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## **FSM Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1721)**

### **(1) KEY FINDINGS OF THE INDEPENDENT REVIEW AND THE FOLLOW-UP REVIEW; (2) FULFILMENT OF THE RESUMPTION GUIDANCE; AND (3) RESUMPTION OF TRADING**

This announcement is made by FSM Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”).

Reference is made to the announcements of the Company dated 31 March 2021, 28 May 2021, 30 June 2021, 31 August 2021, 30 September 2021, 26 November 2021 and 8 December 2021, respectively (collectively, the “**Announcements**”) in relation to, among others, (i) the suspension of trading in the shares of the Company (the “**Shares**”) on the Stock Exchange; (ii) delay in publication of the 2020 Annual Results; (iii) postponement of Board meeting for approving the 2020 Annual Results; (iv) the Resumption Guidance; (v) quarterly update on suspension of trading of the Shares; (vi) further delay in publication of the 2020 Annual Results and 2021 Interim Results; (vii) the date of Board meeting for approving, among others, the 2020 Annual Results and 2021 Interim Results; (viii) publication of the 2020 Annual Results; and (ix) publication of the 2021 Interim Results. Unless otherwise stated, capitalised terms used herein shall have the same meaning as those defined in the Announcements.

## **BACKGROUND**

As disclosed in the announcement of the Company dated 31 March 2021, the Company had to delay the publication of the 2020 Annual Results due to the Issue relating to accounting treatment over the inventory of the Group as at 31 December 2019 as the consolidated financial statements for the 2020 Annual Results were prepared. At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:00 a.m. on 1 April 2021.

As disclosed in the announcement of the Company dated 28 May 2021, the Stock Exchange has set out the following Resumption Guidance for the Company:

- (i) conduct an appropriate independent investigation into the Issue, assess the impact on the Company's business operation and financial position, announce the findings and take appropriate remedial actions (the "**First Resumption Guidance**");
- (ii) publish all outstanding financial results required under the Listing Rules and address any audit modifications (the "**Second Resumption Guidance**");
- (iii) demonstrate its compliance with Rule 13.24 of the Listing Rules (the "**Third Resumption Guidance**"); and
- (iv) announce all material information for the Company's shareholders and investors to appraise the Company's position (the "**Fourth Resumption Guidance**").

## **FULFILMENT OF RESUMPTION GUIDANCE**

The Board is pleased to announce that as at the date of this announcement, the Resumption Guidance has been fully fulfilled to the Stock Exchange's satisfaction, details of which are set out below. A summary of the key findings of the Independent Review and the Follow-up Review (as defined below) are also set out in the paragraph headed "(I) First Resumption Guidance – (A) The Independent Review and the Follow-up Review" below in this announcement.

## (I) First Resumption Guidance

### (A) *The Independent Review and the Follow-up Review*

#### *Background and scope*

As disclosed in the announcement of the Company dated 31 March 2021, the Company has identified the Issue when finalising the 2020 Annual Results. The Issue concerns accounting treatment over the inventory of the Group as at 31 December 2019 as the consolidated financial statements for the 2020 Annual Results were prepared.

In light of the Issue, the Company engaged BT Corporate Governance Limited as an independent consultant (the “**Independent Consultant**”) to perform the Independent Review and issue a report to the Audit Committee.

Pursuant to the terms of engagement between the Company and the Independent Consultant, the major scope of work under the 1st stage of Independent Review is set out as follows:

- (i) review the current accounting policy of the Group over the valuation of inventory, including raw materials, work-in-progress and finished goods;
- (ii) ascertain if the current accounting policy of the Group is in line with the relevant financial reporting standards;
- (iii) ascertain if the current accounting policy was applied properly to the year-end inventory balance as at 31 December 2019 and 31 December 2020 by the Group by:
  - a. reviewing the tracking and recording of the inventory during the year and the year-end verification process; and
  - b. inspecting the relevant accounting sub-ledgers for any unusual journal entries relating to inventory;
- (iv) perform data analytics on the inventory and cost of goods sold accounts to identify any unusual relationships; and

- (v) highlight any opportunities for improvement.

Based on the findings in the 1st stage of the Independent Review regarding the Omission (as defined below), the Company instructed the Independent Consultant to further conduct the 2nd stage of Independent Review based on the major scope of work set out as follows:

- (i) identify the root causes for the Omission; and
- (ii) provide recommendations for any inadequacy identified in respect of the internal control of the Group.

