts in the Group. Mr Tio has more than 20 years of experience in driving business results in dynamic business environment, and more than 7 years' experience in operations for electronics manufacturing industries. Prior to joining MCE, he held various management positions at Sanmina-SCI Limited, Solectron Singapore Limited, NatSteel Electronics Limited and Hewlett Packard (S) Pte Ltd. Mr Tio holds a Bachelor's degree in International Business Management from Royal Melbourne Institute of Technology, Australia.

Fan Chih Chih Tom, is the General Manager for MCE Wuxi and Suzhou. He is responsible for the overall management of the two sites. Mr Fan has more than 30 years' experience in the industry with technical knowledge and experience that are widely extended to telecommunication, electronic and automobile component. Prior to joining the Group, Mr Fan held various positions from design engineer, plant manager to vice president within the industry. Mr Fan graduated from the National Kaohsiung University of Applied Sciences with major in Tool & Mold Engineering and holds a Masters in Business Administration from the National Chung Cheng University Taiwan.

Boon Che Kwang, is the Assistant General Manager for MCE Thailand, has been with MCE since 2004. He is responsible for the overall operations of MCE Thailand. Prior to his current appointment, Mr Boon held various management positions in production, engineering and operations in MCE Malaysia, mainly involving soft tool and Mechanical Integration businesses. Mr Boon holds a Bachelor of Science Degree (Major in Statistic and Computer Science) from Campbell University U.S.A (North Carolina).

KEY MANAGEMENT



Chia Nam Yang Jimmy, our Chief Engineer, has been with the Group since 1989. He is responsible for the co-development and implementation of "M'CE's" Technology Roadmap, and leads the Engineering Team in Early Supplier Involvement (ESI), DFM/DFX solutions to achieve Total Customer Satisfaction. Mr Chia also identifies, formulates and markets new engineering processes and solution offerings to customers. He holds a National Technical Certificate (NTC) Grade 1 on Precision Tool Design.

Ng Chee Hong Darren, our Corporate Quality 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.

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.

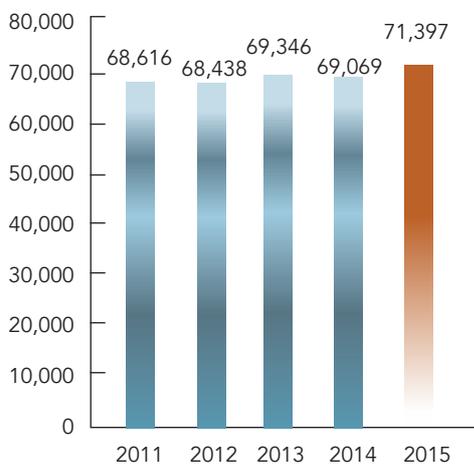
Tee Lian Soon Michael, our Group Human Resources Manager, has been with the Group since 2010. He is responsible for the overall implementation and provision of Human Resources services, policies and programs for the Group. Prior to joining the Group, he managed the Human Resource functions for a public listed company. Mr Tee holds a Bachelor of Business Administration from University of Wolverhampton (UK).

FIVE-YEAR FINANCIAL HIGHLIGHTS

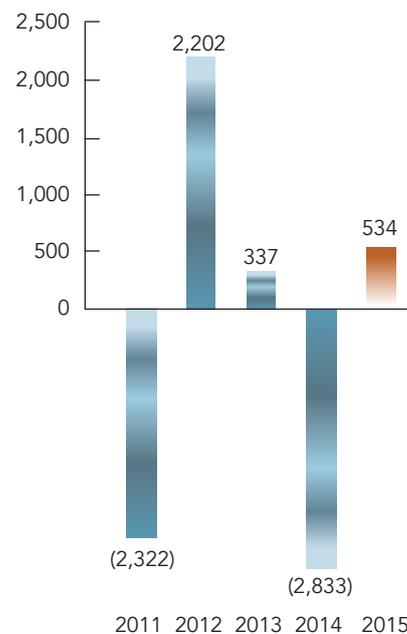
S\$'000	2011	2012	2013	2014	2015
GROUP FINANCIAL PERFORMANCE					
Revenue	68,616	68,438	69,346	69,069	71,397
Profit/(loss) before taxation	(2,102)	2,020	548	(2,761)	576
Net profit/(loss) attributable to owners of the company	(2,322)	2,202	337	(2,833)	534
Earnings/(loss) per share (diluted) cents	(1.29)	0.94	0.09	(0.77)	0.13
GROUP FINANCIAL POSITION					
Property, plant and equipment	20,516	17,965	20,251	17,503	16,203
Cash and cash equivalents	6,266	12,329	10,722	10,951	11,480
Current assets	39,740	40,035	41,306	43,888	39,512
Total assets	60,393	58,137	61,694	61,529	57,830
Current liabilities	33,453	29,479	31,272	33,809	29,805
Non-current liabilities	1,418	744	1,291	1,003	678
Total liabilities	34,870	30,223	32,563	34,812	30,484
Total equity	25,523	27,914	29,131	26,717	27,347
KEY FINANCIAL INDICATORS					
Debt-equity ratio	1.37	1.08	1.12	1.30	1.11
Net cash/(debt) \$'000	(9,280)	(89)	(1,167)	(2,343)	413
Net gearing	36%	0%	4%	9%	(2%)

FIVE-YEAR FINANCIAL HIGHLIGHTS

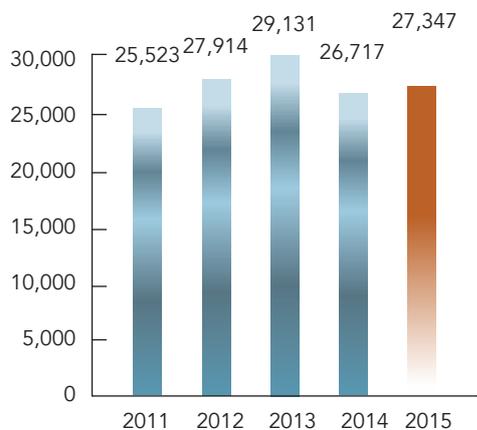
REVENUE (S\$'000)



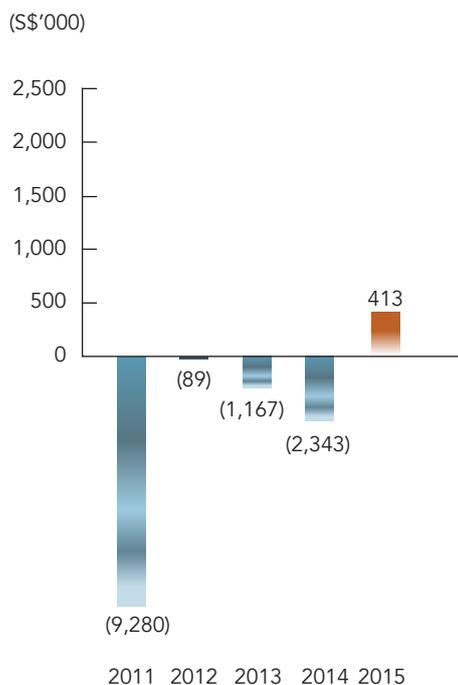
NET PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY (S\$'000)



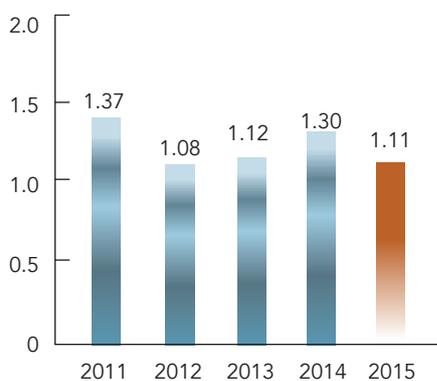
TOTAL EQUITY (S\$'000)



NET CASH / (DEBT)



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 compliance with the principles of the Code of Corporate Governance 2012 (the "Code") issued on 2 May 2012. 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. This report sets out the Company's corporate governance practices. The Board confirms that, for the financial year ended 31 December 2015 ("FY2015"), the Company has generally adhered to the principles and guidelines set out in the Code. Where there are deviations from the Code, appropriate explanations are provided. 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 Listing Manual Section B: Rules of Catalist (the "Catalist Rules") of the Singapore Exchange Securities Trading Limited ("SGX-ST").

BOARD MATTERS

THE BOARD'S CONDUCT OF AFFAIRS

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the success of the Company. The Board works with the Management to achieve this and the Management remains accountable to the Board.

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;
- 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.

The Company has adopted internal guidelines setting forth matters that require Board approval. These matters include the acceptance of all banking facilities granted by financial institutions as well as matters required to be announced on SGXNET in accordance with the Catalist Rules.

All new Directors 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. The Board is also updated on an ongoing basis on relevant new laws and regulations. During the financial year reported on, all Directors had received updates on changes to the Catalist Rules. Directors are encouraged to constantly keep abreast of developments in regulatory, legal and accounting frameworks and regulations that are of relevance to the Group through participation in seminars and workshops.

CORPORATE GOVERNANCE REPORT

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 Board is informed of all relevant courses, conferences and seminars in which the Directors are encouraged to attend. Directors can apply to the Company for funding for any such courses, conferences and seminars which they may apply to attend.

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 allows for telephonic and video conference meetings.

The attendance of each board member at the Board and the respective Board Committees meetings held in FY2015 are as follows:

	Board	Audit Committee	Nominating Committee	Remuneration Committee
No. of meetings held	2	3	2	2
Director	No. of meetings attended			
Chua Kheng Choon	2	na	na	na
Chua Han Min	2	na	na	na
Tan Soo Yong	2	na	na	na
Lim Chin Tong	2	3	2	2
Cheah Chow Seng	2	3	2	2
Lim Swee Kwang	2	3	2	2

To assist the Board in executing its duties, the Board has delegated specific functions to the Executive Committee, the Audit Committee, the Nominating Committee and the Remuneration Committee (collectively, the "Board Committees"). Minutes of all 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 respective Board Committees' meetings. The respective functions and duties are further elaborated in the following paragraphs.

Executive Committee

The Executive Committee currently comprises three executive Directors, namely Chua Kheng Choon, Chua Han Min and Tan Soo Yong. 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.

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION AND GUIDANCE

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from the Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Board comprises six Directors, of which three are non-executive and independent.

As at 31 December 2015, the Board comprised the following members:-

Non-Executive Director

Lim Chin Tong (Non-Executive and Lead Independent Director)

Cheah Chow Seng (Independent Non-Executive Director)

Lim Swee Kwang (Independent Non-Executive Director)

Executive Director

Chua Kheng Choon (Chairman and Chief Executive Officer)

Chua Han Min (Deputy CEO and Executive Director)

Tan Soo Yong (Executive Director)

The profiles of these Directors are set out in page 7 and 8 of this Annual Report.

The criterion of independence is based on the definition provided in the Code.

The Board considers an "independent" director as one who has no relationship with the Company, its related companies, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgment with a view to the best interests of the Group. In this Corporate Governance Report, a "10% shareholder" means any person who has an interest or interests in one of more voting shares in the Company and the total votes attached to that share or those shares is not less than 10% of the total votes attached to all the voting shares in the Company.

With three of the Directors deemed to be independent, the Board is able to exercise independent judgment on corporate affairs and provide the Management with diverse and objective views on business issues. The contribution of the independent Directors to Board deliberations ensures that no individual or small group of individuals dominates the Board's decision making.

In view of the fact that the Chairman and the CEO is the same person, with the Board comprising six Directors, three of whom are independent, the composition of the Board complies with the recommendation under the Code for independent Directors to make up at least half of the Board.

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 any changes to the contents of such Declaration.

CORPORATE GOVERNANCE REPORT

In assessing the independence of a Director who has served on the Board for more than 9 years (namely, Lim Chin Tong), the Nominating Committee and the Board have taken into consideration Guideline 2.4 and conducted a rigorous review of his contribution to the Board to determine if he has maintained his independence as defined by Guideline 2.3. The Nominating Committee and the Board are of the view that Lim Chin Tong, regardless of his period of service, continues to provide objective, balanced and constructive inputs which are in the best interests of the Company. The independence of the Director concerned was not affected or impaired by his length of service.

The Nominating Committee has determined and is satisfied that Lim Chin Tong, Cheah Chow Seng and Lim Swee Kwang have remained independent in their judgement and can continue to discharge their duties objectively.

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's decision-making process, based on the Company's present circumstances and taking into account the nature and scope 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 independent Directors communicate regularly, without management presence, to discuss matters such as the Group's performance, corporate governance and remuneration of executive Directors, to facilitate a more effective oversight on the management of the Company ("Management"). They also assist the executive Directors to review the performance of Management and provide constructive suggestions to the Management to improve the Group's performance. The non-executive Directors provide constructive suggestions to Management and constructively challenge and provide inputs to Management on business strategy.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.

At present, Chua Kheng Choon holds the position of Chairman of the Board ("Chairman") and Chief Executive Officer of the Company ("CEO"). As Chairman, 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 Management;
- facilitates the effective contribution of non-executive Directors; and
- promotes high standards of corporate governance.

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.

CORPORATE GOVERNANCE REPORT

For good corporate governance, and as the Chairman and CEO is the same person, Lim Chin Tong is appointed as the Lead Independent Director. He acts as the focal point for the independent Directors to provide their inputs to the Chairman and CEO and the Management, and in their interactions with the executive Directors. 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, executive Directors or chief financial officer 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 Directors and the Management with the independent Directors.

BOARD MEMBERSHIP

Principle 4: There should be a formal and transparent process for the appointment of new directors to the Board.

Nominating Committee

Board Membership

The Nominating Committee is entirely comprised of independent Directors, namely Cheah Chow Seng (Chairman), Lim Chin Tong and Lim Swee Kwang.

The Nominating Committee's primary function is to recommend all Board appointments and re-nominations. 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 provide that a Director appointed by the Board to fill a vacancy or as an additional Director must retire at the next Annual General Meeting after such appointment, and subject himself or herself for re-election. At the forthcoming Annual General Meeting, Chua Kheng Choon and Lim Chin Tong will be retiring by rotation pursuant to Article 92 of the Company's Constitution. Both of them, being eligible for re-election, have offered themselves for re-election. The Nominating Committee recommended to the Board that Chua Kheng Choon and Lim Chin Tong be nominated for re-election at the forthcoming Annual General Meeting of the Company. In making the recommendations, the Nominating Committee has considered the overall contributions and performances of Chua Kheng Choon and Lim Chin Tong. As a member of the Nominating Committee, Lim Chin Tong has abstained from voting on any resolutions in respect of the assessment of his performance for re-nomination as Director.

If any 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

In addition, the Nominating Committee is also responsible for:

- determining annually whether or not a Director is independent;
- deciding how the Board's performance is to be evaluated and proposing objective performance criteria for the Board's approval;
- assessing the effectiveness of the Board as a whole;
- deciding whether or not a Director is able to and has been adequately carrying out his duties as a Director;
- reviewing board succession plans for Directors, in particular the Chairman and the CEO; and
- reviewing training and professional development programs for the Board.

