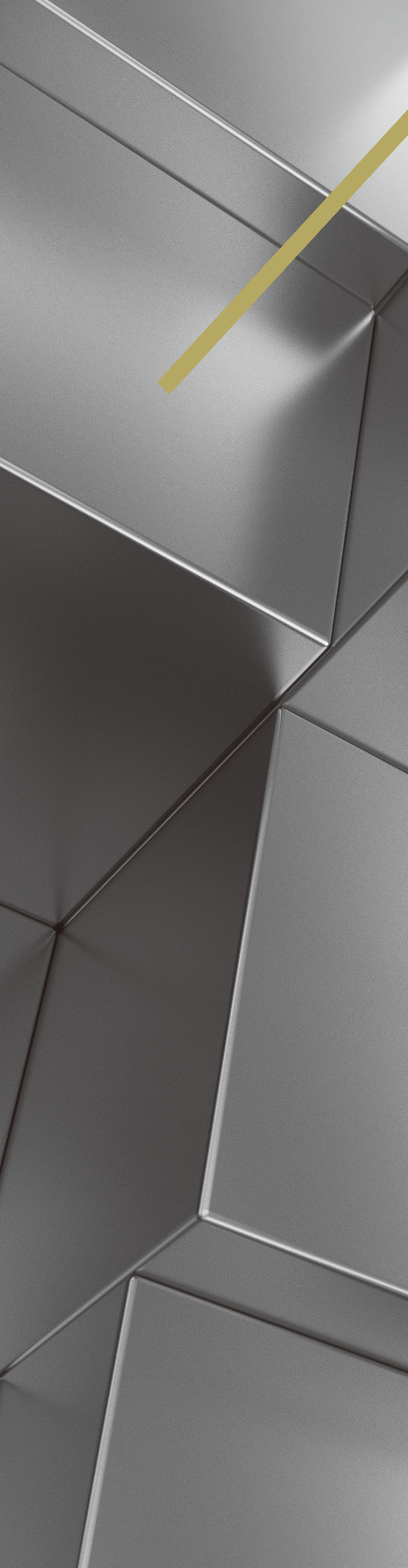
FSM Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1721

2018

Interim Report



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Corporate Information

EXECUTIVE DIRECTORS

Mr. Toe Tiong Hock
(Chairman and Chief Executive Officer)
Ms. Wong Yet Lian *(Chief Operating Officer)*
Ms. Lim Siew Choo

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Hung Fai Myron
Mr. Bau Siu Fung
Prof. Pong Kam Keung

AUDIT COMMITTEE

Mr. Bau Siu Fung *(Chairman)*
Mr. Ng Hung Fai Myron
Prof. Pong Kam Keung

REMUNERATION COMMITTEE

Prof. Pong Kam Keung *(Chairman)*
Mr. Bau Siu Fung
Ms. Wong Yet Lian

NOMINATION COMMITTEE

Mr. Toe Tiong Hock *(Chairman)*
Mr. Ng Hung Fai Myron
Prof. Pong Kam Keung

COMPANY SECRETARY

Ms. Cheng Florence Ga Sui

AUDITOR

PricewaterhouseCoopers

COMPLIANCE ADVISER

Sunfund Capital Limited

REGISTERED OFFICE

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Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN SINGAPORE

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Singapore 638595

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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United Centre
95 Queensway
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 22, Hopewell Centre
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Wanchai
Hong Kong

PRINCIPAL BANKER

DBS Bank Ltd.

COMPANY'S WEBSITE

www.fsmtech.com

Financial Highlights

- Revenue for the six months ended 30 June 2018 amounted to approximately S$11.3 million, representing an increase of approximately 38.1% as compared to approximately S$8.2 million for the six months ended 30 June 2017.

- Loss for the six months ended 30 June 2018 amounted to approximately S$0.2 million, representing a decrease of approximately 107.5% as compared to profit of approximately S$2.1 million for the six months ended 30 June 2017.

- Loss per share attributable to owners of the Company for the six months ended 30 June 2018 amounted to approximately 0.02 Singapore cents as compared to earnings per share approximately 0.28 Singapore cents for the six months ended 30 June 2017.

