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FSM Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1721)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The Board of Directors (the “**Board**”) of FSM Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2020, together with the comparative figures for the corresponding period in 2019.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the six months ended 30 June	
	<i>Notes</i>	2020	2019
		S\$'000	S\$'000
		(unaudited)	(unaudited)
Revenue	6	4,336	4,970
Cost of sales		(3,876)	(3,425)
Gross profit		460	1,545
Other income	7	340	31
Other gains – net	8	1,028	25
Selling and distribution expenses		(72)	(50)
Administrative expenses		(1,606)	(1,615)
Operating profit/(loss)		150	(64)
Finance income		116	118
Finance costs		(49)	(30)
Finance income, net		67	88
Profit before income tax	9	217	24
Income tax expense	10	(91)	(18)
Profit for the period attributable to owners of the Company		126	6
Earnings per share for profit attributable to owners of the Company			
Basic and diluted (<i>Singapore cents</i>)	11	0.0126	0.0006

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2020	2019
	S\$'000	S\$'000
	(unaudited)	(unaudited)
Profit for the period	126	6
Other comprehensive (loss)/income:		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Currency translation differences	<u>(14)</u>	<u>1</u>
Other comprehensive (loss)/income for the period, net of tax	<u>(14)</u>	<u>1</u>
Total comprehensive income for the period attributable to owners of the Company	<u>112</u>	<u>7</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2020 S\$'000 (unaudited)	As at 31 December 2019 S\$'000 (audited)
	<i>Notes</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		15,004	15,828
Right-of-use assets		567	597
Intangible assets		43	47
		<u>15,614</u>	<u>16,472</u>
Current assets			
Inventories		3,126	2,990
Trade and other receivables	13	1,420	2,089
Pledged bank deposits		3,545	711
Short-term bank deposits		12,098	11,780
Cash and cash equivalents		9,129	11,649
		<u>29,318</u>	<u>29,219</u>
Total assets		<u>44,932</u>	<u>45,691</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	16	1,695	1,695
Reserves		21,178	21,192
Retained earnings		16,691	16,565
Total equity		<u>39,564</u>	<u>39,452</u>

		As at 30 June 2020 <i>S\$'000</i> (unaudited)	As at 31 December 2019 <i>S\$'000</i> (audited)
	<i>Notes</i>		
LIABILITIES			
Non-current liabilities			
Borrowings	15	575	848
Lease liabilities		675	718
Deferred income tax liabilities		1,421	1,413
Provision for reinstatement cost	14	72	72
		<u>2,743</u>	<u>3,051</u>
Current liabilities			
Trade and other payables	14	1,558	2,142
Current income tax liabilities		200	85
Borrowings	15	722	827
Lease liabilities		82	74
Amounts due to a director		63	60
		<u>2,625</u>	<u>3,188</u>
Total liabilities		<u>5,368</u>	<u>6,239</u>
Total equity and liabilities		<u>44,932</u>	<u>45,691</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 5 February 2018 as an exempted company with limited liability under the Companies Law (Cap 22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the **"Group"**) principally engage in precision engineering and sheet metal fabrication business.

The immediate and ultimate holding companies of the Company were KAL SG Limited and KYL SG Limited and the ultimate controlling parties of the Group were Mr. Toe Tiong Hock and Ms. Wong Yet Lian until 20 December 2019. On 20 December 2019, Luxuriant East Limited, a company incorporated in the British Virgin Islands, became the immediate and ultimate holding company of the Company and the ultimate controlling party of the Group was changed to Mr. Li Thet.

The Company's shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited on 16 July 2018.

The condensed consolidated interim financial information is presented in Singapore Dollar ("**S\$**") unless otherwise stated.

2. BASIS OF PREPARATION

The condensed consolidated interim financial information for the six months ended 30 June 2020 is prepared in accordance with International Accounting Standard ("**IAS**") 34, "Interim Financial Reporting". The condensed consolidated interim financial information have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by International Accounting Standards Board ("**IASB**"). The condensed consolidated interim financial information should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2019.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied and methods of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new or revised standards, amendments and interpretations which are relevant to the operations of the Group and mandatory for annual periods beginning 1 January 2020.

The following standards and amendments have been adopted by the Group for the first time for the financial year beginning on 1 January 2020:

Amendments to IAS 1 and IAS 8	Definition of material
Amendments to IFRS 3	Definition of a business
Conceptual Framework	Revised Conceptual Framework for Financial Reporting
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The adoption of these new and amended standards does not have significant impact on the condensed consolidated financial statements of the Group.