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:

Director	Current appointment	Date of initial appointment	Date of last re-election	Directorships in other listed companies (present and in the preceding three years)	Other principal commitments
Chua Kheng Choon	Executive Director	22.12.1988	19.4.2013	-	-
Chua Han Min	Executive Director	29.4.2003	29.4.2015	-	-
Tan Soo Yong	Executive Director	3.1.2005	25.4.2014	-	-
Lim Chin Tong	Non-Executive Lead Independent Director	5.2.2003	25.4.2014	1. Executive Director at Manufacturing Integration Technology Ltd 2. Independent Non-Executive Director at Valuetronics Holdings Limited (until 22 July 2014)	1. Non-Executive Director at Jiaxinda Printing Group (S) Pte. Ltd. 2. Non-Executive Director at Nanyang Polytechnic International Private Limited 3. Non-Executive Director at NYP Ventures Pte Limited
Cheah Chow Seng	Non-Executive Independent Director	8.7.2009	29.4.2015	-	1. Independent Director at D&K Engineering Pte Ltd 2. Corporate Adviser to Meiban Group Pte Ltd
Lim Swee Kwang	Non-Executive Independent Director	1.5.2014	29.4.2015	-	1. Partner at Accion Asia Growth Fund 1. Executive Vice President at Hyflux Limited

CORPORATE GOVERNANCE REPORT

The Nominating Committee has also reviewed and is satisfied that Lim Chin Tong, who sits on 1 other board of listed companies, has been able to devote adequate time and attention to the affairs of the Company, and to carry out his duties as a Director after taking into consideration his multiple board representations and other principal commitments.

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 Nominating Committee reviews annually the independence declarations made by the Company's independent Directors based on the criterion of independence under the guidelines provided in the Code. For the year under review, the Nominating Committee has ascertained the independence status of Lim Chin Tong, Cheah Chow Seng and Lim Swee Kwang.

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 10% shareholder.

The Board does not have any alternate Directors.

BOARD PERFORMANCE

Principle 5: There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.

The Nominating Committee conducts periodic assessments of the effectiveness of the Board as a whole. As part of this assessment process, the Directors are requested to complete a Board Evaluation Questionnaire. The responses from the Directors are collated, reviewed and discussed by the Nominating Committee, and the findings are reported to the Board. Given the relatively small size of the Board, the Nominating Committee is of the view that it is not feasible to conduct a formal assessment of the contribution by each Director to the effectiveness of the Board.

The Nominating Committee, in considering the appointment or re-nomination 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 Board and the Nominating Committee are continually on the look-out for suitable candidates to be considered for appointment to the Board whether in the near to medium term or some time in the future, if a vacancy arises.

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.

CORPORATE GOVERNANCE REPORT

ACCESS TO INFORMATION

Principle 6: In order to fulfil their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

To facilitate the Board's responsibilities, the Management provides the Board members with management accounts, necessary information and relevant reports on a timely basis. The Management regularly updates and reports to the Board on the Company's operations and plans. The Directors have separate and independent access to the Company's management and the Company Secretaries to facilitate access to any required information. 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.

The Company Secretaries attend all Board meetings and are responsible for ensuring that Board procedures as well as rules and regulations are complied with. The appointment and removal of the Company Secretaries is a matter for consideration by the Board as a whole.

Where the Directors, either individually or as a group, require independent professional advice in the furtherance of their duties, the Directors have access to relevant professional advice, with such costs to be borne by the Company. The Board is kept informed of all such professional advice rendered to the Directors.

REMUNERATION MATTERS

PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The Remuneration Committee is entirely comprised of independent Directors, namely Lim Swee Kwang (Chairman), Lim Chin Tong and Cheah Chow Seng.

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.

The Remuneration Committee will recommend to the Board a framework of remuneration for the Directors and key management personnel. The Remuneration Committee also reviews and recommends to the Board the specific remuneration packages for each Director. The Remuneration Committee also 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. 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.

CORPORATE GOVERNANCE REPORT

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. Where appropriate, the Remuneration Committee has access to advice from within the Company and independent external advice in relation to remuneration matters.

The Remuneration Committee ensures that existing relationships, if any, between the Company and its appointed remuneration consultants will not affect the independence and objectivity of the remuneration consultants.

No Director is involved in deciding his or her own remuneration.

LEVEL AND MIX OF REMUNERATION

Principle 8: The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company; and (b) key management personnel to successfully manage the company. However companies should avoid paying more than is necessary for this purpose.

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 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 frequency of meetings. Each member of the Remuneration Committee abstains from voting on any resolutions in respect of his remuneration package.

The service contracts of executive Directors 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 Committee in the performance of its tasks.

At the moment, the Company does not use any contractual provisions to reclaim incentive components of remuneration from the Executive Directors and key management executives in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Group. The Remuneration Committee, will consider, if required, whether there is a requirement to institute such contractual provisions to allow the Company to reclaim the incentive components of the remuneration of the Executive Directors 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' Report entitled "Employee Share Option Scheme" and in note 23 to the financial statements set out in this Annual Report.

CORPORATE GOVERNANCE REPORT

DISCLOSURE ON REMUNERATION

Principle 9: Each company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management, and performance.

Remuneration of Directors, CEO and Key Management Personnel

The remuneration bands of the Directors and key management personnel of the Group (who are not Directors or the CEO), for FY2015 are as follows:

Remuneration Bands	Fees	Base/Fixed Salary	Bonus	Other Benefits	Total
	%	%	%	%	%
S\$250,000 to less than S\$500,000					
Directors					
Chua Kheng Choon	0	89	7	4	100
Chua Han Min	0	87	9	4	100
Tan Soo Yong	0	86	7	7	100
Below \$250,000					
Directors					
Lim Chin Tong	100	0	0	0	100
Cheah Chow Seng	100	0	0	0	100
Lim Swee Kwang	100	0	0	0	100
Key Management					
Below \$250,000					
Mak Peng Leong Philip (Appointed on 7 July 2015)	0	93	7	0	100
Tio Wee Seeng (Appointed on 1 December 2015)	0	100	0	0	100
Boon Che Kwang	0	93	7	0	100
Fon Chih-Chih Tom (Appointed on 2 November 2015)	0	100	0	0	100
Chia Nam Yang Jimmy	0	93	7	0	100
Ng Chee Hong Darren	0	93	7	0	100
Tan Wee Suan Mavis	0	93	7	0	100
Tee Lian Soon Michael	0	93	7	0	100
Tan Kwang Hwee William (Resigned on 7 July 2015)	0	100	0	0	100
Ong Hock Chye Charles (Resigned on 2 November 2015)	0	100	0	0	100
Quah Wai Hoong Jason (Resigned on 24 March 2016)	0	100	0	0	100

The Directors' fees totalling \$110,000 for independent Directors have been paid out quarterly in arrears during the year as approved by shareholders at the Annual General Meeting held on 29 April 2015.

The Company does not have any employee who is an immediate family member of any Director in FY2015.

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).

CORPORATE GOVERNANCE REPORT

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, the CEO and key management personnel pursuant to Rule 1204(15) and Rule 1204(12) of the Catalist Rules and Guideline 9.2 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 also of the view that a disclosure of the aggregate total remuneration paid to the top 5 key management personnel (who are not Directors or the CEO) would not be in the interests of the Company, for the same reasons.

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.

ACCOUNTABILITY AND AUDIT

ACCOUNTABILITY

Principle 10: The Board should present a balanced and understandable assessment of the Company's performance, position and prospects.

The Board is responsible for providing a balanced and understandable assessment of the Group's performance, position and prospects as well as other price sensitive public reports to shareholders of the Company on a prompt basis. These principles guide the presentation of the Company's annual financial statements and half yearly financial statements announcements to shareholders, as well as other announcements required under the Catalist Rules. In compliance with the Catalist Rules, the Board provides a negative assurance statement to shareholders in respect of the half year financial statements. The Management provides all members of the Board with regular management reports that present a balanced and understandable assessment of the Company's performance, position and prospects.

RISK MANAGEMENT AND INTERNAL CONTROLS

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the Company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

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 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."

CORPORATE GOVERNANCE REPORT

In connection with the ERM program of the Group and the additional terms of reference of the Audit Committee, the Board designated Chua Han Min, an executive Director and the Group's Deputy CEO, as the Group's chief risk officer, with the following terms of reference:

"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 and the external 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. The external auditors report to Management and the Audit Committee on significant weaknesses in the Group's internal controls which come to their attention during the course of their statutory audit.

In addition, the Audit Committee has, with the assistance of the Management and the internal and external auditors, reviewed and reported to the Board on the adequacy and effectiveness of the Group's internal controls including financial, operational, compliance, information technology controls and risk management systems. Any material non-compliance or lapses in internal controls, together with the recommendation for improvement are reported to the Audit Committee and the relevant department is also notified for its follow-up action. The implementation of all required remedial action and improvement is monitored and reported to the Audit Committee.

The Audit Committee, together with the Board and the Management, reviews the adequacy and effectiveness of the Group's system of internal controls put in place to address the key 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.

The Board has also received from the CEO and the chief financial officer, assurances that 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 that the Group has in place 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 external and internal 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 2015.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

Principle 12: The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.

The Audit Committee comprises three members, all of whom are independent Directors, namely Lim Chin Tong (Chairman), Cheah Chow Seng and Lim Swee Kwang. 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 functions.

The executive Directors 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.

The Audit Committee's duties include:

- reviewing the 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 Management, the external auditors 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, reappointment 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 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.

CORPORATE GOVERNANCE REPORT

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 Company 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 FY2015.

The Audit Committee meets, at a minimum, on a semi-annual basis. The Audit Committee held three meetings in FY2015, and has met once with the external auditors without the presence of the Management in FY2015.

In the course of FY2015, 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 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; and
- (g) met with the external auditors once without the presence of the Management.

AUDIT

Principle 13: The Board should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

The Company has outsourced its internal audit function to a reputable accounting firm. 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.

The Audit Committee has reviewed the adequacy and effectiveness of the internal auditor function and is satisfied that the internal auditors are 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.

CORPORATE GOVERNANCE REPORT

SHAREHOLDER RIGHTS AND COMMUNICATION WITH SHAREHOLDERS

Principle 14: Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangement.

Principle 15: Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

The rights of shareholders are contained in the Company's Constitution and are also set out in applicable laws including the Companies Act, Cap 50. 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.

The Company does not practise selective disclosure and ensures timely and adequate disclosure of price sensitive and material information to shareholders of the Company via SGXNET. In addition, financial results and annual reports are announced or issued within the mandatory periods as prescribed by the Catalist Rules and are available on the Company's website at www.mce.com.sg.

All shareholders of the Company receive notices of all general meetings including the Annual General Meeting. The Company complies with its Constitution and the Companies Act, Cap 50 in respect of the requisite notice periods for convening general meetings. The notice of the Annual 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 as the action they should take, they should consult their stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

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. No dividend has been declared for FY2015 so as to preserve and consolidate resources of the Group.

CORPORATE GOVERNANCE REPORT

CONDUCT OF SHAREHOLDER MEETINGS

Principle 16: Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

Shareholders of the Company are informed of general meetings and given the opportunity to participate at general meetings. The Board and the Management are present at these meetings to address any questions that shareholders of the Company may have. The Company's external auditors are also in attendance at the Annual General Meeting 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 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.

If shareholders are not able to attend these meetings, they can appoint up to two (2) proxies to attend and vote in their place. 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. Resolutions proposed at general meetings on a single substantively separate issue are proposed as a single item resolution.

The Board noted that with the Companies (Amendment) Act 2014, with effect from 3 January 2016, a member who is a relevant intermediary is entitled to appoint more than two (2) proxies to attend and vote at the Annual 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, Cap 50. At the forthcoming Annual General Meeting, a member who is a relevant intermediary is entitled to appoint more than two (2) proxies to attend and vote at the Annual General Meeting.

The Company will put all resolutions to vote by poll at 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.

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.

Due to the Company's relatively modest shareholder base and the fact that attendance at general meetings has been quite manageable, the Board does not see a need at this point of time to implement absentia voting methods.

CORPORATE GOVERNANCE REPORT

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

Disclosure according to Rule 907 of the Catalist Rules in respect of interested person transactions entered into in FY2015 is set out in the following table:-

Name of Interested person	Aggregate value of all interested person transactions during FY2015 (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920 of the Catalist Rule)	Aggregate value of all interested person transactions during FY2015 under shareholders' mandate pursuant to Rule 920 of the Catalist Rule (excluding transactions less than (\$100,000)
Cal-Comp Electronics (Thailand) Public Company Limited ⁽¹⁾	Nil	SGD883,859

⁽¹⁾Cal-Comp Electronics (Thailand) Public Company Limited ("Cal-Comp") ceased to be a controlling shareholder of the Company on 6 February 2015, and the aggregate value of the interested person transactions (excluding transactions less than \$100,000) is for the period from 1 January 2015 to 6 February 2015. The aggregate value of the transactions (excluding transactions less than \$100,000) between Cal-Comp and the Group during FY2015 amounted to SGD4,201,278.

The current general mandate from Shareholders for interested person transactions pursuant to Rule 920 of the Catalist Rules, approved at the last AGM held on 29 April 2015 will not be renewed at the forthcoming AGM.

NON-SPONSOR FEES

With reference to Rule 1204 (21) of the Catalist Rules, no non-sponsor fees were paid to the Company's Sponsor, Canaccord Genuity Singapore Pte. Ltd., in FY2015.

DEALING IN SECURITIES

The Company has issued an internal code on dealings in the Company's securities to the Directors and other officers 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

APPOINTMENT OF AUDITORS

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

	FY2015
	\$
Audit fees paid/payable to the external auditors	
- external auditors of the Company	120,000
- other external auditors of the Group	88,368
Non-audit fees paid/payable to the external auditors	5,000

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. The Audit Committee has recommended that the Board proposes, and the Board has proposed, the re-appointment of Foo Kon Tan LLP as the external auditors of the Company at the forthcoming Annual General Meeting on 28 April 2016.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2015

The directors submit this annual report to the members together with the audited consolidated financial statements of the Group and statement of financial position of the Company for the financial year ended 31 December 2015.

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 2015 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; and
- (b) at the date of this statement, 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 report are:

Chua Kheng Choon
Chua Han Min
Tan Soo Yong
Lim Chin Tong
Cheah Chow Seng
Lim Swee Kwang

Directors' interest in shares, debentures, warrants 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 was interested in shares, debentures, warrants 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 1.1.2015	As at 31.12.2015 and 21.1.2016 #	As at 1.1.2015	As at 31.12.2015 and 21.1.2016 #
The Company - <u>Metal Component Engineering Limited</u>				
			<u>Number of ordinary shares</u>	
Chua Kheng Choon	20,959,666	20,959,666	6,735,000	6,735,000
Chua Han Min	9,570,000	9,570,000	-	-
Tan Soo Yong	15,255,332	15,255,332	536,000	536,000
Lim Chin Tong	6,408,000	6,408,000	-	-
Cheah Chow Seng	1,384,000	1,384,000	-	-
Lim Swee Kwang	-	-	66,666	66,666

DIRECTORS' STATEMENT

For the financial year ended 31 December 2015

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

	Holdings registered in the name of director		Holdings in which director is deemed to have an interest	
	As at 1.1.2015	As at 31.12.2015 and 21.1.2016 #	As at 1.1.2015	As at 31.12.2015 and 21.1.2016 #
			<u>Number of warrants</u>	
The Company - <u>Metal Component Engineering Limited</u>				
Chua Kheng Choon	13,300,000	13,300,000	3,400,000	3,400,000
Chua Han Min	5,982,000	5,982,000	-	-
Tan Soo Yong	9,177,666	9,177,666	3,268,000	3,268,000
Lim Chin Tong	2,614,000	2,614,000	-	-
Cheah Chow Seng	692,000	692,000	-	-

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 1.1.2015	As at 31.12.2015 and 21.1.2016 #
The Company - <u>Metal Component Engineering Limited.</u>		
Chua Kheng Choon	2,900,000	2,900,000
Chua Han Min	2,400,000	2,400,000
Tan Soo Yong	1,800,000	1,800,000
Lim Chin Tong	300,000	300,000
Cheah Chow Seng	300,000	300,000

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2016.