INTERIM RESULTS

The Board of Directors (the "Board") of FSM Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated financial results of our Group for the six months ended 30 June 2018, together with the comparative figures for the corresponding period in 2017.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	For the six months ended 30 June **2018** **S$'000** **(unaudited)**	 2017 S$'000 (unaudited)
Revenue	5	**11,279**	8,166
Cost of sales	6	**(6,099)**	(4,422)
Gross profit		**5,180**	3,744
Other income		**18**	28
Other gains – net		**136**	–
Selling and distribution expenses	6	**(51)**	(38)
Administrative expenses	6	**(4,928)**	(1,286)
Operating profit		**355**	2,448
Finance costs	7	**(45)**	(22)
Profit before income tax		**310**	2,426
Income tax expense	8	**(467)**	(340)
(Loss)/profit for the period attributable to owners of the Company		**(157)**	2,086
(Loss)/earnings per share for (loss)/profit attributable to owners of the Company			
Basic and diluted (Singapore cents)	9	**(0.02)**	0.28

Condensed Consolidated Statement of Other Comprehensive Income

	For the six months ended 30 June	
	2018	2017
	S$'000	S$'000
	(unaudited)	(unaudited)
(Loss)/profit for the period	**(157)**	2,086
Other comprehensive income/(loss):		
Item that may be reclassified subsequently to profit or loss:		
Currency translation differences	**1**	(7)
Other comprehensive income/(loss) for the period, net of tax	**1**	(7)
Total comprehensive (loss)/income for the period attributable to owners of the Company	**(156)**	2,079

Condensed Consolidated Statement of Financial Position

	Notes	As at 30 June 2018 S$'000 (unaudited)	As at 31 December 2017 S$'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**12,436**	11,086
Prepayments	11	**–**	2,782
Deferred income tax assets		**–**	101
		12,436	13,969
Current assets			
Inventories		**625**	1,516
Trade and other receivables	11	**8,116**	4,499
Cash and cash equivalents		**4,478**	7,540
		13,219	13,555
Total assets		**25,655**	27,524
EQUITY			
Equity attributable to owners of the Company			
Share capital	16	**22**	–
Reserves		**17,143**	17,321
Total equity		**17,165**	17,321
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**923**	989
Provision		**69**	69
		992	1,058
Current liabilities			
Trade and other payables	13	**6,303**	5,344
Borrowings	14	**444**	3,170
Current income tax liabilities		**315**	301
Obligations under finance lease	12	**436**	–
Amounts due to shareholders		**–**	330
		7,498	9,145
Total liabilities		**8,490**	10,203
Total equity and liabilities		**25,655**	27,524

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Note	Share capital S$'000	Other reserve (A) S$'000	Exchange reserve S$'000	Retained earnings S$'000	Total equity S$'000
Balance at 1 January 2018		**22**	**2,572**	**12**	**14,715**	**17,321**
Comprehensive income						
Profit for the period		**–**	**–**	**–**	**(157)**	**(157)**
Other comprehensive income for the period, net of tax						
Currency translation differences		**–**	**–**	**1**	**–**	**1**
Total comprehensive income for the period		**–**	**–**	**1**	**(157)**	**(156)**
Transactions with owners in their capacity as owners:						**17,165**
Issue of shares and effects of group reorganization		**22**	**(22)**	**–**	**–**	**–**
		22	**(22)**	**–**	**–**	**–**
Balance at 30 June 2018 (unaudited)		**22**	**2,572**	**13**	**14,558**	**17,165**
Balance at 1 January 2017		–	2,594	(3)	15,365	17,956
Comprehensive income						
Profit for the period		–	–	–	2,087	2,087
Other comprehensive income for the period, net of tax						
Currency translation differences		–	–	(7)	–	(7)
Total comprehensive income for the period		–	–	(7)	2,087	2,080
Balance at 30 June 2017 (unaudited)		–	2,594	(10)	17,452	20,036

(A) Other reserve represents the difference between the nominal value of the shares issued by the Company and the issued share capital of a subsidiary exchanged pursuant to the Reorganisation as defined in note 16(i) "Share Capital".

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	S$'000	S$'000
	(unaudited)	(unaudited)
Operating activities		
Cash generated from operations	**5,458**	3,316
Tax paid	**(188)**	(72)
Net cash generated from operating activities	**5,270**	3,244
Investing activities		
Payment for purchase of property, plant and equipment	**(1,958)**	(2,794)
Other cash flows arising from investing activities	**(330)**	(642)
Net cash used in investing activities	**(2,288)**	(3,436)
Financing activities		
Dividends paid to equity shareholders of the Company	**(1,013)**	–
Repayment to Controlling shareholders	**–**	(410)
Listing expenses	**(2,375)**	–
Repayment of bank overdraft	**(2,656)**	–
Other cash flows arising from financing activities	**–**	(1,591)
Net cash used in financing activities	**(6,044)**	(2,001)
Net decrease in cash and cash equivalents	**(3,062)**	(2,193)
Cash and cash equivalents at 1 January	**7,540**	9,652
Cash and cash equivalents at 30 June	**4,478**	7,459

Notes to the Condensed Consolidated Interim Financial Information

1. GENERAL INFORMATION OF THE GROUP

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, the 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 "Listing Business"). The immediate and ultimate holding companies of the Company are KAL SG Limited and KYL SG Limited respectively. The ultimate controlling parties of the Group are Mr. Toe Tiong Hock ("Mr. Toe") and Ms. Wong Yet Lian ("Mrs. Toe") (the "Controlling Shareholders").