4. ESTIMATES AND FINANCIAL RISK MANAGEMENT

(a) Estimates

The preparation of interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

(b) Financial risk management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial information do not include financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2019.

There have been no changes in the risk management policies since year end.

4.2 *Liquidity risk*

There was no material change in the contractual undiscounted cash flows for financial liabilities.

4.3 *Fair value estimation*

The carrying values of the Group's current financial assets, including trade receivables, deposits, other receivables, pledged bank deposits, short-term deposits and cash and cash equivalents, and the Group's current financial liabilities, including trade and other payables, amounts due to a director and bank borrowings approximate their fair values due to their short maturities.

At 30 June 2020 and 31 December 2019, the Group did not have any financial instruments carried at fair value.

The carrying values less impairment provision of trade and other receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

5. SEGMENT INFORMATION

The Chief Operating Decision Maker (“**CODM**”) monitors the operating results of its operating segments for the purpose of making decisions about resource allocation and performance assessment. The CODM of the Group are Mr. Li Thet and Mr. Toe Tiong Hock.

The CODM monitors the performance of the Group based on profit after income tax. The CODM considers all business included in a single operating segment.

The Group's revenue is mainly derived from sales to customers located in Singapore. As at 30 June 2020, the Group's non-current assets other than financial instruments and deferred income tax assets located out of Singapore (mainly in Malaysia) amounted to S\$3.79 million (31 December 2019: S\$3.91 million).

For the six months ended 30 June 2020, there were three (six months ended 30 June 2019: two) customers which individually contributed over 10% of the Group's total revenue. During the period, the revenues contributed from those customers are as follows:

	For the six months ended	
	30 June	
	2020	2019
	S\$'000	S\$'000
	(unaudited)	(unaudited)
Customer A	2,211	4,091
Customer B	1,174	542
Customer C	852	–
	<u>852</u>	<u>–</u>

6. REVENUE

Revenue from sale of manufactured sheet metal products and rendering of precision machining services recognised during the six months ended 30 June 2020 and 2019 are as follows:

	For the six months ended	
	30 June	
	2020	2019
	S\$'000	S\$'000
	(unaudited)	(unaudited)
Sale of sheet metal products	4,330	4,893
Precision machining services	6	77
	<u>4,336</u>	<u>4,970</u>

7. OTHER INCOME

	For the six months ended	
	30 June	
	2020	2019
	S\$'000	S\$'000
	(unaudited)	(unaudited)
Government grant	280	12
Scrap sales	5	11
Others	55	8
	<u>340</u>	<u>31</u>

8. OTHER GAINS – NET

	For the six months ended	
	30 June	
	2020	2019
	<i>S\$'000</i>	<i>S\$'000</i>
	(unaudited)	(unaudited)
Foreign exchange gains	<u>1,028</u>	<u>25</u>

9. PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at after charging/(crediting):

	For the six months ended	
	30 June	
	2020	2019
	<i>S\$'000</i>	<i>S\$'000</i>
	(unaudited)	(unaudited)
Cost of inventories sold	902	939
Employee benefit expenses (including directors' emoluments)	1,884	2,060
Depreciation charge for property, plant and equipment and right-of-use assets	994	874
Amortisation of intangible assets	4	–
Operating lease expense in respect of short-term leases	48	–
Utilities	128	155
Subcontractor fees	659	671
Auditor's remuneration		
– Audit services	129	125
Foreign exchange gains	(1,028)	(25)
Government grant	<u>(280)</u>	<u>(12)</u>

10. INCOME TAX EXPENSE

The amount of income tax expense charged to the condensed consolidated statements of profit or loss represent:

	For the six months ended	
	30 June	
	2020	2019
	S\$'000	S\$'000
	(unaudited)	(unaudited)
Current income tax	84	18
Deferred income tax	7	–
Income tax expense	91	18

(a) Cayman Islands and British Virgin Islands corporate income tax

The Group was not subject to any taxation in the Cayman Islands and the British Virgin Islands for the six months ended 30 June 2020 and 2019.

(b) Singapore corporate income tax

Singapore corporate income tax is calculated at the rate of 17% on the chargeable income of the subsidiaries incorporated in Singapore in accordance with Singapore Income Tax Act during the six months ended 30 June 2020 (six months ended 30 June 2019: 17%).