Warrants

On 10 August 2012, the Company undertook a renounceable non-underwritten rights shares and warrants issue on the basis of one rights share for every one existing ordinary share and one free detachable warrant for every one rights share subscribed.

180,000,000 rights shares at an issue price of S\$0.01 per share and 180,000,000 warrants with each carrying the right to subscribe for one new ordinary share in the capital of the Company at an exercise price of S\$0.05 within the exercisable period of five years from the date of issue were allotted and issued on 13 September 2012.

During the financial year, 1,154,000 warrants were exercised and converted into ordinary shares in the capital of the Company. The remaining 175,911,000 warrants will expire on 12 September 2017.

Except as mentioned above, no shares have been issued during the financial year by virtue of the exercise of warrants to take up unissued shares of the Company or its subsidiaries.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2015

Employee Share Option Scheme

On 4 November 2003, the Company adopted the MCE Share Option Scheme which complies with the rules set out in the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST") Section B: Rules of Catalist (the "Catalist Rules"). The MCE Share Option Scheme, which forms an integral component of its compensation plan, is designed with the following objectives:

- i) to motivate eligible participants to optimise his/her performance standards and efficiency and to maintain a high level of contribution to the Group;
- ii) to retain eligible participants whose contributions are essential to the long-term growth and prosperity of the Group;
- iii) to instill loyalty, and a stronger identification by eligible participants with the long-term growth and profitability of the Group;
- iv) to attract potential employees with relevant skills to contribute to the Group and to create value for the shareholders; and
- v) to align the interests of eligible participants with the interests of the shareholders.

Under the rules of the MCE Share Option Scheme, all directors (including non-executive directors) and employees of the Group are eligible to participate in the MCE Share Option Scheme. Controlling shareholders and their associates are not eligible to participate in the MCE Share Option Scheme.

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 Share Option Scheme is administered by the Remuneration Committee in accordance with the rules of the MCE Share Option Scheme. All members of the Remuneration Committee are independent directors. 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 Share Option Scheme, shall not exceed 20% in aggregate of the total number of shares which have been issued and may be issued by the Company (including any shares which may be issued pursuant to adjustments, if any, under Rule 8 of the MCE Share Option Scheme) pursuant to the exercise of options under the MCE Share Option Scheme.

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.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2015

Employee Share Option Scheme (cont'd)

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.

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

Date of grant	Balance at 1.1.2015	Options granted	Options exercised	Options cancelled/ lapsed	Balance at 31.12.2015	Exercise price	Exercise period
29.5.2007 ⁽ⁱ⁾	3,050,000	-	-	-	3,050,000	S\$0.045	29.5.2008 to 28.5.2017
4.9.2013 ⁽ⁱⁱ⁾	6,560,000	-	-	-	6,560,000	S\$0.05	4.9.2014 to 4.9.2023
4.9.2013 ⁽ⁱⁱ⁾	600,000	-	-	-	600,000	S\$0.05	4.9.2014 to 4.9.2018
	<u>10,210,000</u>	-	-	-	<u>10,210,000</u>		

⁽ⁱ⁾ For executive directors and employees

⁽ⁱⁱ⁾ For non-executive directors

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 2015:

	Options granted during the financial year ended 31.12.2015	Aggregate options granted since commencement of scheme to 31.12.2015	Aggregate options exercised since commencement of scheme to 31.12.2015	Aggregate options cancelled/ lapsed since commencement of scheme to 31.12.2015	Aggregate options outstanding as at 31.12.2015
Executive Directors:					
Chua Kheng Choon	-	4,670,000	(1,270,000)	(500,000)	2,900,000
Chua Han Min	-	4,370,000	(1,570,000)	(400,000)	2,400,000
Tan Soo Yong	-	2,800,000	(900,000)	(100,000)	1,800,000
	-	<u>11,840,000</u>	<u>(3,740,000)</u>	<u>(1,000,000)</u>	<u>7,100,000</u>
Non-Executive Directors:					
Lim Chin Tong	-	1,000,000	(300,000)	(400,000)	300,000
Cheah Chow Seng	-	300,000	-	-	300,000
	-	<u>1,300,000</u>	<u>(300,000)</u>	<u>(400,000)</u>	<u>600,000</u>
		<u>13,140,000</u>	<u>(4,040,000)</u>	<u>(1,400,000)</u>	<u>7,700,000</u>

DIRECTORS' STATEMENT

For the financial year ended 31 December 2015

Employee Share Option Scheme (cont'd)

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 (as defined in the Catalist Rules). No employee has received 5% or more of the total number of options available under the MCE Share Option Scheme.

No options to take up unissued shares of the subsidiaries have been granted during the financial year.

There are no unissued shares of subsidiaries under option as at 31 December 2015.

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.

No options have been granted under the MCE Share Option Scheme 2014 for the financial year ended 31 December 2015.

Audit Committee

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

Lim Chin Tong (Chairman)
Cheah Chow Seng
Lim Swee Kwang

The Audit Committee performs the functions set out in Section 201B(5) of the Companies Act, Chapter 50, the SGX-ST Listing Manual 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) half-yearly financial information, the statement of financial position of the Company as at 31 December 2015 and the consolidated financial statements of the Group for the financial year then ended, as well as the auditor's report thereon; and
- (iv) interested person transactions (as defined in Chapter 9 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.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2015

Sponsorship

The Company is currently under the SGX-ST Catalist sponsor-supervised regime. The continuing sponsor of the Company is Canaccord Genuity Singapore Pte. Ltd.

There were no non-sponsorship fees paid to the sponsor by the Company for the financial year ended 31 December 2015.

Independent auditor

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

On behalf of the Directors

.....
CHUA KHENG CHOON

.....
CHUA HAN MIN

Dated: 31 March 2016

INDEPENDENT AUDITOR'S REPORT

To the members of Metal Component Engineering Limited

Report on the financial statements

We have audited the accompanying financial statements of Metal Component Engineering Limited (the "Company") and its subsidiaries (the "Group"), which comprise the statements of financial position of the Group and the Company as at 31 December 2015, 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 a summary of significant accounting policies and other explanatory information.

Management's responsibility 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 Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2015 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date.

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 its subsidiary incorporated in Singapore of which we are the auditor, have been properly kept in accordance with the provisions of the Act.

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants

Singapore, 31 March 2016

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2015

	Note	The Group		The Company	
		2015	2014	2015	2014
		S\$	S\$	S\$	S\$
ASSETS					
Non-Current Assets					
Property, plant and equipment	4	16,203,097	17,503,082	1,233,732	1,686,515
Intangible assets	5	1,977,806	-	89,691	-
Subsidiaries	6	-	-	25,656,723	22,964,131
Other assets	7	137,500	137,500	137,500	137,500
		18,318,403	17,640,582	27,117,646	24,788,146
Current Assets					
Inventories	8	7,376,244	7,647,977	928,707	1,959,795
Trade and other receivables	9	20,655,437	25,289,258	28,411,099	41,389,375
Cash and bank balances	10	11,480,371	10,951,090	4,748,276	2,611,628
		39,512,052	43,888,325	34,088,082	45,960,798
Total assets		57,830,455	61,528,907	61,205,728	70,748,944
EQUITY AND LIABILITIES					
Capital and Reserves					
Share capital	11	21,638,661	21,575,832	21,638,661	21,575,832
Retained earnings		2,251,360	1,997,249	7,699,350	7,484,954
Other reserves	12	3,456,865	3,143,807	910,280	915,409
Total equity attributable to owners of the Company		27,346,886	26,716,888	30,248,291	29,976,195
Non-Current Liabilities					
Deferred tax liabilities	13	67,428	263,577	61,584	261,866
Borrowings	14	610,796	739,906	610,796	739,906
		678,224	1,003,483	672,380	1,001,772
Current Liabilities					
Trade and other payables	15	19,118,879	21,197,599	20,359,332	27,716,908
Borrowings	14	10,456,841	12,553,733	9,925,725	12,054,069
Current tax payable		229,625	57,204	-	-
		29,805,345	33,808,536	30,285,057	39,770,977
Total liabilities		30,483,569	34,812,019	30,957,437	40,772,749
Total equity and liabilities		57,830,455	61,528,907	61,205,728	70,748,944

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 2015

	Note	2015 S\$	2014 S\$
Revenue	3	71,397,306	69,069,043
Other income	16	1,049,208	1,159,278
Raw materials and consumables used		(35,358,984)	(34,534,874)
Changes in inventories of finished goods and work in progress		(11,170)	(416,553)
Employee benefits expense	17	(19,673,897)	(19,807,346)
Depreciation expense		(3,426,029)	(4,053,618)
Other charges	18	(36,722)	(114,269)
Finance costs	19	(442,432)	(480,477)
Other operating expenses	20	(12,921,000)	(13,581,935)
Profit/(Loss) before taxation		576,280	(2,760,751)
Taxation	21	(41,842)	(72,285)
Profit/(Loss) for the year attributable to owners of the Company		534,438	(2,833,036)
Other comprehensive income after tax:			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences		37,860	249,628
Other comprehensive income for the year, net of tax of nil		37,860	249,628
Total comprehensive income/(loss) for the year attributable to owners of the Company		572,298	(2,583,408)
Earnings/(Loss) per share attributable to owners of the Company (Singapore cent)			
- Basic	22.1	0.14	(0.77)
- Diluted	22.2	0.13	(0.77)

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 2015

	Attributable to owners of the Company						
	Share capital	Retained earnings	Share option reserve	Warrant reserve	Currency translation reserve	Statutory reserve	Total equity
	S\$	S\$	S\$	S\$	S\$	S\$	S\$
Balance at 1 January 2014	21,126,966	5,098,673	165,830	799,236	80,753	1,859,945	29,131,403
Loss for the year	-	(2,833,036)	-	-	-	-	(2,833,036)
Other comprehensive income for the year	-	-	-	-	-	-	-
- Currency translation differences	-	-	-	-	249,628	-	249,628
Total comprehensive (loss)/income for the year	-	(2,833,036)	-	-	249,628	-	(2,583,408)
Contributions by and distributions to owners	-	-	50,002	-	-	-	50,002
- Share-based payment transactions (Note 17)	298,436	-	(43,636)	-	-	-	254,800
- Exercise of share options (Note 11)	-	43,743	(43,743)	-	-	-	-
- Expiry of share options	150,430	-	-	(12,280)	-	-	138,150
- Exercise of warrants (Note 11)	-	(274,059)	-	-	-	-	(274,059)
- Dividends (Note 26)	448,866	(230,316)	(37,377)	(12,280)	-	-	168,893
Transactions with owners in their capacity as owners	-	(38,072)	-	-	-	38,072	-
Transfer to statutory reserve	21,575,832	1,997,249	128,453	786,956	330,381	1,898,017	26,716,888
Balance at 31 December 2014	21,575,832	1,997,249	128,453	786,956	330,381	1,898,017	26,716,888
Balance at 1 January 2015	21,575,832	1,997,249	128,453	786,956	330,381	1,898,017	26,716,888
Profit for the year	-	534,438	-	-	-	-	534,438
Other comprehensive income for the year	-	-	-	-	-	-	-
- Currency translation differences	-	-	-	-	37,860	-	37,860
Total comprehensive income for the year	-	534,438	-	-	37,860	-	572,298
Contributions by and distributions to owners	62,829	-	-	-	-	-	57,700
- Exercise of warrants (Note 11)	62,829	-	-	-	-	-	57,700
Transactions with owners in their capacity as owners	-	(280,327)	-	-	-	280,327	-
Transfer to statutory reserve	21,638,661	2,251,360	128,453	781,827	368,241	2,178,344	27,346,886
Balance at 31 December 2015	21,638,661	2,251,360	128,453	781,827	368,241	2,178,344	27,346,886

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 2015

	2015	2014
Note	S\$	S\$
Cash Flows from Operating Activities		
Profit/(Loss) before taxation	576,280	(2,760,751)
Adjustments for:		
Depreciation of property, plant and equipment	4 3,426,029	4,053,618
Equity-settled share-based payment transactions	17 -	50,002
Impairment losses on trade receivables reversed	9 -	(117,241)
Interest expense	19 442,432	480,477
Interest income	16 (11,151)	(38,526)
Loss on disposal of property, plant and equipment	18 9,897	23,328
Property, plant and equipment written off	18 -	90,941
Write-down on inventories made/(reversed)	8 26,825	(92,119)
Unrealised foreign exchange differences	(21,910)	(219,147)
Operating profit before working capital changes	4,448,402	1,470,582
Changes in bank deposits restricted in use	(12,617)	(340,492)
Changes in inventories	244,908	809,820
Changes in trade and other receivables	4,633,821	(2,954,488)
Changes in trade and other payables	(2,078,720)	876,030
Cash generated from/(used in) operations	7,235,794	(138,548)
Income taxes paid	(65,570)	(104,104)
Net cash generated from/(used in) operating activities	7,170,224	(242,652)
Cash Flows from Investing Activities		
Additions of intangible assets	(1,977,806)	-
Interest received	11,151	38,526
Proceeds from disposal of property, plant and equipment	18,741	56,525
Purchase of property, plant and equipment	4 (1,648,313)	(1,043,882)
Net cash used in investing activities	(3,596,227)	(948,831)
Cash Flows from Financing Activities		
Dividends paid	26 -	(274,059)
Interest paid	(442,432)	(480,477)
Proceeds from exercise of share options	-	254,800
Proceeds from exercise of warrants	57,700	138,150
Proceeds from borrowings	500,000	2,482,940
Repayment of borrowings	(2,617,286)	(1,276,368)
Net cash (used in)/generated from financing activities	(2,502,018)	844,986
Net increase/(decrease) in cash and bank balances	1,071,979	(346,497)
Cash and bank balances at beginning of year	8,767,870	8,969,789
Exchange differences on translation of cash and bank balances at beginning of year	(7,519)	144,578
Cash and bank balances at end of year	10 9,832,330	8,767,870

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 2015

1 General information

The financial statements of Metal Component Engineering Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2015 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 10 Ang Mo Kio Street 65, #04-02 Techpoint, Singapore 569059.

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 6 to the financial statements.

2(a) Basis of preparation

The financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS") including related Interpretations promulgated by the Accounting Standards Council. The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

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.

Significant accounting estimates and judgements

The preparation of the financial statements in conformity with FRS 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 critical accounting estimates and assumptions used and areas involving a high degree of judgement are described below.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2(a) Basis of preparation (cont'd)

Critical 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 People's Republic of China ("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\$885,492 (2014: S\$912,269).

Impairment of property, plant and equipment

Property, plant and equipment 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 to sell and value in use. Such impairment loss is recognised in profit or loss.

Management judgement is 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 or the net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the growth rate and discount rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result may potentially affect the Group's and the Company's results. The carrying amounts of the Group's and the Company's property, plant and equipment at the end of the reporting period are disclosed in Note 4 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2(a) Basis of preparation (cont'd)

Critical judgements in applying accounting policies (cont'd)

Capitalisation and amortisation of development costs

It is the Group's policy to capitalise development expenditure and to amortise the expenditure over the estimated life of the related project. Significant judgement is applied by management in (i) identifying separately the expenditure incurred during the research phase and development phase of the project; (ii) demonstrating that the criteria for the development expenditure to be recognised as intangible assets are met, i.e. the technical feasibility of the project, the project will generate probable future economic benefits, the intention and availability of adequate technical, financial and other resources to complete the project and sell the products, and the ability to measure reliably the development expenditure; and (iii) determining that the development expenditure are directly attributable costs. Significant judgement is also required in establishing the completion date of the project upon which the amortisation of the intangible assets commences, and the lifespan of the project, which forms the amortisation period of the intangible assets. The carrying amount of the Group's intangible assets (comprising development costs) at the end of the reporting period is disclosed in Note 5 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 is tested for impairment. The determination of the recoverable amount requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating units and an appropriate discount rate in order to calculate the present value of the future cash flows. The carrying amount of the Company's subsidiaries at the end of the reporting period is disclosed in Note 6 to the financial statements.