On 29 June 2018, the Company issued a prospectus and launched a share offer of 250,000,000 shares at a price of HK$0.53 per share (the "Offer Price"). The Company's ordinary shares were 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 unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 is prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the accountant's report included as appendix I (the "Accountant's Report") of the prospectus dated 29 June 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board ("IASB").

Notes to the Condensed Consolidated Interim Financial Information

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied and methods of computation used in the preparation of these 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 2017, 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 2018.

(a) Adoption of other new or revised standards, amendments and interpretations that was not material to the results of operations or financial position of the Group

i. IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 effective from 1 January 2018 using retrospective approach and applies all the requirements of IFRS 15 retrospectively. Under IFRS 15, revenues are recognised upon transfer of promised goods or services to customer in amounts that reflect the consideration to which the Group expects to be entitled in exchange for those goods or services based on the five step approach as prescribed in the standard.

ii. IFRS 9 Financial Instruments

The Group has trade receivables for sales of products and provision of services that are subject to IFRS 9's new expected credit loss model ("ECL model"), and the Group was required to revise its impairment methodology under IFRS 9 for these receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

IFRS 9 was generally adopted without restating comparative information with exception of certain aspects of hedge accounting. The Group used modified retrospective approach while adopting IFRS 9. The reclassification and adjustments arising from the new impairment rules (if any) are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the opening statement of financial position on 1 January 2018.

As at 30 June 2018, the Group has applied the simplified approach and recorded lifetime ECLs on trade receivables. The Group determined that there are no significant financial impact arising from these changes.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

(b) New standards and amendments to existing standards have been issued but not yet effective and have not been early adopted by the Group

		Effective for accounting periods beginning on or after
IFRS 16	Leases	1 January 2019
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

None of the above new standards and amendments is expected to have a significant effect on the consolidated financial statements of the Group.

Notes to the Condensed Consolidated Interim Financial Information

4. SEGMENT INFORMATION

The Group operates as a single operating segment. The single operating segment is reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Makers ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors that make strategic decisions. CODM assesses the performance of the operating segment based on a measure of operating profit.

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 external revenue is mainly derived from customers in Singapore. As at 31 December 2017 and 30 June 2018, there are approximately S$1.9 million non-current assets other than financial instruments and deferred income tax assets located in Malaysia.

For the six months ended 30 June 2018, there was two (2017: 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	
	2018	2017
	S$'000	S$'000
	(unaudited)	(unaudited)
Customer A	**6,562**	3,497
Customer B	**3,856**	3,312

5. REVENUE

	For the six months ended 30 June	
	2018	2017
	S$'000	S$'000
	(unaudited)	(unaudited)
Sale of goods	**10,840**	7,989
Services	**439**	177
	11,279	8,166

Notes to the Condensed Consolidated Interim Financial Information

6. EXPENSES BY NATURE

	For the six months ended 30 June	
	2018	2017
	S$'000	S$'000
	(unaudited)	(unaudited)
Listing expenses	**3,370**	–
Cost of inventories sold	**3,215**	2,134
Employee benefit expenses (including directors' emoluments)	**2,098**	1,573
Depreciation of property, plant and equipment	**607**	492
Operating lease expense in respect of land and buildings	**207**	205
Utilities	**213**	211
Subcontractor fees	**769**	580
Repair and maintenance of property, plant and equipment	**231**	225
Freight	**154**	118
Auditor's remuneration		
– Audit services	**7**	21
Others	**207**	187
	11,078	5,746
Represented by:		
Cost of sales	**6,099**	4,422
Selling and distribution expenses	**51**	38
Administrative expenses	**4,928**	1,286
	11,078	5,746

7. FINANCE COSTS

	For the six months ended 30 June	
	2018	2017
	S$'000	S$'000
	(unaudited)	(unaudited)
Interest expense	**45**	22

8. INCOME TAX EXPENSE

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

	For the six months ended 30 June	
	2018	2017
	S$'000	S$'000
	(unaudited)	(unaudited)
Current income tax		
– Current tax on profits for the period	**467**	340
Income tax expense	**467**	340

(a) 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 2018 (2017: 17%).

(b) 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 2018 (2017: 24%).

Notes to the Condensed Consolidated Interim Financial Information

9. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to the Company's owners by the weighted average number of ordinary shares in issue during the six months ended 30 June 2018 and 2017.