(c) Malaysia corporate income tax

Malaysia corporate income tax is calculated at the rate of 24% on the chargeable income of the subsidiaries incorporated in Malaysia in accordance with Malaysia Income Tax Act during the six months ended 30 June 2020 (six months ended 30 June 2019: 24%).

(d) Hong Kong profit tax

Hong Kong profits tax rate is 16.5% for the six months ended 30 June 2020. The Group's subsidiaries incorporated in Hong Kong are not subject to Hong Kong profits tax as they have no assessable income arising in and derived from Hong Kong for the six months ended 30 June 2020.

(e) Mainland China corporate income tax

The Group's subsidiaries incorporated in Mainland China are subject to Mainland China corporate income tax ("CIT") at rate of 25%. The subsidiaries in Mainland China are not subject to Mainland China CIT as they did not commence business during the six months ended 30 June 2020.

11. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2020 and 2019.

	For the six months ended	
	30 June	
	2020	2019
	(unaudited)	(unaudited)
Profit attributable to the owners of the Company (<i>S\$'000</i>)	<u>126</u>	<u>6</u>
Weighted average number of ordinary shares in issue (<i>in thousand</i>)	<u>1,000,000</u>	<u>1,000,000</u>
Basic earnings per share in Singapore cents	<u><u>0.0126</u></u>	<u><u>0.0006</u></u>

(b) Diluted

For the six months ended 30 June 2020 and 2019, diluted earnings per share equals basic earnings per share as there was no dilutive potential shares.

12. INTERIM DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

13. TRADE AND OTHER RECEIVABLES

	As at 30 June 2020 S\$'000 (unaudited)	As at 31 December 2019 S\$'000 (audited)
Current		
Trade receivables	1,209	1,917
Less: loss allowance	—	—
Trade receivables, net	1,209	1,917
Prepayments	91	73
Deposits	81	87
Other receivables	39	12
	1,420	2,089

The Group normally grants credit terms to its customers ranging from 30 to 90 days. The ageing analysis of these trade receivables based on invoice date as at 30 June 2020 and 31 December 2019 was as follows:

	As at 30 June 2020 S\$'000 (unaudited)	As at 31 December 2019 S\$'000 (audited)
0 to 30 days	731	1,153
31 to 60 days	462	305
61 to 90 days	9	455
Over 90 days	7	4
	1,209	1,917

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. There is no significant impact of loss allowance for trade receivables as at 30 June 2020.

14. TRADE AND OTHER PAYABLES AND PROVISION

	As at 30 June 2020 S\$'000 (unaudited)	As at 31 December 2019 S\$'000 (audited)
Non-current		
Provision for reinstatement cost	<u>72</u>	<u>72</u>
Current		
Trade payables	965	1,022
Other payables and accruals		
– Accrued expenses	499	910
– Others	<u>94</u>	<u>210</u>
	<u>1,558</u>	<u>2,142</u>
	<u>1,630</u>	<u>2,214</u>

As at 30 June 2020 and 31 December 2019, the ageing analysis of the trade payables based on invoice date was as follows:

	As at 30 June 2020 S\$'000 (unaudited)	As at 31 December 2019 S\$'000 (audited)
0 to 30 days	311	368
31 to 60 days	131	270
61 to 90 days	147	143
Over 90 days	<u>376</u>	<u>241</u>
	<u>965</u>	<u>1,022</u>

15. BORROWINGS

	As at 30 June 2020 S\$'000 (unaudited)	As at 31 December 2019 S\$'000 (audited)
Bank loan	145	222
Hire purchase liabilities	1,152	1,453
Total borrowings	<u>1,297</u>	<u>1,675</u>
Of which		
Current liabilities	722	827
Non-current liabilities	575	848
	<u>1,297</u>	<u>1,675</u>

The carrying amounts of the Group's borrowings approximate their fair values and are denominated in S\$.

The bank loan was secured by corporate guarantee provided by the Company, and legal charges of two properties held by the Group in Singapore, with total carrying amount of S\$6.76 million as at 30 June 2020 (31 December 2019: S\$6.90 million), while the hire purchase liabilities were secured by the machinery.

In addition to the above, the Group is required to comply with certain restrictive financial covenants imposed by the banks.