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 liabilities at the end of the reporting period and the Group's income taxes for the year are disclosed in Note 13 and Note 21 to the financial statements, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2(a) Basis of preparation (cont'd)

Critical assumptions used and accounting estimates in applying accounting policies

Depreciation of property, plant and equipment

The costs of property, plant and equipment 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 forms a significant component of total costs charged to profit or loss. Management estimates the useful lives of property, plant and equipment to be within 3 to 60 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 at the end of the reporting period are disclosed in Note 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\$342,603 (2014: S\$405,362) and S\$48,323 (2014: S\$53,984).

Allowance for inventory obsolescence

The Group and the Company review the ageing analysis of inventories at the end of each reporting period, and make allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The net realisable value 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 amounts of the Group's and the Company's inventories at the end of the reporting period are disclosed in Note 8 to the financial statements. If the net realisable values of the inventories decrease/increase by 10% from management's estimates, the Group's and the Company's results for the year will decrease/increase by S\$737,624 (2014: S\$764,798) and S\$92,871 (2014: S\$195,980).

Impairment of loans and receivables

The Group and the Company assess at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group and the Company consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amounts of the Group's and the Company's loans and receivables at the end of the reporting period are disclosed in Note 9 to the financial statements. If the present value of estimated future cash flows decreases/increases by 10% from management's estimates, the Group's and the Company's allowance for impairment of loans and receivables will increase/decrease by S\$1,972,837 (2014: S\$2,302,504) and S\$2,798,967 (2014: S\$4,121,677), respectively.

The accounting policies used by the Group have been applied consistently to all periods presented in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2(b) Interpretations and amendments to published standards effective in 2015

On 1 January 2015, the Group adopted the following FRS that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS.

Reference	Description
Amendments to FRS 19	Defined Benefit Plans: Employee Contributions
Improvements to FRSs (January 2014):	
- Amendment to FRS 16	Property, Plant and Equipment
- Amendment to FRS 24	Related Party Disclosures
- Amendment to FRS 38	Intangible Assets
- Amendment to FRS 102	Share-based Payment
- Amendment to FRS 103	Business Combinations
- Amendments to FRS 108	Operating Segments
Improvements to FRSs (February 2014):	
- Amendment to FRS 40	Investment Property
- Amendment to FRS 103	Business Combinations
- Amendment to FRS 113	Fair Value Measurement

The adoption of these new and amended FRS did not result in substantial changes to the Group's accounting policies nor any significant impact on these financial statements except for the following:

Amendments to FRS 19 *Defined Benefit Plans: Employee Contributions*

Amendments to FRS 19 *Defined Benefit Plans: Employee Contributions* require an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.

Improvements to FRSs (January 2014) Amendment to FRS 24 *Related Party Disclosures*

Improvements to FRSs (January 2014) Amendment to FRS 24 *Related Party Disclosures* clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. As this is a disclosure standard, it will not have any impact on the financial performance or the financial position of the Group and the Company when implemented.

Improvements to FRSs (January 2014) Amendments to FRS 108 *Operating Segments*

Improvements to FRSs (January 2014) Amendments to FRS 108 *Operating Segments* clarify that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. In addition, the entity is required to disclose the judgements made by management in applying the aggregation criteria to operating segments. As this is a disclosure standard, it will not have any impact on the financial performance or the financial position of the Group and the Company when implemented.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2(c) FRS not yet effective

The following are the new or amended FRS and INT FRS issued that are not yet effective but may be early adopted for the current financial year:

Reference	Description	Effective date (Annual periods beginning on or after)
Amendments to FRS 1	Presentation of Financial Statements: Disclosure Initiative	1 January 2016
Amendments to FRS 7	Statement of Cash Flows: Disclosure Initiative	1 January 2017
Amendments to FRS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to FRS 27	Equity Method in Separate Financial Statements	1 January 2016
Amendments to FRS 16 and FRS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to FRS 16 and FRS 41	Agriculture: Bearer Plants	1 January 2016
Amendments to FRS 28 and FRS 110	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
Amendments to FRS 110, FRS 112 and FRS 28	Investment Entities: Applying the Consolidation Exception	1 January 2016
Amendments to FRS 111	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
FRS 109	Financial Instruments	1 January 2018
FRS 114	Regulatory Deferral Accounts	1 January 2016
FRS 115	Revenue from Contracts with Customers	1 January 2018
Improvements to FRSs (November 2014):		
- Amendment to FRS 19	Employee Benefits	1 January 2016
- Amendment to FRS 34	Interim Financial Reporting	1 January 2016
- Amendment to FRS 105	Non-current Assets Held for Sale and Discontinued Operations	1 January 2016
- Amendments to FRS 107	Financial Instruments: Disclosures	1 January 2016

Management does not anticipate that the adoption of the above FRS in future periods will have a material impact on the financial statements of the Group and the Company in the period of their initial adoption, except for the following:

Amendments to FRS 7 Statement of Cash Flows: Disclosure Initiative

Under Amendments to FRS 7, an entity would need to reconcile cash flows arising from financing activities as reported in the statement of cash flows, excluding contributed equity, to the corresponding liabilities in the opening and closing statements of financial position. Additional disclosures are also required about information that is relevant to an understanding of the liquidity of an entity. This includes any restrictions over the decisions of an entity to use cash and cash equivalent balances, e.g. any tax liabilities that would arise on repatriation of foreign cash and cash equivalent balances. The Group is currently assessing the impact and plans to adopt the amendments on the required effective date.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2(c) FRS not yet effective (cont'd)

FRS 109 Financial Instruments

FRS 109 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in FRS 109 are based on an expected credit loss model and replace the FRS 39 incurred loss model. Adopting the expected credit losses requirements will require the Group to make changes to its current systems and processes.

Under FRS 109, an investment in an equity instrument that does not have a quoted price in an active market for an identical instrument shall be measured at fair value at the date of initial application. Any difference between the previous carrying amount and the fair value would be recognised in the opening retained earnings when the Group applies FRS 109.

FRS 109 is effective for annual periods beginning on or after 1 January 2018 with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Group is currently assessing the impact of FRS 109 and plans to adopt the standard on the required effective date.

FRS 115 Revenue from Contracts with Customers

FRS 115 establishes a five-step model that will apply to revenue arising from contracts with customers. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in FRS 115 provide a more structured approach to measuring and recognising revenue when the promised goods and services are transferred to the customer i.e. when performance obligations are satisfied.

Key issues for the Group include identifying performance obligations, accounting for contract modifications, applying the constraint to variable consideration, evaluating significant financing components, measuring progress toward satisfaction of a performance obligation, recognising contract cost assets and addressing disclosure requirements.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of FRS 115 and plans to adopt the new standard on the required effective date.

2(d) Summary of significant accounting policies

Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intragroup transactions and dividends are eliminated in full.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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

Consolidation (cont'd)

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Thus, the Group controls an investee if and only if the Group has all of the following:

- (i) power over the investee;
- (ii) exposure, or rights or variable returns from its involvement with the investee; and
- (iii) the ability to use its power over the investee to affect its returns.

The Group 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.

Consolidation of the subsidiaries in the PRC is based on the subsidiaries' financial statements prepared in accordance with FRS. Profits reflected in the financial statements prepared in accordance with FRS may differ from those reflected in the statutory financial statements of the subsidiaries prepared for PRC reporting purposes. In accordance with the relevant laws and regulations, profits available for distribution by the subsidiaries are based on the amounts stated in the statutory financial statements.

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	Over the lease terms of 22 to 60 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

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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

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

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.

Intangible assets

Intangible assets are accounted for using the cost model. Capitalised costs are amortised on a straight-line basis over their estimated useful lives for those considered as finite useful lives. After initial recognition, they are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

Intangible assets are written off where, in the opinion of the directors, no further future economic benefits are expected to arise.

Research and development costs

Research costs are expensed as incurred, except for development costs which relates to the design and testing of new or improved materials, products or processes which are recognised as an asset to the extent that it is expected that such assets will generate future economic benefits.

Development costs are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful life of 3 years.

Capitalised costs that are directly attributable to the development phase are recognised as intangible assets provided that they meet the following recognition requirements:

- (i) demonstration of technical feasibility of the prospective product or processes for sale;
- (ii) the intangible asset will generate probable economic benefits through sale;
- (iii) sufficient technical, financial and other resources are available for completion; and
- (iv) the intangible asset can be reliably measured.

Directly attributable costs include direct raw material, employee costs incurred on product development with an appropriate portion of relevant overheads. However, until completion of the development of the products or processes, the assets are subject to impairment testing only. Amortisation commences upon the launch of the sales of the products or from the date the processes is put into use.

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 2015

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

Other assets

Other assets represent transferable memberships in recreational clubs. The club memberships are assessed as having indefinite useful lives as they entitle the members to enjoy the club facilities for lifetime, and there is no foreseeable limit to the period over which the memberships are expected to be used by the Group. Since they are with an indefinite useful life, they are tested for impairment annually or more frequently if the events and circumstances indicate that their carrying value may be impaired either individually or at the cash-generating unit level. The useful life of the club membership with an indefinite life is reviewed annually to determine whether the assessment of useful life continues to be supportable.

Financial assets

Financial assets, other than hedging instruments, can be divided into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated and classification may be changed at the end of the reporting period with the exception that a financial asset shall not be reclassified into or out of the fair value through profit or loss category while it is held or issued.

All financial assets are recognised on their trade date - the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at the end of each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Non-compounding interest and other cash flows resulting from holding financial assets are recognised in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

The Group does not hold any financial assets at fair value through profit or loss, held-to-maturity investments or available-for-sale financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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

Financial assets (cont'd)

Loans and receivables (cont'd)

Loans and receivables include trade and other receivables (excluding prepayments) and cash and bank balances. They are subsequently measured at amortised cost using the effective interest method, less allowance for impairment. If there is objective evidence that the asset has been impaired, the financial asset is measured at the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. The impairment or write-back is recognised in profit or loss.

Trade receivables that are factored out to banks and other financial institutions with recourse to the Group are not derecognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions are recorded as borrowings.

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 bank balances are presented net of bank overdrafts which are repayable on demand and which form an integral part of cash management.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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

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.

Financial liabilities

The Group's financial liabilities comprise borrowings and trade and other payables (excluding deferred revenue and provision for retirement benefits).

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised as an expense in "finance cost" in profit or loss. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Financial liabilities and financial assets are offset and the net amount is presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Borrowings are recognised initially at the fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to profit or loss over the period of the borrowings using the effective interest method. The interest expense is chargeable on the amortised cost over the period of the borrowings using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

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. These borrowings are classified as current as the Group does not have the unconditional right at the end of the reporting period to defer their settlement for at least twelve months after the end of the reporting period. 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.

Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see policy on finance leases).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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

Financial guarantee

The Company has issued corporate guarantee to a bank for the bank borrowings of one of its subsidiaries. The guarantee is a financial guarantee contract as it requires the Company to reimburse the bank if the subsidiary fails to make principal or interest payments when due in accordance with the terms of its borrowings.

Financial guarantee contracts, if assessed to be material, are initially recognised at their fair value plus transaction costs in the statement of financial position.

Financial guarantee contracts are subsequently amortised to profit or loss over the period of the subsidiaries' borrowings, unless the Group has incurred an obligation to reimburse the bank for an amount higher than the unamortised amount. In this case, the financial guarantee contracts shall be carried at the expected amount payable to the bank.

Leases

Where the Group and the Company are the lessees,

Finance leases

Where assets are financed by lease agreements that give rights approximating to ownership, the assets are capitalised as if they had been purchased outright at values equivalent to the lower of the fair values of the leased assets and the present value of the total minimum lease payments during the periods of the leases. The corresponding lease commitments are included under liabilities. The excess of lease payments over the recorded lease obligations are treated as finance charges which are amortised over each lease to give a constant effective rate of charge on the remaining balance of the obligation.

The leased assets are depreciated on a straight-line basis over their estimated useful lives as detailed in the accounting policy on "Property, plant and equipment".

Operating leases

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Rentals on operating leases are charged to profit or loss on a straight-line basis over the lease term. Lease incentives, if any, are recognised as an integral part of the net consideration agreed for the use of the leased asset. Penalty payments on early termination, if any, are recognised in profit or loss when incurred.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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

Income taxes (cont'd)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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

Employee benefits (cont'd)

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 Company 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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

Related parties (cont'd)

- 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).

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, subject to impairment, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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

Impairment of non-financial assets (cont'd)

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 to sell 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.

Revenue recognition

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. For local sale of goods, transfer usually occurs when the product is received at the customer's warehouse, however, for some international shipments, transfer occurs upon loading the goods onto the relevant carrier at the port.

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

Government grant

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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

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 currency translation reserve in equity.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2(d) 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") 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.

3 Revenue

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

	<u>2015</u>	<u>2014</u>
The Group	<u>S\$</u>	<u>S\$</u>
Sale of goods	69,987,789	67,341,375
Sale of scrap materials	1,409,517	1,727,668
	<u>71,397,306</u>	<u>69,069,043</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

4 Property, plant and equipment

The Group	Building improvements							Total
	Leasehold land and buildings	renovations	Plant and machinery	Furniture and fittings	Office equipment	Computers	Motor vehicles	
	S\$	S\$	S\$	S\$	S\$	S\$	S\$	S\$
<u>Cost</u>								
At 1 January 2014	5,086,733	3,648,479	42,574,937	263,737	907,370	1,972,545	1,316,668	55,770,469
Additions	-	65,932	703,426	19,905	71,265	250,498	40,856	1,151,882
Disposals	-	(28,674)	(133,271)	(2,943)	(1,303)	(103,461)	(157,802)	(427,454)
Write-offs	-	-	(742,501)	-	-	-	-	(742,501)
Exchange difference on translation	101,680	46,529	384,877	1,867	15,454	3,737	37,316	591,460
At 31 December 2014	5,188,413	3,732,266	42,787,468	282,566	992,786	2,123,319	1,237,038	56,343,856
Additions	-	460,614	1,457,579	20,196	35,519	113,485	-	2,087,393
Disposals	-	(2,612)	(94,493)	(3,553)	(14,459)	(48,206)	(92,318)	(255,641)
Exchange difference on translation	117,107	(13,473)	(364,680)	(7,763)	10,541	(32,505)	1,061	(289,712)
At 31 December 2015	5,305,520	4,176,795	43,785,874	291,446	1,024,387	2,156,093	1,145,781	57,885,896
<u>Accumulated depreciation</u>								
At 1 January 2014	1,313,552	2,135,885	29,362,547	187,526	672,701	844,613	1,002,782	35,519,606
Depreciation	165,786	518,973	2,841,921	28,338	83,770	294,523	120,307	4,053,618
Disposals	-	(29,620)	(79,145)	(2,421)	(5,097)	(94,869)	(136,449)	(347,601)
Write-offs	-	-	(651,560)	-	-	-	-	(651,560)
Exchange difference on translation	31,191	31,294	187,382	992	12,760	2,247	845	266,711
At 31 December 2014	1,510,529	2,656,532	31,661,145	214,435	764,134	1,046,514	987,485	38,840,774
Depreciation	175,472	368,182	2,441,072	19,597	42,187	310,858	68,661	3,426,029
Disposals	-	(2,365)	(73,588)	(2,539)	(13,069)	(43,124)	(92,318)	(227,003)
Exchange difference on translation	31,394	(24,867)	(340,736)	(6,314)	7,557	(20,909)	(3,126)	(357,001)
At 31 December 2015	1,717,395	2,997,482	33,687,893	225,179	800,809	1,293,339	960,702	41,682,799
<u>Net book value</u>								
At 31 December 2015	3,588,125	1,179,313	10,097,981	66,267	223,578	862,754	185,079	16,203,097
At 31 December 2014	3,677,884	1,075,734	11,126,323	68,131	228,652	1,076,805	249,553	17,503,082