	For the six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
(Loss)/profit attributable to the owners of the Company (S$'000)	**(157)**	2,086
Weighted average number of ordinary shares in issue (in thousand) (note)	**750,000**	750,000
Basic (loss)/earnings per share in Singapore cents	**(0.02)**	0.28

Note: The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation and Capitalisation Issue had been effective from 1 January 2017.

(b) Diluted (loss)/earnings per share

There were no potential dilutive ordinary shares outstanding during six months ended 30 June 2017 and 2018, and hence the diluted (loss)/earnings per share is the same as basic (loss)/earnings per share.

10. INTERIM DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018. No Dividend has been paid or declared by the Company since its incorporation.

Notes to the Condensed Consolidated Interim Financial Information

11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2018 S$'000 (unaudited)	As at 31 December 2017 S$'000 (audited)
Non-current		
Prepayments for property, plant and equipment	–	2,782
Current		
Trade receivables	**5,537**	4,337
Less: provision for allowance for doubtful debts	–	–
Trade receivables, net	**5,537**	4,337
Prepayments	**2,113**	53
Deposits	**461**	103
Other receivables	**5**	6
	8,116	7,281

For trade receivables, the credit period granted to customers are ranging from 30 to 90 days. The aging analysis of trade receivables based on invoice date, before provision for impairment, as at 30 June 2018 and 31 December 2017 was as follows:

	As at 30 June 2018 S$'000 (unaudited)	As at 31 December 2017 S$'000 (audited)
0 to 30 days	**1,717**	1,788
31 to 60 days	**3,492**	2,030
61 to 90 days	**67**	201
Over 90 days	**261**	318
	5,537	4,337

As at 30 June 2018, the trade receivables from Customer A and Customer B accounted for approximately 85% (31 December 2017: 75%) of the total trade receivables.

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

As at 30 June 2018, trade receivables of S$328,000, were past due and not impaired (31 December 2017: S$417,000). These relate to a number of individual unrelated customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	As at 30 June 2018 S$'000 (unaudited)	As at 31 December 2017 S$'000 (audited)
Past due by:		
0 to 30 days	**167**	225
31 to 60 days	**127**	145
61 to 90 days	**33**	46
Over 90 days	**1**	1
	328	417

12. OBLIGATIONS UNDER FINANCE LEASE

	As at 30 June 2018 S$'000 (unaudited)	As at 31 December 2017 S$'000 (audited)
Gross finance lease liabilities – minimum lease payments		
Not later than 1 year	**447**	4
	447	4
Future finance charges on finance lease	**(11)**	(4)
Present value of finance lease liabilities	**436**	–
Present value of obligation under finance lease		
Not later than 1 year	**436**	–
	436	–

The effective interest rates on the finance leases as at 30 June 2018 was 3.3%.

As at 30 June 2018, the Group recorded approximately S$0.4 million of obligations under finance lease which is secured by the lessor's charged over the leased assets with net carrying amount of approximately S$0.9 million and personal guarantee by Mr Toe.

13. TRADE AND OTHER PAYABLES

	As at 30 June 2018 S$'000 (unaudited)	As at 31 December 2017 S$'000 (audited)
Trade payables	**1,876**	1,912
Other payables	**4,115**	2,657
Accruals	**312**	775
	6,303	5,344

As at 30 June 2018 and 31 December 2017, the aging analysis of the trade payables based on invoice date were as follows:

	As at 30 June 2018 S$'000 (unaudited)	As at 31 December 2017 S$'000 (audited)
0 to 30 days	**904**	915
31 to 60 days	**565**	585
61 to 90 days	**312**	288
Over 90 days	**95**	124
	1,876	1,912

14. BORROWINGS

	As at 30 June 2018 S$'000 (unaudited)	As at 31 December 2017 S$'000 (audited)
Bank loan	**444**	514
Bank overdraft	**–**	2,656
	444	3,170

The bank overdraft and bank loan as at 30 June 2018 were secured by pledged bank deposits of approximately S$0.7 million, legal mortgage of two properties held by the Group in Singapore with carrying amount of approximately S$7.6 million and a personal guarantee by Mr. Toe.

Notes to the Condensed Consolidated Interim Financial Information

15. NON-CONTROLLING INTEREST

Non-controlling interest is less than S$1,000 as at 31 December 2017 and nil as at 30 June 2018. Profit attributable to non-controlling interest is less than $1,000 for each of the period ended 30 June 2017 and nil for the period ended 30 June 2018.