16. SHARE CAPITAL

	Number of shares	Share capital S\$'000
Authorised:		
Ordinary shares of HK\$0.01 each		
At 31 December 2019, 1 January 2020 and 30 June 2020	<u>2,000,000,000</u>	<u>3,390</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each		
At 31 December 2019, 1 January 2020 and 30 June 2020	<u>1,000,000,000</u>	<u>1,695</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a sheet metal fabricator with a focus on precision engineering and a precision machining service provider based in Singapore. Sheet metal fabrication is the use of sheet metal to produce structures and products for various applications, whereas precision engineering requires attention to detail and knowledge for careful application of measurements, control and fabrication methods which supports the production of complex components in various industries including semiconductor manufacturing, machinery and machine tools manufacturing and printing application. During the six months ended 30 June 2020, all of the Group's revenue was derived from (i) sale of sheet metal products; and (ii) provision of precision machining services.

The Group's customers are contract manufacturers and brand owners which include subsidiaries of several established multi-national companies. The Group's customers would integrate and assemble sheet metal products provided by the Group into machineries used for various applications as stated above.

In the first half of 2020, the global economy was deeply dampened by the outbreak of the novel coronavirus covid-19 (the “**COVID-19**”) pandemic starting from January 2020. Different levels of lockdown and quarantine measures around the world to contain the COVID-19 pandemic has directly led to cliff-edge fall in economies, disruptive impact on supply chains on various industries and challenges to individual and businesses in many countries.

Affected by the COVID-19 pandemic in Malaysia, our manufacturing plant in Malaysia was temporarily closed from 18 March to 19 April 2020, resumed production operation at level up to 50% of total labor force from 20 April to 28 April 2020 and returned to full production work force restoring to normal levels of operation after 28 April 2020. Meanwhile, our Singapore operations was classified as an essential service and remained in operation during the circuit breaker enforced by the Singapore Government from 7 April to 1 June 2020.

During the period when safe distancing measures and movement control orders were enforced in Singapore and Malaysia, the Group made appropriate adjustments to fully utilize production capabilities available at the Group's Singapore and Malaysia manufacturing plants in order to keep the disruptions to the minimum.

For the six months ended 30 June 2020, the Group recorded total revenue of approximately S\$4.34 million, representing a decrease of approximately S\$0.63 million or 12.76%, from approximately S\$4.97 million for the six months ended 30 June 2019. The decrease was mainly attributable to requests by our customers to postpone the deliveries of products ordered as a result of the adverse impact and uncertainties brought by the COVID-19 pandemic and the enforcement of safe distancing measures and movement control orders in Singapore and Malaysia in the first half of 2020.

BUSINESS PROSPECTS

The International Monetary Fund (“IMF”) had revised the global year 2020 growth projections downwards from –3.0% to –4.9% during their June 2020 review¹. For the second half of 2020, the threat of another wave of infection of the COVID-19 and the continued fallout from the worsening US-China tension will remain major concerns. The external environment in the second half of 2020 is expected to be more uncertain and the market sentiment could be more pessimistic resulting from further downward pressure on the economy of Singapore. Gross domestic product of Singapore in the second quarter of 2020 declined by an annualized quarter-on-quarter and seasonally-adjusted rate of 42.9% from the first quarter of 2020² and contracted by 3.3% as compared with the second quarter of 2019³.

Despite such a challenging environment, the Group will continuously deploy outreach strategies in maintaining relationships with existing and potential customers and enhancing production competency and efficiency through the upgrading of machines and usage of robotic to reduce production cost. Meanwhile, the Board has reviewed the Group’s operation and business activities and formulated strategies to capture new market opportunities including the development of mobile games business and ancillary services to online advertising business in the second half of 2020. The subsidiaries of the new businesses were incorporated in June 2020 in order to strengthen the Group’s performance in the existing challenging environment and the Board believes that a more diversified revenue streams is expected to deliver long term sustainable value to our shareholders.