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

4 Property, plant and equipment (cont'd)

The Company	Renovations S\$	Plant and machinery		Furniture and fittings		Office equipment		Computers		Motor vehicles		Total S\$
		S\$		S\$		S\$		S\$		S\$		
<u>Cost</u>												
At 1 January 2014	340,870	1,530,658	40,748	33,916	1,245,854	842,223					4,034,269	
Additions	-	14,800	230	26,350	128,699	-					170,079	
Disposals	-	-	-	-	(89,892)	-					(89,892)	
At 31 December 2014	340,870	1,545,458	40,978	60,266	1,284,661	842,223					4,114,456	
Additions	-	-	-	-	30,446	-					30,446	
Disposals	-	-	-	-	-	(92,318)					(92,318)	
At 31 December 2015	340,870	1,545,458	40,978	60,266	1,315,107	749,905					4,052,584	
<u>Accumulated depreciation</u>												
At 1 January 2014	251,813	523,728	35,812	25,378	364,069	777,192					1,977,992	
Depreciation	39,187	217,817	4,060	8,069	205,829	64,879					539,841	
Disposals	-	-	-	-	(89,892)	-					(89,892)	
At 31 December 2014	291,000	741,545	39,872	33,447	480,006	842,071					2,427,941	
Depreciation	39,187	218,229	286	7,859	217,516	152					483,229	
Disposals	-	-	-	-	-	(92,318)					(92,318)	
At 31 December 2015	330,187	959,774	40,158	41,306	697,522	749,905					2,818,852	
<u>Net book value</u>												
At 31 December 2015	10,683	585,684	820	18,960	617,585	-					1,233,732	
At 31 December 2014	49,870	803,913	1,106	26,819	804,655	152					1,686,515	

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

4 Property, plant and equipment (cont'd)

The carrying amount of property, plant and equipment held under finance leases for the Group and the Company, comprising plant and machinery, is S\$1,947,077 (2014: S\$1,978,981) and S\$nil (2014: S\$247,000), respectively (Note 14.1).

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of S\$2,087,393 (2014: S\$1,151,882) of which S\$439,080 (2014: S\$108,000) was acquired by means of finance leases. Cash payments of S\$1,648,313 (2014: S\$1,043,882) were made to purchase property, plant and equipment.

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)

5 Intangible assets

	The Group		The Company	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
<u>Development costs, at cost</u>				
At 1 January	-	-	-	-
Additions	1,977,806	-	89,691	-
At 31 December	1,977,806	-	89,691	-

6 Subsidiaries

	2015	2014
	S\$	S\$
The Company		
<u>Unquoted equity investments, at cost</u>		
At 1 January	23,773,839	23,773,839
Increase in capital of a subsidiary	2,045,324	-
At 31 December	25,819,163	23,773,839
<u>Allowance for impairment losses</u>		
At 1 January	809,708	1,187,786
Allowance made	12,669	3,849
Allowance reversed	(659,937)	(381,927)
At 31 December	162,440	809,708
Carrying amount	25,656,723	22,964,131

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

6 Subsidiaries (cont'd)

Increase in capital of a subsidiary

On 12 February 2015 and 23 September 2015, the Company increased its investment in a subsidiary by contributing additional capital of S\$633,024 (THB 15,000,000) and S\$1,412,300 (THB 35,900,000), comprising 150,000 and 359,000 common shares of par value THB 100 each fully paid up, respectively.

Impairment testing of investments in subsidiaries

Management had performed impairment test for the Company's investments in certain trading, inactive or dormant subsidiaries which had incurred losses. Allowance for impairment losses was made to write down the investments in these subsidiaries to their recoverable amount. Management had determined the impairment of these subsidiaries based on their net assets which were considered by management as reasonable approximation of the recoverable amount of these subsidiaries.

At the end of the reporting period, due to the further loss incurred by a subsidiary, an allowance for impairment of S\$12,669 (2014: S\$3,849) was made and recognised in Company's profit or loss for the financial year ended 31 December 2015.

At the end of the reporting period, following the improvement in financial condition and profitability of a subsidiary, S\$659,937 (2014: S\$381,927) of the allowance for impairment previously made was reversed to the Company's profit or loss for the financial year ended 31 December 2015.

Details of the subsidiaries are:

Name	Principal activities	Country of incorporation/ Principal place of business	Percentage of equity held	
			2015	2014
			%	%
<u>Held by the Company</u>				
Metal Precision Services Pte Ltd ^(a)	Provision of services relating to metal wire cutting and milling	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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

6 Subsidiaries (cont'd)

Impairment testing of investments in subsidiaries (cont'd)

Name	Principal activities	Country of incorporation/ Principal place of business	Percentage of equity held	
			2015	2014
			%	%
<u>Held by the Company (cont'd)</u>				
Metal Component Technologies (Wuxi) Co., Ltd ^(e)	Metal stamping and manufacturing of tools and fixtures	People's Republic of China	100	100
MCE Industries (Shanghai) Co., Ltd ^(e)	Metal stamping and manufacturing of tools and fixtures	People's Republic of China	100	100
Metal Computer Component (Suzhou) Ltd ^(e)	Metal stamping and plating related activities	People's Republic of China	100	100
<u>Held by MCE Industries (Shanghai) Co., Ltd</u>				
MCE Corporation (Shanghai) Co., Ltd ^(e)	Trading of tools, components, product assemblies and related products	People's Republic of China	100	100

(a) Audited by Foo Kon Tan LLP

(b) Audited by SJ Grant Thornton, Malaysia

(c) Audited by Grant Thornton Limited, Thailand

(d) Audited by Shanghai Huashen Certified Public Accountants Ltd

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

7 Other assets

	2015	2014
The Group and the Company	S\$	S\$
Club memberships, at cost	137,500	137,500

The club memberships are registered in the name of certain directors and are held in trust for the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

8 Inventories

	The Group		The Company	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
Raw materials (at cost)	3,572,450	2,863,591	144,193	219,617
Work in progress (at cost)	1,592,744	1,916,373	-	-
Finished goods (at net realisable value)	2,211,050	2,868,013	784,514	1,740,178
	7,376,244	7,647,977	928,707	1,959,795

The costs recognised as expense for raw materials and consumables together with changes in finished goods and work in progress amounted to S\$35,370,154 (2014: S\$34,951,427) for the financial year ended 31 December 2015.

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		The Company	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
At 1 January	1,098,168	1,579,653	21,107	37,793
Allowance made (Note 18)	26,825	-	-	-
Allowance reversed (Note 16)	-	(92,119)	(20,728)	-
Allowance utilised	(10,923)	(375,888)	-	(16,686)
Exchange difference on translation	(36,488)	(13,478)	-	-
At 31 December	1,077,582	1,098,168	379	21,107

For the financial year ended 31 December 2015, due to the decline in selling prices and the obsolescence of certain inventories, the Group wrote down S\$26,825 of the inventories (finished goods) to their net realisable value.

For the financial year ended 31 December 2014, reversal of write-down on inventories (finished goods) of S\$92,119 was made when the related inventories were sold above their carrying amounts.

Allowances of S\$10,923 (2014: S\$375,888) and S\$nil (2014: S\$16,686) for the Group and the Company, respectively, were utilised against the corresponding inventories when they were sold or written off during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

9 Trade and other receivables

	The Group		The Company	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
Trade receivables				
- third parties	19,108,921	22,526,679	5,647,956	7,805,103
- subsidiaries	-	-	18,643,055	28,374,816
	19,108,921	22,526,679	24,291,011	36,179,919
Less: Allowance for impairment losses	(313,448)	(313,323)	(166,346)	(166,346)
	18,795,473	22,213,356	24,124,665	36,013,573
Amounts due from subsidiaries (non-trade)	-	-	3,761,014	5,082,975
Deposits	665,778	531,999	43,267	46,080
Other receivables	86,259	195,456	15,835	41,225
Input taxes, net	136,151	32,915	44,891	32,915
Tax recoverable	44,713	51,317	-	-
	932,901	811,687	3,865,007	5,203,195
Loans and receivables	19,728,374	23,025,043	27,989,672	41,216,768
Prepayments	927,063	2,264,215	421,427	172,607
Trade and other receivables	20,655,437	25,289,258	28,411,099	41,389,375

The Group and the Company have factored trade receivables with an aggregate carrying amount of S\$3,263,425 (2014: S\$5,192,118) and S\$2,884,615 (2014: S\$4,853,385) respectively to banks in exchange for cash at the end of the reporting period (Note 14.4). The transactions have been accounted for as secured borrowings (bills payable to banks) as the banks have full recourse to the Group and the Company in the event of default by the debtors.

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

	The Group		The Company	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
At 1 January	313,323	878,276	166,346	292,276
Allowance reversed (Note 16)	-	(117,241)	-	(125,930)
Allowance utilised	-	(456,340)	-	-
Exchange difference on translation	125	8,628	-	-
At 31 December	313,448	313,323	166,346	166,346

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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

9 Trade and other receivables (cont'd)

Trade and other receivables are denominated in the following currencies:

	The Group		The Company	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
Singapore dollar	606,085	316,584	5,882,180	5,319,521
Euro	-	4,580	-	844
Japanese yen	-	-	-	44,770
Malaysian ringgit	533,718	620,986	-	-
Renminbi	6,174,909	5,556,056	1,502,546	1,360,932
Thai baht	2,266,978	2,122,385	755,846	767,415
United States dollar	11,073,747	16,668,667	20,270,527	33,895,893
	20,655,437	25,289,258	28,411,099	41,389,375

The Group and the Company generally extend credit period of 45 to 90 days (2014: 45 to 90 days) 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 (excluding trade amounts due from subsidiaries) based on the information provided to key management is as follows:

	The Group		The Company	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
<u>By geographical area</u>				
Southeast Asia	8,513,282	11,172,966	5,057,573	6,588,842
China	9,315,546	9,915,887	380,594	994,857
North America	806,511	1,123,455	1,234	54,010
Others	160,134	1,048	42,209	1,048
	18,795,473	22,213,356	5,481,610	7,638,757

The ageing analysis of trade receivables past due but not impaired is as follows:

	The Group		The Company	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
Past due 0 to 3 months	2,986,625	8,342,322	740,556	892,343
Past due 3 to 6 months	299,025	122,402	150,297	21,926
Past due over 6 months	66,052	406,907	48,399	85,701
	3,351,702	8,871,631	939,252	999,970

Based on historical default rates, the Group and the Company believe that no further impairment allowance is necessary in respect of trade receivables as they mainly arise from customers that have a good credit record with the Group and the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

10 Cash and bank balances

	The Group		The Company	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
Cash in banks	11,458,854	10,919,274	4,745,776	2,609,128
Cash on hand	21,517	31,816	2,500	2,500
	11,480,371	10,951,090	4,748,276	2,611,628

Bank deposits of S\$510,484 (2014: S\$497,867) for the Group were pledged as security to obtain bankers' guarantee to meet customs requirements in the PRC.

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

	2015	2014
	S\$	S\$
The Group		
Cash and bank balances	11,480,371	10,951,090
Less: Bank overdrafts (Note 14.3)	(1,137,557)	(1,685,353)
Less: Bank deposits pledged	(510,484)	(497,867)
	9,832,330	8,767,870

Cash and bank balances are denominated in the following currencies:

	The Group		The Company	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
Singapore dollar	489,958	104,172	454,886	100,585
Malaysian ringgit	186,247	644,013	-	-
Renminbi	3,393,335	3,211,498	-	-
Thai baht	585,747	1,837,649	-	-
United States dollar	6,825,084	5,153,758	4,293,390	2,511,043
	11,480,371	10,951,090	4,748,276	2,611,628

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

11 Share capital

	2015	2014	2015	2014
The Group and the Company	Number of ordinary shares		S\$	S\$
<u>Issued and fully paid, with no par value</u>				
At 1 January	372,965,000	364,812,000	21,575,832	21,126,966
Exercise of share options	-	5,390,000	-	298,436
Exercise of warrants	1,154,000	2,763,000	62,829	150,430
At 31 December	374,119,000	372,965,000	21,638,661	21,575,832

During the financial year, the Company allotted and issued nil (2014: 5,390,000) new ordinary shares to directors and employees upon the exercise of share options.

During the financial year, 1,154,000 (2014: 2,763,000) warrants were exercised and converted into ordinary shares in the capital of the Company.

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 Other reserves

	<u>The Group</u>		<u>The Company</u>	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
Share option reserve	128,453	128,453	128,453	128,453
Warrant reserve	781,827	786,956	781,827	786,956
Currency translation reserve	368,241	330,381	-	-
Statutory reserve	2,178,344	1,898,017	-	-
	3,456,865	3,143,807	910,280	915,409

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.

Warrant reserve

Warrant reserve relates to the portion of proceeds from the rights shares issue ascribed to the attached warrants. As and when the warrants are exercised, the related balance in the warrant reserve is transferred to the share capital account. Each warrant carries the right to subscribe for one new ordinary share in the capital of the Company at an exercise price of S\$0.05. The warrants will expire on 12 September 2017. At the expiry of the warrants, the balance in the warrant reserve will be transferred to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

12 Other reserves (cont'd)

Currency translation reserve

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

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 Deferred tax liabilities

	<u>The Group</u>		<u>The Company</u>	
	<u>2015</u>	2014	<u>2015</u>	2014
	<u>S\$</u>	S\$	<u>S\$</u>	S\$
At 1 January	263,577	275,775	261,866	215,570
(Reversed)/Recognised in profit or loss (Note 21)	(196,149)	(12,750)	(200,282)	46,296
Exchange difference on translation	-	552	-	-
At 31 December	67,428	263,577	61,584	261,866
To be settled after one year	67,428	263,577	61,584	261,866

Deferred tax liabilities are attributable to the excess of net book value over tax written down value of qualifying property, plant and equipment.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

13 Deferred tax liabilities (cont'd)

Unrecognised temporary differences relating to investments in subsidiaries (cont'd)

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 FRS 12 *Income Taxes* on profits accumulated from 1 January 2008.

At the end of the reporting period, 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 determined that portion of the undistributed earnings of the subsidiaries will not be distributed in the foreseeable future.

Such temporary differences for which no deferred tax liabilities have been recognised aggregate to S\$834,737 (2014: S\$942,120) and the deferred tax liabilities are estimated at S\$41,737 (2014: S\$47,106) at the end of the reporting period.

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

	The Group		The Company	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
Unutilised tax losses	8,304,056	8,107,358	193,089	193,089
Unabsorbed capital allowances	2,378,476	2,443,337	2,378,476	2,443,337
	10,682,532	10,550,695	2,571,565	2,636,426

The unutilised 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.