16. SHARE CAPITAL

Shares	**Number of shares As at 30 June 2018**	**Value As at 30 June 2018 S$'000 (Unaudited)**
Balance at 1 January	–	–
Shares issued pursuant to the Reorganisation (Note (i))	**12,751,804**	**22**
As at 30 June 2018 (unaudited) and 31 December 2017 (audited)	**12,751,804**	**22**

Note:

(i) Pursuant to a Reorganisation of the Group in preparation for the listing of shares in June 2018, the Company issued an aggregate of 12,751,804 shares to the then shareholders of the Company in connection for transfer of the equity interests of the Listing business to the Company.

Management Discussion and Analysis

BUSINESS REVIEW

On 16 July 2018 (the "Listing Date"), the Company's shares (the "Shares") were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") when 250,000,000 Shares were offered for subscription at HK$0.53 each (the "Listing").

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. During the six months ended 30 June 2018, 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.

During the six months ended 30 June 2018, the Group has completed first article production for a product with a new customer who has also started to place orders for production since April 2018.

For the six months ended 30 June 2018, the Group recorded total revenue of approximately S$11.3 million, representing an increase of approximately S$3.1 million or 38.1%, from approximately S$8.2 million for the six months ended 30 June 2017. The increase was mainly attributable to the increased in sale of sheet metal products relating to semiconductor manufacturing and machinery and machine tools manufacturing.

Despite an increase in revenue, the corresponding net profit decreased by approximately S$2.3 million or 107.5% from profit of approximately S$2.1 million for the period ended 30 June 2017 to loss of approximately S$0.2 million for the period ended 30 June 2018. This is mainly due to non-recurring listing expenses of approximately S$3.4 million incurred for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

Management Discussion and Analysis

BUSINESS PROSPECTS

As disclosed in the prospectus of the Company dated 29 June 2018 (the "Prospectus"), the Group's principal business objective is to further strengthen its position as an established sheet metal fabricator and precision machining service provider in Singapore. The Group intends to achieve this by (i) expanding the scale of operation by increasing its production capacity; (ii) achieving better production efficiency by implementing a greater production automation; (iii) enhancing its information technology system; (iv) improving its quality assurance capability; and (v) increase its marketing effort.

According to the Ipsos Report, the trend of manufacturing output for metal fabrication works in Singapore is expected to strengthen based on the anticipated positive growth in the overall manufacturing industry from 2018 onwards. The sector is also expected to benefit from the continued firm demands for semiconductor products globally and the gradual expansion and demand for precision engineering products in the region. Further, under the Industry Transformation Maps initiative by the government of Singapore, precision engineering, under the manufacturing cluster has been identified as one of the key growth areas for further development as it is a critical enabler for Singapore's manufacturing sector, supporting the production of various complex components needed in industries ranging from electronics, semiconductors, aerospace, to oil & gas and medical devices. On a global front, the metal fabrication industry is expected to be fuelled by continued investments in electronics and metal processing, the growing aluminium consumption, semiconductor-related industries and aerospace demand. As such, the manufacturing output value for metal fabrication works in Singapore is expected to increase at CAGR of approximately 3.34% beyond 2018 to reach approximately S$9.2 billion by the end of 2022.

To cope with the market growth, the Directors intend to (i) use approximately HK$46.8 million to expand its scale of operation by increasing its production capacity; (ii) use approximately HK$29.1 million to achieve better production efficiency by implementing a greater production automation; (iii) use approximately HK$9.4 million to enhance its information technology system; (iv) use approximately HK$2.7 million to improve its quality assurance capability; and (v) use approximately HK$1.2 million to increase its marketing efforts over the next three years by organising marketing events with its existing and potential customers to secure new business opportunities and the remaining proceeds will be used as general working capital.

Management Discussion and Analysis

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 2018 and 2017:

	For the six months ended 30 June			
	2018		2017	
	S$'000 (unaudited)	**%**	S$'000 (unaudited)	%
Sale of sheet metal products	**10,840**	**96.1**	7,989	97.8
Precision machining services	**439**	**3.9**	177	2.2
Total	**11,279**	**100.0**	8,166	100.0

During the six months ended 30 June 2018, the Group's revenue increased by approximately S$3.1 million or 38.1% compared to the same period in 2017. The increase was attributable to additional sale of sheet metal products orders from customers in the semiconductor manufacturing and machinery and machine tools manufacturing.

Gross profit and gross profit margin

The following table sets forth the breakdown of the Group's gross profit and gross profit margin from (i) sale of sheet metal products and (ii) provision of precision machining services during the six months ended 30 June 2018 and 2017:

	For the six months ended 30 June			
	2018		2017	
	S$'000 (unaudited)	**%**	S$'000 (unaudited)	%
Sale of sheet metal products	**4,996**	**46.1**	3,671	46.0
Precision machining services	**184**	**41.9**	73	41.1
	5,180	**45.9**	3,744	45.8

During the six months ended 30 June 2018, the Group's gross profit increased by approximately S$1.5 million from approximately S$3.7 million for the six months ended 30 June 2017 to approximately S$5.2 million for the six months ended 30 June 2018. The increase in gross profit was in line with the increase in revenue. The Group's gross profit margin remained relatively stable at approximately 45.9% for the six months ended 30 June 2018 as compared to approximately 45.8% for the six months ended 30 June 2017.