¹ <https://www.imf.org/en/Publications/WEO>

² https://www.mti.gov.sg/-/media/MTI/Resources/Economic-Survey-of-Singapore/2020/Economic-Survey-of-Singapore-Second-Quarter-2020/PR_2Q20.pdf

³ <https://www.mti.gov.sg/Newsroom/Press-Releases/2019/08/MTI-Expects-GDP-Growth-to-be-0-to-1-Per-Cent-in-2019>

FINANCIAL REVIEW

Revenue

The following table sets forth the breakdown of the Group's revenue from (i) sale of sheet metal products and (ii) provision of precision machining services during the six months ended 30 June 2020 and 2019:

	For the six months ended 30 June			
	2020		2019	
	<i>S\$'000</i> (unaudited)	%	<i>S\$'000</i> (unaudited)	%
Sale of sheet metal products	4,330	99.86	4,893	98.45
Precision machining services	6	0.14	77	1.55
Total	<u>4,336</u>	<u>100.00</u>	<u>4,970</u>	<u>100.00</u>

During the six months ended 30 June 2020, the Group's revenue decreased by approximately S\$0.63 million or 12.76% compared to the same period in 2019. The decrease was mainly attributable to requests by our customers to postpone the deliveries of products ordered as a result of the adverse impact and uncertainties brought by the COVID-19 pandemic and the enforcement of safe distancing measures and movement control orders in Singapore and Malaysia in the first half of 2020.

Gross profit and gross profit margin

During the six months ended 30 June 2020, the Group's gross profit decreased by approximately S\$1.09 million from approximately S\$1.55 million for the six months ended 30 June 2019 to approximately S\$0.46 million for the six months ended 30 June 2020. The Group's gross profit margin decreased from approximately 31.09% for the six months ended 30 June 2019 to approximately 10.61% for the six months ended 30 June 2020. Such decrease was mainly due to (a) the adverse impact and uncertainties brought by the COVID-19 pandemic and the enforcement of safe distancing measures and movement control orders in Singapore and Malaysia resulting in (i) the decline in revenue due to requests by our customers to postpone the deliveries of products ordered; and (ii) downward pressure on the gross profit margin of our products in the first half of 2020; (b) the relatively high fixed cost base with recurring manufacturing costs such as depreciation and staff costs despite lower levels of sales and production.

Other income

The Group's other income increased by approximately S\$0.31 million from approximately S\$0.03 million for the six months ended 30 June 2019 to approximately S\$0.34 million for the six months ended 30 June 2020. Such increase was mainly due to the government grant in relation to the employment related subsidies provided by the Governments of Singapore and Malaysia to help businesses and individuals adapt and build resilience amid the COVID-19 pandemic.

Other gains-net

The Group's other gains-net increased by approximately S\$1.00 million from approximately S\$0.03 million for the six months ended 30 June 2019 to approximately S\$1.03 million for the six months ended 30 June 2020. Such increase was mainly attributable to the significant increase in foreign exchange gains arising from appreciation of United States Dollars ("USD") and Hong Kong Dollars ("HKD") against Singapore Dollars ("SGD") which is the Company's functional currency and the Group's presentation currency for the six months ended 30 June 2020 as compared to foreign exchange gains for the same period in 2019.

Administrative expenses

The Group's administrative expenses which were mainly consisted of employee benefit expenses, legal and professional fee and auditor's remuneration, decreased by approximately S\$0.01 million or 0.56% from approximately S\$1.62 million for the six months ended 30 June 2019 to approximately S\$1.61 million for the six months ended 30 June 2020.

Profit for the period attributable to owners of the Company

As a result of the above factors, the Group recorded a profit of approximately S\$0.13 million attributable to owners of the Company for the six months ended 30 June 2020 (six months ended 30 June 2019: S\$6,000).

Liquidity and financial resources

The Group's primary uses of cash are to satisfy the working capital and capital expenditure needs. The Group's working capital needs and capital expenditure requirements have been principally financed through a combination of shareholders' equity, cash generated from operations, trade facilities and bank loans.

The Group adopts a prudent cash and financial management policy. The Group's cash, mainly denominated in USD, SGD, Malaysian Ringgit (“MYR”) and HKD, are generally deposited with reputable financial institutions. The Group's borrowings and lease liabilities are denominated in SGD.

As at 30 June 2020, the Group's total equity attributable to owners of the Company amounted to approximately S\$39.56 million (31 December 2019: approximately S\$39.45 million).

As at 30 June 2020, the Group's net current assets was approximately S\$26.69 million (31 December 2019: approximately S\$26.03 million) and the Group had cash and cash equivalents, short-term bank and pledged deposits of approximately S\$24.77 million (31 December 2019: approximately S\$24.14 million). The Group had borrowings and lease liabilities of approximately S\$1.30 million (31 December 2019: approximately S\$1.68 million) and S\$0.76 million (31 December 2019: approximately S\$0.79 million) respectively.