*Works performed under the 2nd stage of Independent Review*

During the course of the 2nd stage of Independent Review, the Independent Consultant had performed the following work:

- (i) reviewed relevant supporting documents and transactions made in the relevant accounting systems of the Group; and
- (ii) interviewed and reviewed email correspondence of the relevant key personnel of the Group who were involved in the operations and financial reporting of the Group.

*Summary of key findings of the Independent Review*

As mentioned in the announcement of the Company dated 30 September 2021, the Independent Consultant issued the Final Report in respect of its findings to the Audit Committee.

According to the Final Report, the Independent Consultant found that for the financial year ended 31 December 2019 (“**FY2019**”), reversal regarding the consolidation journal entries made during book closing for the costs of inventory was omitted (the “**Omission**”) in the preparation of the Group’s consolidated financial statements as at 31 December 2019. During the process of the Independent Review, the Independent Consultant has not been aware of any evidence which suggests that the Omission is related to fraud.

In respect of the root cause of the Omission, the Independent Consultant noted the followings that might have contributed to the Omission:

- (i) changes in key financial personnel of the Group during the period close to the financial year end of FY2019 with insufficient time for the handover of duties which resulted in a lack of key financial personnel with thorough understanding of the Group's consolidation worksheets and the relevant underlying basis of consolidation accounting for FY2019; and
- (ii) consolidation accounting of the Group was prepared manually in terms of Excel spreadsheets which could have contributed to the occurrence of human mistakes. The likelihood of inadvertent oversight of the Group consolidation accounting for FY2019 was heightened by the absence of suitable internal finance staff to assess and review the work performed by the relevant personnel involved due to the changes in key financial personnel of the Group close to the financial year end date and during the relevant audit exercise.

#### *Views of the Audit Committee*

Having considered (i) the independence, credentials and qualifications of the Independent Consultant; (ii) the methodologies adopted by the Independent Consultant; and (iii) the works performed by the Independent Consultant, the Audit Committee concurs with the key findings of the Final Report as set forth in the paragraph headed "Summary of key findings of the Independent Review" above in this announcement.

#### *Recommendations by the Independent Consultant*

Set forth below are the recommendations of the Independent Consultant to prevent the recurrence of the Omission:

- (i) the management of the Group should ensure that the Group consolidated accounts and manual consolidation journal entries are reviewed by competent accounting personnel before finalisation of the consolidated financial statements; and

- (ii) the management of the Group should explore the possibility of using system controls for consolidation accounting.

#### *Follow-up Review*

The Company has engaged the Independent Consultant to perform a follow-up review on whether the remedial actions to prevent the recurrence of the Omission have been adequately undertaken by the Company (the “**Follow-up Review**”). Based on the Follow-up Review, the Independent Consultant is of the view that the following remedial actions have been implemented by the Company in accordance with the recommendations by the Independent Consultant:

- (i) The current chief financial officer of the Company is a fellow member of the Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants. The chief financial officer of the Company is assisted by a finance manager and an assistant accounting manager who have prior experience in handling accounts and financial reporting matters. Further, the accounts and financial reporting function of the Group’s Singapore and Malaysia entities is led by a financial controller who possesses accounting qualification and has prior experience in handling accounts and financial reporting matters. The financial controller is also assisted by a number of accounts and financial personnel who have prior experience in handling accounts and financial reporting matters. Having reviewed the credentials, qualifications and work experience of the key accounts and financial personnel of the Group, the Independent Consultant is of the view that these key accounts and financial personnel are competent in performing their respective functions. Further, the Independent Consultant noted that the Group has set up and followed the “Financial Reporting and Disclosure” policy which requires segregation of duties in the review process of the Group consolidated accounts and manual consolidation journal entries. In light of the aforesaid, the management of the Group is of the view that the Group has taken measures to ensure that its consolidated accounts and manual consolidation journal entries would be reviewed by competent accounting personnel before finalisation of the consolidated financial statements going forward; and

- (ii) the Group has engaged an IT vendor in June 2021 for establishing an Enterprise Resources Planning (“**ERP**”) system for the Group. The consolidation accounting module of the ERP system would help to carry forward complete sets of consolidation journal entries closed in a prior period. Based on the scope and terms of the service agreement for the ERP system and information provided by the IT vendor, the Audit Committee and the management of the Group is of the view, and the Independent Consultant concurs, that the occurrence of omission or risk of human error would be further mitigated by the ERP system. The implementation of the ERP system for the Group has commenced in December 2021 and the Group will continue to closely work with the IT vendor to fine-tune the ERP system.

Based on the results of the Follow-up Review, the Audit Committee is of the view that the Company has implemented the remedial actions in accordance with the recommendations by the Independent Consultant.