Management Discussion and Analysis

Other income and gains

The Group's other income and gains increased by approximately S$126,000 from approximately S$28,000 for the six months ended 30 June 2017 to approximately S$154,000 for the six months ended 30 June 2018. Such change was mainly attributed to the increase in foreign exchange gains arising from appreciation of United States dollars ("US$") against S$ for the period ending 30 June 2018 as compared to the same period in 2017.

Selling and distribution expenses

The Group's selling and distribution expenses increased from approximately S$38,000 for the six months ended 30 June 2017 to approximately S$51,000 for the six months ended 30 June 2018. Such increase was mainly attributed to increase in freight charges, which was in line with the increase in revenue.

Administrative expenses

The Group's administrative expenses increased by approximately S$3.6 million or 283.2% from approximately S$1.3 million for the six months ended 30 June 2017 to approximately S$4.9 million for the six months ended 30 June 2018. Such increase was mainly attributed to the non-recurring listing expenses incurred for the six months ended 30 June 2018.

Listing expenses

The Group incurred non-recurring listing expenses of approximately S$3.4 million for the six months ended 30 June 2018.

Finance costs

The Group's finance costs increased from approximately S$22,000 for the six months ended 30 June 2017 to approximately S$45,000 for the six months ended 30 June 2018. Such increase was mainly attributed to the increase in interest expenses for finance lease for the respective periods.

Operating profit

Our operating profit decreased by approximately 85.3% from approximately S$2.4 million in the six months ended 30 June 2017 to approximately S$0.4 million in the same period in 2018. This is primarily due to recognition of listing expenses incurred. By excluding the non-recurring listing expenses, the increase in operating profit was in line with the increase in revenue.

Income tax expense

The Group's income tax expenses increased by approximately S$127,000 or 37.4% from approximately S$340,000 for the six months ended 30 June 2017 to approximately S$467,000 for the six months ended 30 June 2018. This was mainly resulted from the tax incentive under the Productivity and Innovation Credit Scheme in the period ended 30 June 2017, which ceased in the period ended 30 June 2018.

(Loss)/profit for the period attributable to owners of the Company

As a combined result of the above, the Group's (loss)/profit for the period attributable to owners of the Company decreased by approximately S$2.3 million or 107.5% from approximately S$2.1 million profit for the six months ended 30 June 2017 to approximately S$0.2 million loss for the six months ended 30 June 2018. Not taking into account of the listing expenses, the increase in profit was mainly attributable to the increase in revenue and better business and financial performance of the Group.

Management Discussion and Analysis

Liquidity and Capital Resources

Sources of Liquidity, Working Capital and Borrowings

The Group finances its operations primarily through cash generated from operating activities and bank borrowings. As at 30 June 2018, the Group had cash and bank balances of approximately S$4.5 million compared to approximately S$7.5 million as of 31 December 2017.

In addition, the net proceeds from issuance of ordinary shares of the Company in connection with the Listing amount to approximately HK$97.9 million. As at the date of this report, the Company does not anticipate any change to its plan on the use of proceeds as stated in the Prospectus. The Board will closely monitor the use of proceeds from the Listing with reference to the use of proceeds disclosed in the Prospectus.

As at 30 June 2018, the Group had total bank borrowings of approximately S$0.4 million and all of which were short-term borrowings, as compared to approximately S$3.2 million as at 31 December 2017. The Group incurs bank borrowings mainly for general working capital purpose and to supplement the capital needs for investment activities. The bank loans are to be repaid on demand clause based on agreed scheduled repayments which in general ranges from 1 to 5 years as set out in the agreements. The decrease in bank borrowings as at 30 June 2018 was primarily due to the repayment of bank overdraft during the period.

The current ratio calculated using current assets divided by current liabilities, was 1.8 times as at 30 June 2018 compared to 1.5 times as at 31 December 2017. The quick ratio, calculated using current assets less inventories divided by current liabilities, was 1.7 times as at 30 June 2018 compared to 1.3 times as at 31 December 2017. The increase in the current ratio was primarily due to (i) the increase in trade and other receivables from approximately S$4.5 million as at 31 December 2017 to approximately S$8.1 million as at 30 June 2018 and (ii) decrease in borrowings from approximately S$3.2 million as at 31 December 2017 to approximately S$0.4 million. The increase in the quick ratio was primarily due to the decrease in inventories from approximately S$1.5 million as at 31 December 2017 to approximately S$0.6 million as at 30 June 2018. The gearing ratio calculated using total debts divided by total equity was 0.02 times as at 30 June 2018 compared to 0.2 times as at 31 December 2017. The decrease in gearing ratio is primarily due to the significant reduction in borrowings from S$3.2 million to S$0.4 million.