The effective interest rates of the Group's term loan for the six months ended 30 June 2020 was approximately 4.52% (six months ended 30 June 2019: approximately 4.87%).

As at 30 June 2020, the Group's current ratio (calculated by dividing current assets by current liabilities as at the end of the period/year) was approximately 11.17 times (31 December 2019: approximately 9.17 times). The Group's gearing ratio (calculated by dividing total borrowings and lease liabilities by total equity as at the end of the period/year) was approximately 5.19% (31 December 2019: approximately 6.25%).

Capital Structure

There has been no change in the capital structure of the Group since the listing (the “**Listing**”) of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The share capital of the Company only comprises ordinary shares.

Significant Investments, Material Acquisition and Disposal of Subsidiaries and Associated Companies

There were no significant investments held, material acquisition or disposal of subsidiaries or associated companies during the six months ended 30 June 2020.

Pledge of Assets

As at 30 June 2020, the Group's bank loan was secured by legal charges of two properties of the Group with total carrying amount of approximately S\$6.76 million (31 December 2019: approximately S\$6.90 million) and corporate guarantee provided by the Company.

As at 30 June 2020, the Group recorded hire purchase liabilities of approximately S\$1.15 million (31 December 2019: approximately S\$1.45 million) which were secured by the Group's machineries.

Future plans for material investments or capital assets

Save as disclosed in the prospectus of the Company dated 29 June 2018 (the "**Prospectus**"), the Group did not have other future plans for material investments or additions of capital assets as at 30 June 2020.

Capital Commitments

As at 30 June 2020, the Group had no material capital commitments.

Contingent Liabilities

As at 30 June 2020, the Group did not have any significant contingent liability, guarantee or any litigation against the Group that would have a material impact on the Group's financial position or results of operations.

Share Option Scheme

The Company adopted a share option scheme on 15 March 2018 (the "**Scheme**") and shall be valid until 15 March 2028. Pursuant to the Scheme, certain eligible participants, among others, the directors of the Company (the "**Director(s)**") and employees of the Group, may be granted options to subscribe for shares of the Company (the "**Shares**"). The purpose of the Scheme is to provide incentives or rewards to employees for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees and attract human resources. A summary of the principal terms of the Scheme is set out in the paragraph headed "D. Share Option Scheme" in Appendix V to the Prospectus. The terms of the Scheme are in accordance with the provisions of Chapter 17 of the Rules Governing the Listing of Securities (the "**Listing Rules**"). No share option has been granted since the adoption of the Scheme and there was no share option outstanding as at 30 June 2020.

The maximum number of Shares which can be awarded under the Scheme is 10% of the total number of Shares in issue on 16 July 2018 (the “**Listing Date**”) unless the Company obtains the approval of the shareholders of the Company (the “**Shareholders**”) in general meeting for refreshment. Upon acceptance of an offer for grant of option(s) under the Scheme, the participant shall pay HK\$1.00 to our Company by way of consideration for the grant, which option(s) will be offered for acceptance for a period of 21 days from the date of grant.

Unless approved by the Shareholders in a general meeting, the amount of Shares which can be awarded to a substantial Shareholder or an independent non-executive Director or their respective associates in the Scheme in the 12-month period up to and including the date of such grant for any particular aforementioned person in aggregate, is at maximum 0.1% of the Shares in issue and having an aggregate value, based on the closing price of the Shares at the date of each grant, of a maximum of HK\$5.0 million.

The subscription price for the Shares subject to any particular option under the Scheme shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant option but in any case the relevant subscription price shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotation sheet on the date of the grant of the option, which must be a trading day; (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five trading days immediately preceding the date of the grant of the relevant option; and (iii) the nominal value of a Share.

Use of Proceeds from the Listing

The Group completes the Listing and received net proceeds of approximately HK\$95.2 million (“**Net Proceeds**”). The Net Proceeds has been and will be used in the manner consistent with that mentioned in the section headed “Future Plans and Use of Proceeds” of the Prospectus and the 2019 annual report of the Company.