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

	2015	2014
	S\$	S\$
The Group		
Expiring in:		
- 2018	994,640	994,640
- 2019	2,909,468	3,446,512
- 2020	1,677,615	-
	5,581,723	4,441,152

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

14 Borrowings

	Note	The Group		The Company	
		2015	2014	2015	2014
		S\$	S\$	S\$	S\$
Non-current					
Obligations under finance leases	14.1	610,796	739,906	610,796	739,906
Current					
Obligations under finance leases	14.1	531,877	608,981	531,877	608,981
Loans from financial institutions	14.2	2,861,557	2,877,791	2,861,557	2,877,791
Bank overdrafts	14.3	1,137,557	1,685,353	985,251	1,524,422
Bills payable to banks	14.4	5,925,850	7,381,608	5,547,040	7,042,875
		10,456,841	12,553,733	9,925,725	12,054,069
		11,067,637	13,293,639	10,536,521	12,793,975

14.1 Obligations under finance leases

	2015	2014
	S\$	S\$
The Group and the Company		
Minimum lease payments payable:		
Due not later than one year	602,042	713,411
Due later than one year and not later than five years	692,863	813,814
	1,294,905	1,527,225
Less: Finance charges allocated to future periods	(152,232)	(178,338)
Present value of minimum lease payments	1,142,673	1,348,887
Present value of minimum lease payments:		
Due not later than one year	531,877	608,981
Due later than one year and not later than five years	610,796	739,906
	1,142,673	1,348,887
Represented by:		
Current	531,877	608,981
Non-current	610,796	739,906
	1,142,673	1,348,887

It is the Group's and the Company's policy to lease certain property, plant and equipment under finance leases. The average lease term is 3 to 9 years (2014: 3 to 9 years). The interest rates for the finance leases range from 3.10% to 5.25% (2014: 3.10% to 5.25%) per annum. All finance leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The finance leases are secured by the underlying assets, comprising plant and machinery of S\$1,947,077 (2014: S\$1,978,981) and S\$nil (2014: S\$247,000) for the Group and the Company, respectively (Note 4).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

14 Borrowings (cont'd)

14.2 Loans from financial institutions

	2015	2014
	S\$	S\$
The Group and the Company		
Short-term bank loans (unsecured) [(a) to (c)]	1,900,000	1,900,000
Long-term loans from other financial institution (unsecured) [(d) to (g)]	961,557	977,791
	<u>2,861,557</u>	<u>2,877,791</u>

The terms and conditions of loans from financial institutions are as follows:

- (a) A one-month bank loan comprising two drawdowns of S\$300,000 and S\$200,000 respectively commences in December 2015. Interest rates range from 2.9% to 3.2% per annum. The bank loan is unsecured.
- (b) A three-month bank loan comprising two drawdowns of S\$100,000 and S\$400,000 respectively commences in October 2015. Interest rates range from 3.2% to 3.3% per annum. The bank loan is unsecured.
- (c) A three-month bank loan comprising one drawdown of S\$900,000 commences in December 2015. Interest is charged at approximately 3.0% per annum. The bank loan is unsecured.
- (d) A three-year loan of S\$500,000 from other financial institution is repayable in 36 equal monthly instalments commencing from June 2013. Interest is charged at 3.5% per annum. The loan is unsecured. The bank loan was fully repaid in 2015.
- (e) A three-year loan of S\$500,000 from other financial institution is repayable in 36 equal monthly instalments commencing from December 2013. Interest is charged at 3.5% per annum. The loan is unsecured.
- (f) A three-year loan of S\$500,000 from other financial institution is repayable in 36 equal monthly instalments commencing from May 2014. Interest is charged at 3.5% per annum. The loan is unsecured.
- (g) A three-year loan of S\$500,000 from other financial institution is repayable in 36 equal monthly instalments commencing from December 2015. Interest is charged at 3.65% per annum. The loan is unsecured.

The agreements for the long-term loans include an overriding repayment on demand clause, which gives the lenders the right to demand repayment at any time, at their sole discretion and irrespective of whether a default event has occurred. Although a portion of these callable term loans are not scheduled for repayment within twelve months, they are classified as current liabilities in their entirety in the statements of financial position as the Group and the Company do not have the unconditional right at the end of the reporting period to defer settlement of these callable term loans for at least twelve months after the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

14 Borrowings (cont'd)

14.3 Bank overdrafts

	The Group		The Company	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
Bank overdraft (secured)	152,306	160,931	-	-
Bank overdrafts (unsecured)	985,251	1,524,422	985,251	1,524,422
	1,137,557	1,685,353	985,251	1,524,422

The bank overdrafts bear interest at variable rates ranging from 5.5% to 8.85% (2014: 5% to 8.85%) and 5.5% to 5.75% (2014: 5% to 5.75%) per annum for the Group and the Company, respectively.

The Group's bank overdraft of S\$152,306 (2014: S\$160,931) is secured through a corporate guarantee from the Company.

14.4 Bills payable to banks

	The Group		The Company	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
Bills payable to banks (secured)	2,665,923	4,364,085	2,287,113	4,025,352
Bills payable to banks (unsecured)	3,259,927	3,017,523	3,259,927	3,017,523
	5,925,850	7,381,608	5,547,040	7,042,875

The bills payable to banks bear interest at variable rates ranging from 2.36% to 5.58% (2014: 2.25% to 6.6%) and 2.36% to 5.25% (2014: 2.25% to 5.25%) per annum for the Group and the Company, respectively.

The Group's and the Company's bills payable to banks of S\$2,665,923 (2014: S\$4,364,085) and S\$2,287,113 (2014: S\$4,025,352) are secured through a corporate guarantee from the Company and/or certain trade receivables with an aggregate carrying amount of S\$3,263,425 (2014: S\$5,192,118) and S\$2,884,615 (2014: S\$4,853,385), respectively (Note 9).

14.5 Currency risk

Borrowings are denominated in the following currencies:

	The Group		The Company	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
Singapore dollar	4,989,481	5,794,150	4,989,481	5,794,150
Malaysian ringgit	531,116	499,664	-	-
United States dollar	5,547,040	6,999,825	5,547,040	6,999,825
	11,067,637	13,293,639	10,536,521	12,793,975

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

14 Borrowings (cont'd)

14.6 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	
	2015	2014	2015	2014
	%	%	%	%
Obligations under finance leases	5.9	6.0	5.9	6.0
Loans from financial institutions	4.9	4.3	4.9	4.3
Bank overdrafts	6.1	5.7	5.6	5.4
Bills payable to banks	3.1	2.7	2.9	2.7

14.7 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	Fair value
	S\$	S\$
The Group and the Company		
2015		
Long-term loans from financial institutions	961,557	960,047
2014		
Long-term loans from financial institutions	977,791	968,528

The fair values are determined from the discounted cash flow analyses, using the 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:

	2015	2014
	%	%
The Group and the Company		
Long-term loans from financial institutions	3.7	3.5

No adjustment has been made to fair values as the differences between the carrying amounts and fair values are not significant to the Group and the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

15 Trade and other payables

	The Group		The Company	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
Trade payables				
- third parties	13,659,142	14,397,319	2,967,579	3,605,507
- subsidiaries	-	-	13,846,547	20,428,560
	13,659,142	14,397,319	16,814,126	24,034,067
Amounts due to subsidiaries (non-trade)	-	-	1,596,801	1,519,711
Accrued expenses	4,183,718	4,887,301	1,402,945	1,929,618
Deferred revenue	764,793	1,541,262	399,652	118,532
Provision for retirement benefits	9,386	5,010	-	-
Other payables	501,840	366,707	145,808	114,980
	5,459,737	6,800,280	3,545,206	3,682,841
	19,118,879	21,197,599	20,359,332	27,716,908

The average credit period taken to settle trade payables is approximately 150 days (2014: 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.

Deferred revenue relates to advance billings for tools made to customers, for which revenue has not been earned.

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

Trade and other payables are denominated in the following currencies:

	The Group		The Company	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
Singapore dollar	1,859,004	1,835,935	1,652,988	1,747,334
Australian dollar	-	-	29,567	30,895
British pound	486	-	-	-
Euro	32,069	9,341	32,069	-
Japanese yen	-	3,174	-	-
Malaysian ringgit	2,168,525	1,956,357	-	-
Renminbi	10,251,629	10,542,177	1,636,423	1,607,058
Thai baht	518,465	221,821	-	-
United States dollar	4,288,701	6,628,794	17,008,285	24,331,621
	19,118,879	21,197,599	20,359,332	27,716,908

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

16 Other income

	2015	2014
	S\$	S\$
The Group		
Electricity recharges	67,495	51,927
Foreign exchange gain, net	856,162	754,340
Government grant	54,448	39,520
Interest income from bank balances	11,151	38,526
Reversal of impairment losses on trade receivables (Note 9)	-	117,241
Reversal of write-down on inventories (Note 8)	-	92,119
Sundry income	59,952	65,605
	1,049,208	1,159,278

Government grant relates to the financial assistance awarded by International Enterprise Singapore to the Company under Global Company Partnership for the setting up of an overseas marketing office by the Company in Thailand.

17 Employee benefits expense

	2015	2014
	S\$	S\$
The Group		
Directors:		
Directors' fees	110,000	110,000
Directors' remuneration other than fees:		
- salaries and other related costs	937,000	761,111
- contributions to defined contribution plans	26,660	28,844
- share-based payment transactions	-	20,225
	1,073,660	920,180
Key management personnel (other than directors):		
- salaries and other related costs	1,116,333	1,119,831
- contributions to defined contribution plans	71,889	63,577
- share-based payment transactions	-	12,002
	1,188,222	1,195,410
Total key management personnel compensation	2,261,882	2,115,590
Other than key management personnel:		
- salaries and other related costs	15,091,330	15,313,061
- contributions to defined contribution plans	2,320,685	2,360,920
- share-based payment transactions	-	17,775
	17,412,015	17,691,756
Total employee benefits expense	19,673,897	19,807,346

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

18 Other charges

	2015	2014
The Group	S\$	S\$
Loss on disposal of property, plant and equipment	9,897	23,328
Property, plant and equipment written off	-	90,941
Write-down on inventories (Note 8)	26,825	-
	36,722	114,269

19 Finance costs

	2015	2014
The Group	S\$	S\$
Interest expenses on:		
- bank overdrafts	73,264	76,772
- bills payable to banks	171,125	173,523
- finance leases	84,542	97,679
- loans from financial institutions	113,501	132,503
	442,432	480,477

20 Other operating expenses

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

	2015	2014
The Group	S\$	S\$
Carriage inwards and outwards	1,146,282	1,297,381
Chemical, lubricants and gas	1,079,378	1,197,269
Electricity and water	1,858,204	1,988,189
Operating lease expense	1,555,929	1,522,570
Repair and maintenance	633,712	889,172

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

21 Taxation

	2015	2014
The Group	S\$	S\$
Current taxation		
- current year	237,991	153,292
- over provision in respect of prior years	-	(68,257)
	237,991	85,035
Deferred taxation		
- origination and reversal of temporary differences	(96,170)	(56,445)
- (over)/under provision in respect of prior years	(99,979)	43,695
	(196,149)	(12,750)
	41,842	72,285

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)/profits as a result of the following:

	2015	2014
The Group	S\$	S\$
Profit/(Loss) before taxation	576,280	(2,760,751)
Tax at statutory rates applicable to different jurisdictions	56,214	(668,312)
Tax effect on non-deductible expenses	113,635	185,028
Tax effect on non-taxable income	(10,554)	(120,116)
Tax exempt income and incentives	(61,452)	(68,850)
Deferred tax assets on temporary differences not recognised	266,518	947,606
Utilisation of deferred tax assets on temporary differences not recognised in prior years	(222,540)	(174,886)
Over provision of current taxation in respect of prior years	-	(68,257)
(Over)/Under provision of deferred taxation in respect of prior years	(99,979)	43,695
Others	-	(3,623)
	41,842	72,285

Singapore

The corporate income tax rate applicable to the Company and Metal Precision Services Pte Ltd is 17% (2014:17%) for the financial year ended 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

21 Taxation (cont'd)

Malaysia

The corporate income tax rate applicable to MCE Technologies Sdn Bhd and MCE Manufacturing Sdn Bhd is 25% (2014: 25%) for the financial year ended 31 December 2015.

Thailand

The corporate income tax rate applicable to MCT (Thailand) Co., Ltd. is 20% (2014: 20%) for the financial year ended 31 December 2015.

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% (2014: 25%) for the financial year ended 31 December 2015.

For the financial year ended 31 December 2014, non-deductible expenses mainly relate to private motor vehicles and related expenses for the Company, while non-taxable income mainly relates to the reversals of write-down on inventories and impairment losses on trade receivables for the PRC subsidiaries.

For the financial year ended 31 December 2015, non-deductible expenses mainly relate to the write-down on inventories for the PRC subsidiaries, and private motor vehicles and related expenses for the Company.

22 Earnings/(Loss) per share

22.1 Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share was based on the profit attributable to ordinary shareholders of S\$534,438 (2014: loss of S\$2,833,036), and a weighted average number of ordinary shares outstanding of 373,991,071 (2014: 366,733,323), calculated as follows:

Weighted average number of ordinary shares (basic)

	<u>2015</u>	<u>2014</u>
The Group	Number of ordinary shares	
Issued ordinary shares at beginning of year	372,965,000	364,812,000
Effect of share options exercised	-	1,533,507
Effect of warrants exercised	1,026,071	387,816
Weighted average number of ordinary shares at end of year	<u>373,991,071</u>	<u>366,733,323</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

22 Earnings/(Loss) per share (cont'd)

22.2 Diluted earnings/(loss) per share

The calculation of diluted earnings/(loss) per share was based on the profit attributable to ordinary shareholders of S\$534,438 (2014: loss of S\$2,833,036), and a weighted average number of ordinary shares outstanding after adjustment for effects of all dilutive potential ordinary shares of 406,439,294 (2014: 366,733,323), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2015	2014
The Group	Number of ordinary shares	
Weighted average number of ordinary shares (basic)	373,991,071	366,733,323
Effect of share options on issue	1,780,005	-
Effect on warrants on issue	30,668,218	-
Weighted average number of ordinary shares (diluted)	406,439,294	366,733,323

As at 31 December 2014, the outstanding share options and warrants were excluded from the calculation of the diluted weighted average number of ordinary shares in issue as their effect would have been anti-dilutive.

23 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.

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

Date of grant	Balance at 1.1.2015	Options granted	Options exercised	Options cancelled/lapsed	Balance at 31.12.2015	Exercise price	Exercise period
29.5.2007 ⁽ⁱ⁾	3,050,000	-	-	-	3,050,000	S\$0.045	29.5.2008 to 28.5.2017
4.9.2013 ⁽ⁱ⁾	6,560,000	-	-	-	6,560,000	S\$0.05	4.9.2014 to 4.9.2023
4.9.2013 ⁽ⁱⁱ⁾	600,000	-	-	-	600,000	S\$0.05	4.9.2014 to 4.9.2018
	10,210,000	-	-	-	10,210,000		

⁽ⁱ⁾ For executive directors and employees

⁽ⁱⁱ⁾ For non-executive directors

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

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

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.

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

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2015	2015	2014	2014
	S\$		S\$	
Outstanding at beginning of year	0.049	10,210,000	0.051	18,300,000
Exercised during the year	-	-	0.047	(5,390,000)
Forfeited during the year	-	-	0.071	(2,700,000)
Outstanding at end of year	0.049	<u>10,210,000</u>	0.049	<u>10,210,000</u>
Exercisable at end of year	0.049	<u>10,210,000</u>	0.049	<u>10,210,000</u>

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

Exercise price 2015	Number of options 2015	Weighted average remaining contractual life (years) 2015	Exercise price 2014	Number of options 2014	Weighted average remaining contractual life (years) 2014
S\$0.045	3,050,000	1.41	S\$0.045	3,050,000	2.41
S\$0.05	6,560,000	7.68	S\$0.05	6,560,000	8.68
S\$0.05	600,000	2.68	S\$0.05	600,000	3.68
S\$0.049	<u>10,210,000</u>	5.51	S\$0.049	<u>10,210,000</u>	6.51

The fair value of share options as at the date of grant is estimated using the Binomial pricing model, taking into account the terms and conditions upon which the options were granted. The inputs to the model used for the options granted on 4 September 2013 which have a vesting period of one year are shown below.