Cash Flow

In the six months ended 30 June 2018, the net cash generated from the operating activities was approximately S$5.3 million, net cash used in investing activities was approximately S$2.3 million and the net cash used in financing activities was approximately S$6.0 million.

Capital Expenditure

For the six months ended 30 June 2018, the capital expenditures amounted to S$2.2 million. The capital expenditures in the six months ended 30 June 2018 were primarily used for the purchase of a factory in Singapore. The Group finances its capital expenditures primarily through cash generated from operating activities and bank borrowings. The Group expects to fund part of the capital expenditures using proceeds received under the Listing.

Significant Investments, Material Acquisition and Disposal of Subsidiaries, associates and joint ventures

There were no significant investments held, material acquisitions or disposals of subsidiaries, associates and joint ventures, during the six months ended 30 June 2018.

Management Discussion and Analysis

Inventories

The Group's inventories consist primarily of raw materials and finished goods. The management reviews the Group's inventory levels on a regular basis to manage the risk of excessive inventories. The average inventory turnover days for the six months ended 30 June 2018 was 32.0 days as compared to 39.4 days for the same period in 2017. The lower inventory turnover days for the six months ended 30 June 2018 was primarily due to an increase in the sale of sheet metal products for the period ended 30 June 2018.

The Group's policy on obsolete or damaged inventories is to write off such inventories when the management considers the obsolete or damaged inventories to have no residual value. During the period ended 30 June 2018, the Group has not made any provision or written off any inventory due to damage or obsolescence as the Group has not experienced any significant damage or loss in respect of its inventories.

Trade and other receivables

The Group typically grants to customers a credit period ranging from 30 days to 90 days. The Group's average trade receivables turnover days for the six months ended 30 June 2018 was 79.9 days, which were in line with the general credit period granted.

The Group's trade and other receivables increased from approximately S$7.3 million as at 31 December 2017 to approximately S$8.1 million as of 30 June 2018 primarily due to the increase in trade receivables from approximately S$4.3 million as at 31 December 2017 to approximately S$5.5 million as at 30 June 2018, which is in line with the increase in revenue from approximately S$8.2 million for the period ended 30 June 2017 to approximately S$11.3 million for the period ended 30 June 2018 and the prepayments made for non-recurring listing expenses amounting to approximately S$2.0 million as at 30 June 2018.

Trade and other payables

The Group's trade payables primarily represent liabilities for goods and services provided to our Group prior to the end of period which are unpaid. The Group's average trade payables turnover days for the six months ended 30 June 2018 was 56.7 days as compared to 44.2 days for the year ended 31 December 2017. The average trade payables turnover days for the respective periods were within the credit terms granted by the Group's suppliers, which was 30 to 90 days.

The Group's trade and other payables increased from approximately S$5.3 million as at 31 December 2017 to approximately S$6.3 million as at 30 June 2018 by approximately S$1.0 million or 17.9%. This is primarily due to increase in current payable for non-recurring listing expenses incurred for the six months ended 30 June 2018.

Pledge of Assets

As at 30 June 2018, the bank borrowings were secured by pledged bank deposits of approximately S$0.7 million, legal mortgage of two properties held by the Group in Singapore with carrying amount of approximately S$7.6 million, while the obligations under finance lease were secured by the lessor's charged over the leased assets with net carrying amount of approximately S$0.9 million.

Major Capital Commitments

As at 30 June 2018, the Group had capital commitments of S$2.8 million which was primarily related to the purchase of property, plant and equipment related to the production facilities.

Management Discussion and Analysis

Contingent Liabilities

As at 30 June 2018, 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 (the "Scheme") on 22 June 2018. As at 30 June 2018, no option had been granted, agreed, exercised, ceased or lapsed under the Scheme, and there was no share option outstanding.

Use of Proceeds from Listing

The Group completes its Listing and received net proceeds of HK$97.9 million. The net proceeds received from the Group's Listing will be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the Prospectus. Since 16 July 2018 up to date of this report, the net proceeds has not been applied for any use.

Foreign Exchange Risk

The Group mainly operates in Singapore and Malaysia with majority of the transactions settled in S$, US$ and Malaysian ringgit ("MYR").

The Group's costs are substantially denominated in S$, MYR and US$, while the Group's sales are mainly denominated in S$ and US$.

Any fluctuation in exchange rates may have an adverse effect on the Group's results of operations.