***(B) Assessment of the impact on the Group’s business operation and financial position***

In respect of the Omission, certain adjustments were made retrospectively via prior year adjustment (the “**PYA**”) and included in the 2020 Annual Results and 2021 Interim Results. The Audit Committee is of the view that (i) the management of the Group has ensured that the PYA included in the 2020 Annual Results and 2021 Interim Results are in compliance with the applicable accounting standards; and (ii) the 2020 Annual Results and 2021 Interim Results give a true and fair view of the state of affairs of the Group in accordance with the applicable accounting standards.

Set forth below is a summary of the aggregated effect of the PYA included in the 2020 Annual Results and 2021 Interim Results, respectively:

*PYA included in the 2020 Annual Results*

	As previously reported	Adjustments Total	Percentage ratio	As restated
	<i>S\$'000</i>	<i>S\$'000</i>	( <i>%</i> )	<i>S\$'000</i>
<b>Consolidated statement of comprehensive income for the year ended 31 December 2019 (extracted)</b>				
Cost of sales	6,844	674	9.9	7,518
Administrative expenses	2,289	(104)	(4.5)	2,185
Profit/(loss) before income tax	449	(570)	N/A	(121)
Income tax expense/(credit)	390	(111)	(28.5)	279
Profit/(loss) after income tax attributable to owners of the Company	59	(459)	N/A	(400)
Total comprehensive income/(loss) for the year attributable to owners of the Company	60	(459)	N/A	(399)
<b>Consolidated statement of financial position – 31 December 2019 (extracted)</b>				
Property, plant and equipment	15,828	21	0.1	15,849
Right-of-use assets	597	(56)	(9.4)	541
Inventories	2,990	(1,074)	(35.9)	1,916
Trade and other payables	2,142	(46)	(2.2)	2,096
Current income tax liabilities	85	32	37.7	117
Reserves	21,192	(180)	(0.9)	21,012
Retained earnings	16,565	(915)	(5.5)	15,650



	As previously reported	Adjustments Total	Percentage ratio	As restated
	<i>S\$'000</i>	<i>S\$'000</i>	( <i>%</i> )	<i>S\$'000</i>
<b>Consolidated statement of financial position – 1 January 2019 (extracted)</b>				
Inventories	1,937	(435)	(22.5)	1,502
Trade and other payables	2,698	58	2.2	2,756
Current income tax liabilities	680	143	21.0	823
Reserves	21,191	(180)	(0.9)	21,011
Retained earnings	16,506	(456)	(2.8)	16,050

*PYA included in the 2021 Interim Results*

	As previously reported	Adjustments Total	Percentage ratio	As restated
	<i>S\$'000</i> (unaudited)	<i>S\$'000</i> (unaudited)	( <i>%</i> )	<i>S\$'000</i> (unaudited)
<b>Consolidated statement of comprehensive income for the six months ended 30 June 2020 (extracted)</b>				
Cost of sales	3,876	(80)	(2.1)	3,796
Profit before income tax	217	80	36.9	297
Income tax expense	91	(32)	(35.2)	59
Profit after income tax attributable to owners of the Company	126	112	88.9	238
Total comprehensive income for the period attributable to owners of the Company	112	112	100.0	224

Save as disclosed in the 2020 Annual Results and 2021 Interim Results, the management of the Group was not aware of any material impact on the Group's business operation and financial position as a result of the Omission.

In light of the aforesaid, the Board is of the view that the Company has fulfilled the First Resumption Guidance.

## **(II) Second Resumption Guidance**

The Company has published its 2020 Annual Results and 2021 Interim Results on 8 December 2021.

The Board confirms that, as at the date of this announcement, the Company has published all outstanding financial results required under the Listing Rules. There are no other financial results of the Company that are outstanding as at the date of this announcement and the 2020 Annual Results are not subject to any audit modifications. Accordingly, the Board is of the view that the Company has fulfilled the Second Resumption Guidance.

## **(III) Third Resumption Guidance**

The Board confirms that the Group is in compliance with Rule 13.24 of the Listing Rules as it has continued to carry out business with a sufficient level of operations and assets of sufficient value to support its operations.

The Group is principally engaged in (i) manufacturing business involving sheet metal fabrication with a focus on precision engineering and precision machining service with production facilities based in Singapore and Malaysia; and (ii) online business involving mobile game business. The Group commenced its mobile game business during the second half of FY2020.

## ***Financial performance***

### ***(a) Revenue***

The Group has maintained a steady revenue growth during FY2020 and the nine months ended 30 September 2021.