	2014
Weighted average share price	S\$0.044
Weighted average exercise price	S\$0.050
Expected volatility	57.99%
Expected option life	2 years
Risk free rate	0.50%
Expected dividend yield	3%
Fair value at measurement date	S\$0.0067

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. Other than stated, no other features of the option grant were incorporated into the measurement of fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

24 Commitments

24.1 Capital commitments

	2015	2014
The Group	<u>S\$</u>	<u>S\$</u>
Capital expenditure contracted but not provided for in the financial statements	<u>148,103</u>	<u>133,118</u>

24.2 Operating lease commitments (non-cancellable)

At the end of the reporting period, the Group and the Company were committed to making the following payments in respect of non-cancellable operating leases of factory and office premises, office equipment and employee accommodations:

	The Group		The Company	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
Not later than one year	1,477,162	851,018	218,307	185,840
Later than one year and not later than five years	1,496,987	345,915	394,845	10,800
	<u>2,974,149</u>	<u>1,196,933</u>	<u>613,152</u>	<u>196,640</u>

The leases on the Group's factory premises on which rentals are payable will expire between 31 August 2016 and 30 June 2018, and the current rent payable on the leases ranges from S\$7,576 to S\$35,066 per month.

The leases have no renewal option or contingent rent provision included in the contracts.

25 Operating segments

For management reporting purposes, the Group is organised into business units based on their geographical location, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

25 Operating segments (cont'd)

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 three major customers (2014: two major customers) which individually amounted to 10% or more of the Group's revenue for the financial year ended 31 December 2015.

	Singapore	Thailand	Malaysia	China	Elimination	Total
	S\$	S\$	S\$	S\$	S\$	S\$
2015						
External sales	30,476,074	7,057,012	2,985,290	30,878,930	-	71,397,306
Inter-segment sales	15,836,328	20,373	8,791,076	25,056,386	(49,704,163)	-
Total revenue	46,312,402	7,077,385	11,776,366	55,935,316	(49,704,163)	71,397,306
Segment profit/(loss)	2,925,900	(198,387)	189,847	(613,666)	169,393	2,473,087
Finance costs						(442,432)
Unallocated expenses ⁽ⁱ⁾						(1,454,375)
Profit before taxation						576,280
Taxation						(41,842)
Profit for the year						534,438
Other segment information:						
Segment assets	65,664,374	5,695,956	15,247,477	43,408,437	(72,185,789)	57,830,455
Segment liabilities	33,603,511	5,241,880	12,711,508	24,146,148	(45,219,478)	30,483,569
Non-current assets:						
Property, plant and equipment	1,233,732	1,977,101	1,962,112	12,015,461	(985,309)	16,203,097
Intangible assets	89,691	-	-	1,888,115	-	1,977,806
Other assets	137,500	-	-	-	-	137,500
Additions of property, plant and equipment	30,446	36,592	860,526	1,177,121	(17,292)	2,087,393
Depreciation of property, plant and equipment	483,443	687,614	449,895	2,089,974	(284,897)	3,426,029
(Gain)/Loss on disposal of property, plant and equipment	(8,500)	-	-	18,397	-	9,897
Write-down on inventories (reversed)/made	(20,728)	-	40,733	6,820	-	26,825

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

25 Operating segments (cont'd)

	Singapore S\$	Thailand S\$	Malaysia S\$	China S\$	Elimination S\$	Total S\$
2014						
External sales	30,292,028	5,389,038	5,405,330	27,982,647	-	69,069,043
Inter-segment sales	14,314,973	-	8,633,078	27,542,353	(50,490,404)	-
Total revenue	44,607,001	5,389,038	14,038,408	55,525,000	(50,490,404)	69,069,043
Segment profit/(loss)	2,710,786	(567,057)	249,391	(2,504,969)	(672,533)	(784,382)
Finance costs						(480,477)
Unallocated expenses ⁽ⁱ⁾						(1,495,892)
Loss before taxation						(2,760,751)
Taxation						(72,285)
Loss for the year						(2,833,036)
Other segment information:						
Segment assets	73,345,436	7,131,328	13,364,178	51,199,542	(83,511,577)	61,528,907
Segment liabilities	42,498,172	8,499,010	10,632,305	31,638,480	(58,455,948)	34,812,019
Non-current assets:						
Property, plant and equipment	1,686,729	2,652,505	1,748,040	12,686,018	(1,270,210)	17,503,082
Other assets	137,500	-	-	-	-	137,500
Additions of property, plant and equipment	170,079	173,619	331,826	712,675	(236,317)	1,151,882
Depreciation of property, plant and equipment	540,145	653,580	507,362	2,567,456	(214,925)	4,053,618
(Gain)/Loss on disposal of property, plant and equipment	-	-	(29,145)	23,585	28,888	23,328
Impairment losses on trade receivables (reversed)/made	(125,930)	-	-	8,689	-	(117,241)
Property, plant and equipment written off	-	-	-	90,941	-	90,941
Write-down on inventories made/(reversed)	-	-	25,810	(117,929)	-	(92,119)

⁽ⁱ⁾ Unallocated expenses relate to directors' remuneration and other corporate related expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

26 Dividends

	2015	2014
	S\$	S\$
The Group and the Company		
Final tax-exempt (one-tier) dividend of nil Singapore cent (2014: 0.075 Singapore cent) per share paid in respect of the previous financial year	-	274,059

At the Annual General Meeting on 25 April 2014, a final tax-exempt (one-tier) dividend of 0.075 Singapore cent per share amounting to S\$274,059 was approved by the shareholders. These dividends paid were accounted for as a reduction in equity as a distribution of retained earnings for the financial year ended 31 December 2014.

27 Financial risk management objective 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.

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 27.3) and foreign currency risk (Note 27.4).

The Group and the Company do not hold or issue derivative financial instruments for trading purposes.

27.1 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

27 Financial risk management objective and policies (cont'd)

27.1 Credit risk (cont'd)

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.

The Group's trade receivables comprise two major debtors (2014: two major debtors) that represented 40% (2014: 46%) of trade receivables. The Company's trade receivables (excluding trade amounts due from subsidiaries) comprise two major debtors (2014: two major debtors) that represented 69% (2014: 72%) of trade receivables.

The Group and the Company evaluate whether there is any objective evidence that trade and other receivables are impaired, and determines the amount of impairment loss as a result of the inability of the debtors to make required payments. The Group and the Company base the estimates on the ageing of the trade receivable balances, creditworthiness of the debtors and historical write-off experience. If the financial conditions of the debtors were to deteriorate, actual write-offs would be higher than estimated.

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.

In determining the recoverability of trade and other receivables, the Group and the Company consider any change in the credit quality of the trade and other receivables from the date credit was initially granted up to the end of the reporting period.

The Group and the Company establish an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures.

The allowance account in respect of trade and other receivables is used to record impairment losses unless the Group and the Company are satisfied that no recovery of the amount owing is possible. At that point, the financial asset is considered irrecoverable and the amount charged to the allowance account is written off against the carrying amount of the impaired financial asset.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

27 Financial risk management objective and policies (cont'd)

27.1 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 to a bank for the borrowings undertaken by a subsidiary (Notes 14.3 and 14.4). These bank borrowings amounted to S\$531,116 (2014: S\$499,664) 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 9.

27.2 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 2015

27 Financial risk management objective and policies (cont'd)

27.2 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	Contractual cash flows	Less than 1 year	Between 1 and 5 years
	S\$	S\$	S\$	S\$
The Group				
2015				
<u>Non-derivative financial liabilities</u>				
Trade and other payables, excluding deferred revenue and provision for retirement benefits (Note 15)	18,344,700	18,344,700	18,344,700	-
Borrowings (Note 14)	11,067,637	11,324,873	10,216,197	1,108,676
	29,412,337	29,669,573	28,560,897	1,108,676
2014				
<u>Non-derivative financial liabilities</u>				
Trade and other payables, excluding deferred revenue and provision for retirement benefits (Note 15)	19,651,327	19,651,327	19,651,327	-
Borrowings (Note 14)	13,293,639	13,569,500	12,264,575	1,304,925
	32,944,966	33,220,827	31,915,902	1,304,925
The Company				
2015				
<u>Non-derivative financial liabilities</u>				
Trade and other payables, excluding deferred revenue (Note 15)	19,959,680	19,959,680	19,959,680	-
Borrowings (Note 14)	10,536,521	10,792,867	9,684,191	1,108,676
Intragroup financial guarantee	531,116	532,484	532,484	-
	31,027,317	31,285,031	30,176,355	1,108,676
2014				
<u>Non-derivative financial liabilities</u>				
Trade and other payables, excluding deferred revenue (Note 15)	27,598,376	27,598,376	27,598,376	-
Borrowings (Note 14)	12,793,975	13,068,417	11,763,492	1,304,925
Intragroup financial guarantee	499,664	501,427	501,427	-
	40,892,015	41,168,220	39,863,295	1,304,925

The Group has contractual commitments to incur capital expenditure for the purchase of property, plant and equipment (Note 24.1).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

27 Financial risk management objective and policies (cont'd)

27.2 Liquidity risk (cont'd)

Except for the Company's cash flows arising from its intragroup corporate guarantee (Note 27.1), 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 intragroup 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 has available adequate amount of committed credit facilities from financial institutions to meet their working capital requirements.

27.3 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.

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

	The Group		The Company	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
Fixed rate instruments				
Financial liabilities				
- obligations under finance leases	(1,142,673)	(1,348,887)	(1,142,673)	(1,348,887)
- loans from financial institutions	(961,557)	(977,791)	(961,557)	(977,791)
	(2,104,230)	(2,326,678)	(2,104,230)	(2,326,678)
Variable rate instruments				
Financial assets				
- bank balances	11,458,854	10,919,274	4,745,776	2,609,128
Financial liabilities				
- loans from financial institutions	(1,900,000)	(1,900,000)	(1,900,000)	(1,900,000)
- bank overdrafts	(1,137,557)	(1,685,353)	(985,251)	(1,524,422)
- bills payable to banks	(5,925,850)	(7,381,608)	(5,547,040)	(7,042,875)
	(8,963,407)	(10,966,961)	(8,432,291)	(10,467,297)
	2,495,447	(47,687)	(3,686,515)	(7,858,169)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

27 Financial risk management objective and policies (cont'd)

27.3 Interest rate risk (cont'd)

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 (2014: 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\$24,954 (2014: S\$477) and S\$36,865 (2014: S\$78,582) lower/higher, respectively, arising mainly as a result of higher/lower interest income from floating rate bank balances, offset by higher/lower interest expense on floating rate loans from financial institutions, bills payable to banks and bank overdrafts.

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.

27.4 Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. 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.

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For the financial year ended 31 December 2015

27 Financial risk management objective and policies (cont'd)

27.4 Foreign currency risk (cont'd)

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	Thai baht	United States dollar
	S\$	S\$	S\$
The Group			
2015			
Trade and other receivables	1,502,546	755,846	11,073,747
Cash and bank balances	-	-	6,825,084
Borrowings	-	-	(5,547,040)
Trade and other payables	(1,637,021)	-	(4,288,701)
Net exposure	<u>(134,475)</u>	<u>755,846</u>	<u>8,063,090</u>
2014			
Trade and other receivables	1,360,932	767,415	16,668,667
Cash and bank balances	-	-	5,153,758
Borrowings	-	-	(6,999,825)
Trade and other payables	(1,607,058)	-	(6,628,794)
Net exposure	<u>(246,126)</u>	<u>767,415</u>	<u>8,193,806</u>
The Company			
2015			
Trade and other receivables	1,502,546	755,846	20,270,527
Cash and bank balances	-	-	4,293,390
Borrowings	-	-	(5,547,040)
Trade and other payables	(1,636,423)	-	(17,008,285)
Net exposure	<u>(133,877)</u>	<u>755,846</u>	<u>2,008,592</u>
2014			
Trade and other receivables	1,360,932	767,415	33,895,893
Cash and bank balances	-	-	2,511,043
Borrowings	-	-	(6,999,825)
Trade and other payables	(1,607,058)	-	(24,331,621)
Net exposure	<u>(246,126)</u>	<u>767,415</u>	<u>5,075,490</u>

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For the financial year ended 31 December 2015

27 Financial risk management objective and policies (cont'd)

27.4 Foreign currency risk (cont'd)

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the Malaysian ringgit (MYR), Renminbi (RMB), Thai baht (THB) 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	
		2015	2014	2015	2014
		S\$	S\$	S\$	S\$
RMB	- strengthened 5% (2014: 5%)	(6,723)	(12,306)	(6,694)	(12,306)
	- weakened 5% (2014: 5%)	6,723	12,306	6,694	12,306
THB	- strengthened 5% (2014: 5%)	37,792	38,371	37,792	38,371
	- weakened 5% (2014: 5%)	(37,792)	(38,371)	(37,792)	(38,371)
USD	- strengthened 5% (2014: 5%)	403,155	409,690	100,430	253,775
	- weakened 5% (2014: 5%)	(403,155)	(409,690)	(100,430)	(253,775)

27.5 Market price risk

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.

28 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.

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For the financial year ended 31 December 2015

28 Capital management (cont'd)

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 2015 and 2014.

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 trade and other payables and borrowings, 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	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
Trade and other payables (Note 15)	19,118,879	21,197,599	20,359,332	27,716,908
Borrowings (Note 14)	11,067,637	13,293,639	10,536,521	12,793,975
Total debt	30,186,516	34,491,238	30,895,853	40,510,883
Less: Cash and bank balances (Note 10)	(11,480,371)	(10,951,090)	(4,748,276)	(2,611,628)
Net debt	18,706,145	23,540,148	26,147,577	37,899,255
Equity attributable to owners of the Company	27,346,886	26,716,888	30,248,291	29,976,195
Less: Statutory reserve (Note 12)	(2,178,344)	(1,898,017)	-	-
Total capital	25,168,542	24,818,871	30,248,291	29,976,195
Total capital and net debt	43,874,687	48,359,019	56,395,868	67,875,450
Gearing ratio	43%	49%	46%	56%

29 Financial instruments

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.