Foreign exchange risk to each individual entity within the Group arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

Any future exchange rate volatility relating to the Singapore dollars and United States dollars may give rise to uncertainties in the value of net assets, profits and dividends. Appreciation of the value of the Singapore dollars against United States dollars may subject the Group to increased competition from foreign competitors, and depreciation in the value of the Singapore dollars may adversely affect the value of the Group's net assets and earnings and dividends from its subsidiaries in Singapore and Malaysia.

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 has not used any hedging arrangement to hedge its foreign exchange risk exposure.

Interim dividend

The Board resolved not to declare payment of any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

Employees and Remuneration Policies

The Group had 184 employees as at 30 June 2018 and 163 employees as at 31 December 2017. The remuneration package of our employees mainly includes 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 remuneration of the Directors is reviewed and determined by reference to, among other things, the market level of salaries paid by comparable companies, the respective responsibilities of the Directors and the Group's performance. The Group also provides on-work training to the employees to improve technical competence and occupational health and safety.

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2018, the shares of the Company were not listed on The Stock Exchange. The respective Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance of Hong Kong (the "SFO"), Section 352 of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were not applicable.

As of the date of this report, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in the shares of HK$0.01 each of the Company ("Shares")

Name of director	Nature of interest	Number of Shares held	Percentage of issued share capital
Mr. Toe Tiong Hock ("Mr. Toe") (Note)	Interest in controlled corporation	375,000,000	37.5%
	Interest of spouse	375,000,000	37.5%
Ms. Wong Yet Lian ("Ms. Wong") (Note)	Interest of controlled corporation	375,000,000	37.5%
	Interest of spouse	375,000,000	37.5%

Note: Mr. Toe is the spouse of Ms. Wong. 375,000,000 Shares are held by each of KAL SG Limited ("KAL SG") and KYL SG Limited ("KYL SG"). KAL SG and KYL SG are wholly owned by Mr. Toe and Ms. Wong, respectively, each of Mr. Toe and Ms. Wong is deemed to be interested in all the Shares held by KAL SG and KYL SG for the purpose of SFO.

Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2018, the shares of the Company were not listed on the Stock Exchange. So far as the Directors are aware, as at the date of this report, the following persons had interests or short positions in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in the Shares

Name of shareholder	Nature of interest	Number of Shares held	Percentage of issued share capital
KAL SG (Note)	Beneficial owner	375,000,000	37.5%
KYL SG (Note)	Beneficial owner	375,000,000	37.5%
Mr. Toe (Note)	Interest in controlled corporation	375,000,000	37.5%
	Interest of spouse	375,000,000	37.5%
Ms. Wong (Note)	Interest in controlled corporation	375,000,000	37.5%
	Interest of spouse	375,000,000	37.5%

Note: Mr. Toe is the spouse of Ms. Wong. 375,000,000 Shares are held by each of KAL SG and KYL SG. KAL SG and KYL SG are wholly owned by Mr. Toe and Ms. Wong, respectively, each of Mr. Toe and Ms. Wong is deemed to be interested in all the Shares held by KAL SG and KYL SG for the purpose of SFO.

CORPORATE GOVERNANCE

The Company complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 (the "CG Code") of the Listing Rules since the Listing Date to the date of this report with the exception of the following deviation:

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The role of chairman of the Board (the "Chairman") and the chief executive officer (the "CEO") of the Company are currently performed by Mr. Toe Tiong Hock. In view of Mr. Toe's substantial contribution to the Group for over 30 years and his extensive experience in the metal precision components market, the Company considers that having Mr. Toe acting as both the Chairman and the CEO will provide strong and consistent leadership to the Group and facilitate the efficient execution of the business strategies of Group. The Company considers it is appropriate and beneficial to the business development and prospects of the Group that Mr. Toe continues to act as both the Chairman and the CEO after the listing of the shares of the Company on the Stock Exchange, and therefore currently do not propose to separate the functions of the Chairman and the CEO.

Other Information

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

The shares of the Company were first listed on the Stock Exchange on 16 July 2018. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities since the Listing Date.

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 2018 and discussed with the management on the accounting principles and practices, financial reporting process, internal control adopted by the Group, which is in accordance with the same accounting standards dated 29 June 2018, with no disagreement by the audit committee of the Company.

The financial information in this report has not been reviewed by the auditor of the Company.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted the Model Code of the Listing Rules as the codes of conduct regarding securities transactions by Directors and by relevant employees of the Company. 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 period from the Listing Date to the date of this report.

By Order of the Board
FSM Holdings Limited
Toe Tiong Hock
Chairman, Chief Executive Officer and Executive Director

Hong Kong, 29 August 2018