Applications of the Net Proceeds during the period from the Listing Date up to 30 June 2020 were as follows:

Use of Net Proceeds:	Planned use of Net Proceeds <i>HK\$ million</i>	Unused amount as at 1 January 2020 <i>HK\$ million</i>	Amount utilized up to 30 June 2020 <i>HK\$ million</i>	Unused amount as at 30 June 2020 <i>HK\$ million</i>	Expected timeline for utilizing the remaining proceeds <i>(Note)</i>
Expansion in production capacity	46.8	31.3	16.5	30.3	Before 31 December 2021
Greater production automation	29.1	18.4	11.8	17.3	Before 31 December 2021
Enhancing our information technology system	9.4	9.3	0.9	8.5	Before 31 December 2020
Improving quality assurance capabilities	2.7	2.7	0.1	2.6	Before 31 December 2021
Increasing market efforts	1.2	1.2	–	1.2	Before 31 December 2021
Working capital and general corporate purposes	6.0	–	6.0	–	
	<u>95.2</u>	<u>62.9</u>	<u>35.3</u>	<u>59.9</u>	

As at 30 June 2020 and the date of this announcement, the unutilized Net Proceeds were placed in interest-bearing deposits with licensed banks in Hong Kong and Singapore.

Note:

The expected timeline for utilizing the remaining proceeds is based on the best estimation of the future market conditions made by the Group and will be subject to change based on future development of market conditions.

Foreign Exchange Risk

Majority of the Group's business operations were conducted in Singapore and Malaysia. The sales of the Group are denominated in USD and SGD. The purchases of the Group are denominated in SGD, USD and MYR. The functional currency of the Group is SGD. As at 30 June 2020, the Group retained part of the proceeds from the Listing in HKD and USD. The Group will therefore be subject to fluctuation in foreign exchange rates.

Management closely monitors foreign currency exchange exposure and will take measures to minimise the currency translation risk. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposure. The Group did not engage in any derivatives agreement and did not commit to any financial instruments to hedge its foreign exchange exposure during the period.

Interim Dividend

The Board resolved not to declare payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

Employees and Remuneration Policies

As at 30 June 2020, the Group employed 149 full-time employees (31 December 2019: 147 employees). Total staff costs (including directors' emoluments), amounting to approximately S\$1.88 million for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately S\$2.06 million), mainly included wages, salaries, allowances and defined contribution plans. The employees' salaries are determined based on each employee's qualification, experience and suitability. The Directors receive compensation in the form of salaries, benefits in kind and discretionary bonuses related to the Group's performance. The emoluments of the Directors have been reviewed by the remuneration committee of the Company, having regard to the Company's operating results, market competitiveness, individual performance and achievement, and approved by the Board. The Group also provides on-work training to the employees to improve technical competence and occupational health and safety.

Events After Reporting Period

The Group does not have any material subsequent event after the reporting period and up to the date of this announcement.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the Shareholders of the Company and to enhance corporate value and responsibility. The Board comprises two executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (“**CG Code**”) set out in Appendix 14 to the Listing Rules. During the six months ended 30 June 2020 and up to the date of this announcement, the Company has complied with the code provisions under the CG Code, with the deviation that during the period from 1 January 2020 to 7 April 2020, the roles of the chairman of the Board (the “**Chairman**”) and the chief executive officer of the Company (the “**CEO**”) have not been segregated as required under code provision A.2.1 of the CG Code.

With effect from 8 April 2020, Mr. Toe Tiong Hock (“**Mr. Toe**”) ceased to be the Chairman but remains as an executive Director and the CEO, and Mr. Li Thet was appointed as the new Chairman. Since then, the Company complied with the code of provision A.2.1 of the CG Code.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

AUDIT COMMITTEE

The audit committee (the “**Audit Committee**”) of the Company has reviewed the Group’s unaudited condensed consolidated interim results for the six months ended 30 June 2020 and discussed with the management on the accounting principles and practices, financial reporting process and internal control adopted by the Group, with no disagreement by the Audit Committee.

SECURITIES TRANSACTIONS BY DIRECTORS

The Group adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as the codes of conduct regarding securities transactions by Directors and by relevant employees of the Group. All Directors have confirmed, following specific enquiries by the Company, that they fully complied with the Model Code and its code of conduct regarding directors’ securities transactions throughout the six months period ended 30 June 2020.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement will be published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.fsmtech.com). The interim report of the Company for the six months ended 30 June 2020 will be dispatched to Shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

By Order of the Board
FSM Holdings Limited
Li Thet
Chairman

Hong Kong, 28 August 2020

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Li Thet and Mr. Toe Tiong Hock; and three independent non-executive Directors, namely Mr. Bau Siu Fung, Mr. Wong Po Keung and Mr. Lau Chun Ho Edward.