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 prepayments), cash and bank balances, short-term borrowings, and trade and other payables (excluding deferred revenue 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

29 Financial instruments (cont'd)

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	Related amounts not set off in the statement of financial position	Net amounts
	S\$	S\$	S\$
The Group			
2015			
Trade receivables	5,949,212	(98,176)	5,851,036
Trade payables	98,176	(98,176)	-
2014			
Trade receivables	2,209,660	(243,158)	1,966,502
Trade payables	243,158	(243,158)	-
The Company			
2015			
Trade receivables	2,927,518	(67,658)	2,859,860
Trade payables	67,658	(67,658)	-
2014			
Trade receivables	42,759	(42,759)	-
Trade payables	56,999	(42,759)	14,240

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

29 Financial instruments (cont'd)

Transferred financial assets that are not derecognised in their entirety

	The Group		The Company	
	2015	2014	2015	2014
	S\$	S\$	S\$	S\$
Carrying amount of assets:				
Trade receivables (Note 9)	3,263,425	5,192,118	2,884,615	4,853,385
Carrying amount of associated liabilities:				
Bills payable to banks (Note 14.4)	(2,665,923)	(4,364,085)	(2,287,113)	(4,025,352)

SUPPLEMENTARY FINANCIAL INFORMATION

Disclosure required by the Catalist Rules

Properties

Location/ Description	Tenure	Land Area
No. 18 Third Zone, 8228 Beiqing 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 18 March 2016

Issued and paid-up capital : S\$21,638,660
 Number of issued shares : 374,119,000
 Number of treasury shares : 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	0.88	111	0.00
100 - 1,000	119	13.08	115,765	0.03
1,001 - 10,000	250	27.47	1,406,406	0.38
10,001 - 1,000,000	492	54.07	69,322,330	18.53
1,000,001 and above	41	4.50	303,274,388	81.06
	910	100.00	374,119,000	100.00

TOP 20 SHAREHOLDERS

No.	Name of Shareholder	No. of Shares	%
1	Raffles Nominees (Pte) Ltd	57,728,400	15.43
2	Citibank Nominees Singapore Pte Ltd	40,355,100	10.79
3	Chua Kheng Choon	20,852,666	5.57
4	OCBC Securities Private Ltd	17,267,781	4.62
5	Tan Soo Yong	15,255,332	4.08
6	Bank of Singapore Nominees Pte Ltd	14,200,000	3.80
7	Heng Hock Liang	13,859,000	3.70
8	Hong Leong Finance Nominees Pte Ltd	9,981,000	2.67
9	Chua Han Min	9,570,000	2.56
10	CIMB Securities (S) Pte Ltd	9,130,698	2.44
11	Tan Chew Hiah	6,735,000	1.80
12	DBS Nominees Pte Ltd	6,563,700	1.75
13	Lim Chin Tong	6,408,000	1.71
14	KGI Fraser Securities Pte Ltd	5,866,000	1.57
15	HSBC (Singapore) Nominees Pte Ltd	5,600,000	1.50
16	Xue Jing	5,100,000	1.36
17	Royce Choo Li Terng	5,000,000	1.34
18	Maybank Kim Eng Securities Pte Ltd	4,813,606	1.29
19	Goh Eng Seng	4,600,000	1.23
20	Ng Tiam Moy	4,385,000	1.17
		263,271,283	70.38

Shareholdings Held in Hands of Public

Based on information available to the Company as at 18 March 2016, 73.1% 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 18 March 2016

SUBSTANTIAL SHAREHOLDERS

Please refer to the Register of substantial shareholders on page 101 of this Annual Report

ANALYSIS OF WARRANTHOLDINGS

Range of Warrantholdings	No. of Warrantholders	%	No. of Warrants	%
1 - 99	2	0.71	70	0.00
100 - 1,000	17	6.07	15,036	0.01
1,001 - 10,000	77	27.50	406,522	0.23
10,001 - 1,000,000	158	56.43	25,832,107	14.68
1,000,001 and above	26	9.29	149,657,265	85.08
	280	100.00	175,911,000	100.00

TOP 20 WARRANTHOLDERS

No.	Name of Warrantholders	No. of Warrants	%
1	Cal-Comp Electronics (Thailand) Public Company Limited	30,000,000	17.05
2	Chua Kheng Choon	13,300,000	7.56
3	Ko Kay Hyong	10,610,900	6.03
4	Tan Eng Chua Edwin	10,267,000	5.84
5	Tan Soo Yong	9,177,666	5.22
6	Ng Bak Kwang	8,000,000	4.55
7	Heng Hock Liang	7,122,000	4.05
8	Maybank Kim Eng Securities Pte Ltd	7,033,161	4.00
9	See Puai Luan	6,082,000	3.46
10	Chua Han Min	5,982,000	3.40
11	Chee Chong Por	5,173,600	2.94
12	Lim Andy	4,833,943	2.75
13	Eio Hock Chuar	3,601,000	2.05
14	Tan Chew Hiah	3,400,000	1.93
15	Tan Li Lin	3,268,000	1.86
16	Chin Tin Tew	2,933,000	1.67
17	Ho Jee Chan	2,672,000	1.52
18	Lim Chin Tong	2,614,000	1.49
19	Ng Tiam Moy	2,385,000	1.36
20	Tan Cheng Chwee	2,230,000	1.27
		140,685,270	80.00

SHAREHOLDINGS STATISTICS

As at 18 March 2016

The interest of the Directors and Substantial Shareholders in the Shares, Options and Warrants as at 18 March 2016.

	Number of issued and paid-up shares				Number of shares in respect of unexercised option granted under the MCE Share Option Scheme	Number of shares in respect of unexercised Warrants issued by the Company				
	Direct interests		Deemed interests			Direct interest		Deemed interest		
		%		%		%		%		%
Directors										
Chua Kheng Choon	20,959,666	5.60	6,735,000	1.80	2,900,000	28.40	13,300,000	7.56	3,400,000	1.93
Chua Han Min	9,570,000	2.56	-	-	2,400,000	23.51	5,982,000	3.40	-	-
Tan Soo Yong	15,255,332	4.08	536,000	0.14	1,800,000	17.63	9,177,666	5.22	3,268,000	1.86
Lim Chin Tong	6,408,000	1.71	-	-	300,000	2.94	2,614,000	1.49	-	-
Cheah Chow Seng	1,384,000	0.37	-	-	300,000	2.94	692,000	0.39	-	-
Lim Swee Kwang	-	-	66,666	0.02	-	-	-	-	-	-
Substantial Shareholders/ Warrantholders										
Cal-Comp Electronics (Thailand) Public Company Limited	39,709,100	10.61	-	-	-	-	30,000,000	17.05	-	-
Chua Kheng Choon	20,959,666	5.60	6,735,000	1.80	2,900,000	28.40	13,300,000	7.56	3,400,000	1.93
Tan Soo Yong	15,255,332	4.08	536,000	0.14	1,800,000	17.63	9,177,666	5.22	3,268,000	1.86

Notes:

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 and 3,400,000 Warrants is derived from Shares and Warrants held in the name of his spouse.
2. Mr Tan Soo Yong's deemed interest in 536,000 Shares and 3,268,000 Warrants is derived from Shares and Warrants held in the name of his spouse.
3. Mr Lim Swee Kwang's deemed interest in 66,666 Shares is derived from Shares held in the name of his spouse.

NOTICE OF ANNUAL GENERAL MEETING

METAL COMPONENT ENGINEERING LIMITED

(Incorporated in the Republic of Singapore)

(Company Registration No. 198804700N)

NOTICE IS HEREBY GIVEN that the Annual General Meeting of METAL COMPONENT ENGINEERING LIMITED (“**Company**”) will be held at 10 Ang Mo Kio Street 65, Techpoint #04-02, Singapore 569059 on Thursday, 28 April 2016 at 9 a.m. for the following purposes:

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 2015 together with the Auditors’ Report thereon. **(Resolution 1)**
2. To re-elect Mr Chua Kheng Choon as Director, who will retire pursuant to Article 92 of the Company’s Articles of Association, and who, being eligible, offer himself for re-election.
[See Explanatory Note (i)] **(Resolution 2)**
3. To re-elect Mr Lim Chin Tong as Director, who will retire pursuant to Article 92 of the Company’s Articles of Association, and who, being eligible, offer himself for re-election.
[See Explanatory Note (ii)] **(Resolution 3)**
4. To approve the payment of Directors’ fees of S\$110,000 for the financial year ending 31 December 2016 to be paid quarterly in arrears at the end of each calendar quarter (2015: S\$110,000). **(Resolution 4)**
5. To re-appoint Foo Kon Tan LLP, as the Company’s Auditors and to authorise the Directors to fix their remuneration. **(Resolution 5)**
6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions 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 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

NOTICE OF 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 was 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) 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) 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 Shares that may be issued shall be based on the total number of issued Shares (excluding treasury shares) 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;
 - (b) new Shares arising from exercising share options or vesting of share awards outstanding and subsisting at the time of the passing of this Ordinary Resolution; provided that such share awards or share options were granted in compliance with Part VIII of Chapter 8 of the Catalist Rules; and
 - (c) any subsequent bonus issue, consolidation or subdivision of Shares;
 - (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) and the Articles of Association of the Company; and
 - (4) unless revoked or varied by the Company in a general meeting, such authority 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 (iii)]

(Resolution 6)

8. Authority to allot and issue Shares under the MCE Share Option Scheme 2003

"That the Directors 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 (iv)]

(Resolution 7)

NOTICE OF ANNUAL GENERAL MEETING

9. Authority to allot and issue Shares under the MCE Share Option Scheme 2014

“That the Directors 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 2014 (“**2014 Scheme**”) upon the exercise of such options and in accordance with the terms and conditions of the 2014 Scheme.

[See Explanatory Note (v)]

(Resolution 8)

By Order of the Board

Lee Wei Hsiung
Mak Peng Leong Philip
Secretaries
Singapore, 13 April 2016

Explanatory Notes:

- (i) Mr Chua Kheng Choon does not have any relationships, including immediate family relationships with the Directors of the Company, the Company or its 10% shareholders.
- (ii) Mr Lim Chin Tong, if re-elected, will remain as Chairman of the Audit Committee, and continue as a member of the Nominating Committee and the Remuneration Committee. The Board considers Mr Lim Chin Tong to be independent for the purpose of the Rule 704(7) of the Catalist Rules. Mr Lim Chin Tong does not have any relationships, including immediate family relationships with the Directors of the Company, the Company or its 10% shareholders.
- (iii) Ordinary Resolution 6 proposed in item 7 above, if passed, will authorise and empower the Directors from the date of this Annual General Meeting until the date of the next Annual General Meeting, or the date by which the next Annual General Meeting 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) in the capital of the Company, of which up to 50% of the total number of issued Shares (excluding treasury shares) 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 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 this Ordinary Resolution and any subsequent bonus issue, consolidation or subdivision of Shares.
- (iv) Ordinary Resolution 7 proposed in item 8 above, if passed, will authorise and empower the Directors of the Company, from the date of this Annual General Meeting until the next Annual General Meeting, to allot and issue Shares in the Company pursuant to the exercise of Options under the 2003 Scheme. 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.

NOTICE OF ANNUAL GENERAL MEETING

- (v) Ordinary Resolution 8 proposed in item 9 above, if passed, will authorise and empower the Directors of the Company, from the date of this Annual General Meeting until the next Annual General Meeting, to allot and issue Shares in the Company pursuant to the exercise of Options under the 2014 Scheme. The 2014 Scheme was adopted and approved by Shareholders on 25 April 2014.

Notes:

1. (a) A member who is not a Relevant Intermediary is entitled to appoint not more than two (2) proxies to attend and vote at the Annual General Meeting. Where such member appoints two (2) proxies, he/she should specify the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy in the instrument appointing a proxy or proxies.
- (b) A member who is a Relevant Intermediary is entitled to appoint more than two (2) proxies to attend and vote at the Annual 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. A proxy need not be a member of the Company.

“Relevant Intermediary” has the meaning ascribed to it in Section 181 of the Companies Act, Chapter 50

2. The instrument appointing a proxy or proxies must be under the hand of the appointor or on his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its seal or under the hand of an officer or attorney duly authorised.
3. The instrument appointing a proxy must be deposited at the Company’s Share Registrar, M&C Services Private Limited at 112 Robinson Road, #05-01, Singapore 068902 not less than 48 hours before the time appointed for holding the Annual General Meeting.
4. An investor who buys shares using CPF monies (“CPF Investor”) and/or SRS monies (“SRS Investor”) (as may be applicable) may attend and cast his/her vote(s) at the Annual General Meeting in person. CPF and SRS Investors who are unable to attend the Annual General Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Annual General Meeting.

NOTICE OF ANNUAL GENERAL MEETING

Personal data privacy:

By submitting a proxy form appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

*This notice has been prepared by the Company and its contents have been reviewed by the Company's sponsor, Canaccord Genuity Singapore Pte. Ltd. ("**Sponsor**"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"). The Sponsor has not independently verified the contents of this notice.*

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

The contact person for the Sponsor is Ms Leong Huey Miin, Director, Corporate Finance, Canaccord Genuity Singapore Pte. Ltd., at 77 Robinson Road #21-02 Singapore 068896, telephone (65) 68546160.

PROXY FORM

IMPORTANT:

1. For shareholders who have used their CPF monies to buy the Shares of Metal Component Engineering Limited, this Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF Investors who wish to attend and vote at the Meeting, should contact their respective CPF Approved Nominees within the time frame specified.

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

Proxy Form

(Please see notes overleaf before completing this Form)

I/We _____ (Name)
of _____ (Address)
being a member/members of Metal Component Engineering Limited (the "Company"), hereby appoint:

Name	NRIC / Passport Number	Proportion of Shareholdings (%)
Address		

and/or (delete as appropriate)

Name	NRIC / Passport Number	Proportion of Shareholdings (%)
Address		

or failing him/her, the Chairman of the Annual General Meeting (the "Meeting") of the Company, as my/our proxy/proxies to vote for me/us on my/our behalf at Meeting to be held at 10 Ang Mo Kio Street 65, Techpoint #04-02, Singapore 569059 on 28 April 2016 at 9 a.m. and at any adjournment thereof.

I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her/their discretion.

All resolutions put to the vote at the Meeting shall be decided by way of poll.

No.	Resolutions relating to:	For	Against
1.	Adoption of the Directors' Statement and Audited Financial Statements for the financial year ended 31 December 2015.		
2.	Re-election of Mr Chua Kheng Choon as a Director.		
3.	Re-election of Mr Lim Chin Tong as a Director.		
4.	Approval of Directors' fees of S\$110,000 for the financial year ending 31 December 2016 to be paid quarterly in arrears at the end of each calendar quarter.		
5.	Re-appointment of Foo Kon Tan LLP, as Auditors and to authorise the Directors to fix their remuneration.		
6.	Authority to allot and issue new shares.		
7.	Authority to allot and issue shares under MCE Share Option Scheme 2003.		
8.	Authority to allot and issue shares under MCE Share Option Scheme 2014.		

(Please indicate with a cross [X] in the space provided whether you wish your vote to be cast for or against the Resolutions as set out in the Notice of Meeting.)

Dated this _____ day of _____ 2016

Total number of Shares in:	No. of Shares
CDP Register	
Register of Members	

Signature of Shareholder(s) /
Common Seal of Corporate Shareholder



Notes

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Singapore Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
2. (a) A member who is not a Relevant Intermediary is entitled to appoint not more than two (2) proxies to attend and vote at the Annual General Meeting. Where such member appoints two (2) proxies, he/she should specify the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy in the instrument appointing a proxy or proxies.

(b) A member who is a Relevant Intermediary is entitled to appoint more than two (2) proxies to attend and vote at the Annual 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. A proxy need not be a member of the Company.

“Relevant Intermediary” has the meaning ascribed to it in Section 181 of the Companies Act, Chapter 50 of Singapore.

3. The instrument appointing a proxy or proxies must be under the hand of the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its seal or under the hand of an officer or attorney duly authorised.
4. The instrument appointing a proxy or proxies must be deposited at the Company's Share Registrar, M&C Services Private Limited 112 Robinson Road, #05-01, Singapore 068902 not less than 48 hours before the time appointed for the Annual General Meeting.
5. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Annual General Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.
6. An investor who buys shares using CPF monies (“CPF Investor”) and/or SRS monies (“SRS Investor”) (as may be applicable) may attend and cast his/her vote(s) at the Annual General Meeting in person. CPF and SRS Investors who are unable to attend the Annual General Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointer, is not shown to have Shares entered against his/her name in the Depository Register as at 72 hours before the time appointed for holding the Annual General Meeting, as certified by The Central Depository (Pte) Limited to the Company.

PERSONAL DATA PROTECTION ACT CONSENT

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 13 April 2016.



METAL COMPONENT ENGINEERING LIMITED

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