According to the 2020 Annual Results, the Group's total revenue increased by approximately 7.6%, from approximately S\$9.6 million for FY2019 to approximately S\$10.3 million for FY2020. The increase in total revenue of the Group was mainly attributable to the increase in revenue generated from the manufacturing business by approximately 7.6%, from approximately S\$9.6 million for FY2019 to approximately S\$10.3 million for FY2020. Such increase in revenue was mainly contributed by the resumption of growth in the manufacturing sector of Singapore in FY2020.

The Singapore economy was adversely affected by the COVID-19 pandemic throughout 2020 as did all other major economies in the world. Towards the end of the third quarter in 2020, the Singapore economy started to improve progressively with the phased resumption of activities after the mandatory lockdown following the circuit breaker measures ("**Circuit Breaker Measures**") enforced by the Singapore Government from 7 April 2020 to 1 June 2020. Notwithstanding the overall Singapore economy contracted by approximately 5.4%, the manufacturing sector of Singapore has out-performed the overall Singapore economy and recorded a growth of approximately 7.3% for FY2020, which was mainly attributable to the resumption of manufacturing activities following the Circuit Breaker Measures as well as rebound in activities in major economies since the third quarter of 2020 which resulted in a resumption of growth of the Singapore manufacturing sector.

According to the unaudited management accounts of the Group, its total revenue increased by approximately 47.3% for the nine months ended 30 September 2021 as compared to the corresponding period in 2020. The increase in total revenue of the Group was mainly attributable to:

- (i) the increase in revenue generated from its manufacturing business by approximately 44.9% for the nine months ended 30 September 2021 as compared to the corresponding period in 2020 which was mainly due to the recovery of sales orders led by the rebound of the economies in Singapore and other major countries in the first half of 2021; and
- (ii) the increase in revenue generated from the Group's mobile game business from nil for the nine months ended 30 September 2020 to approximately S\$0.2 million for the corresponding period in 2021. In December 2020, the Group launched its first mobile game in the United Kingdom and Canada, followed by the United States in the first half of 2021. In the first half of 2021, the Group added new features and gameplay rules to its mobile game in order to enhance players' experiences.

*(b) Gross profit*

According to the unaudited management accounts of the Group, its overall gross profit increased significantly by not less than 100% for the nine months ended 30 September 2021 as compared to the corresponding period in 2020. The significant increase in gross profit of the Group was mainly attributable to (i) the increase in gross profit generated from its manufacturing business; and (ii) the increase in gross profit generated from its mobile game business from nil for the nine months ended 30 September 2020 to approximately S\$0.1 million for the corresponding period in 2021.

(c) *Assets*

According to the 2021 Interim Results, the Group had total assets of approximately S\$40.6 million as at 30 June 2021.

Property, plant and equipment remained to be one of the most significant assets of the Group. Based on the 2021 Interim Results, the Group's property, plant and equipment amounted to approximately S\$13.4 million as at 30 June 2021.

Further, the Group did not conduct any major disposal activities in relation to its property, plant and equipment during the financial year ended 31 December 2020 and the six months ended 30 June 2021.

***Number of customers***

The number of customers for the Group's sheet metal products and precision machining services increased from 12 for the nine months ended 30 September 2020 to 17 for the corresponding period in 2021.

***Amount of sales orders on hand***

The Group's sales orders on hand for its sheet metal products and precision machining services was approximately S\$9.0 million as at 30 September 2021.

***Licences and certifications***

The Group continues to maintain all necessary licences, qualifications and certifications for its business operation. The Directors are not aware of any circumstances that would significantly prevent or delay the renewal of any of the Group's licences and/or certifications.

In light of the aforesaid, the Board is of the view that the Company has fulfilled the Third Resumption Guidance.

#### **(IV) Fourth Resumption Guidance**

Since the suspension of trading of the Shares, the Company has published announcements to keep the shareholders and investors informed of the status of the Company. The Board confirms that the Company has included all material information in relation to its business, financial performance and operation management in the 2020 Annual Results, 2021 Interim Results and other disclosure documents published in accordance with the Listing Rules and other applicable regulatory requirements. To the best knowledge of the Directors, as at the date of this announcement, there is no other information required to be disclosed under Part XIVA of the SFO and no other undisclosed information that is material for the Company's shareholders and other investors to appraise the Company's position.

In light of the aforesaid, the Board is of the view that the Company has fulfilled the Fourth Resumption Guidance.

#### **RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended since 9:00 a.m. on 1 April 2021. As the Resumption Guidance has been fully fulfilled to the Stock Exchange's satisfaction, an application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 17 December 2021.

By order of the Board  
**FSM Holdings Limited**  
**Li Thet**  
*Chairman*

Hong Kong, 16 December 2021

*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.*