

Management Discussion and Analysis

FINANCIAL REVIEW

During FY2020, the revenue of the Group increased by approximately 7.6% to approximately S\$10.3 million. The increase was mainly due to resumption of growth in the manufacturing sector of Singapore in FY2020. However, the gross profit of the Group decreased by approximately 31.2% to S\$1.4 million for FY2020 mainly due to provision for inventory and downward pressure on the gross profit margin of our manufacturing segment as a result of the adverse impact of the COVID-19 pandemic in FY2020. The Group recorded Net Loss of approximately S\$2.6 million for FY2020 as compared to Net Loss of approximately S\$0.4 million (restated) for FY2019 mainly due to the decrease in gross profit of our manufacturing business and new staff costs, research and development expenses, operating lease expense for office premises and other costs incurred in developing and operating the new mobile game of our new online business.

BUSINESS REVIEW

The Group has two major business segments, namely manufacturing business and online business.

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 labour 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 manufacturing operations was classified as an essential service and remained in operation during circuit breaker (the "Circuit Breaker") enforced by the Singapore Government from 7 April to 1 June 2020.

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 emerging from the mandatory lockdown following the Circuit Breaker. Even with this resumption of economic activities, on a year-to-year basis, the Singapore economy was still contracted by approximately 5.4%. However, the manufacturing sector of the Singapore economy has out-performed and resumed the growth since the third quarter of 2020 because the resumption of manufacturing activities following the Circuit Breaker as well as rebound in activities in major economies since the third quarter of 2020. For the full year of 2020, the manufacturing sector grew by 7.3%. As a critical enabler for Singapore's manufacturing sector supporting the production of various complex components needed in various industries, our manufacturing business experienced a gradual recovery towards the second half of FY2020.

With the outbreak of the COVID-19 pandemic in 2020, people spent more time at home and on mobile activities. Mobile games served as an important channel in keeping players entertained and connected with each other. This emerging trend during the pandemic clearly indicates that there are tremendous opportunities in the mobile games industry with the fast-growing smartphone penetration rate and the launch of 5G network. In order to capture opportunities in such market, the Group has started our new online business in the second half of 2020 and successfully developed and launched our first mobile game in the United Kingdom and Canada in December 2020.

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REVENUE

During FY2020, the total revenue of the Group was increased by approximately 7.6% to approximately S\$10.3 million (FY2019: approximately S\$9.6 million).

	Year ended 31 December 2020		Year ended 31 December 2019	
	S\$'000	%	S\$'000	%
Manufacturing business	10,341	99.99	9,609	100.00
Online business	1	0.01	–	–
Total	10,342	100.00	9,609	100.00

MANUFACTURING BUSINESS

Sheet metal fabrication business

Under the manufacturing business segment, the Group engages in sheet metal fabrication with a focus on precision engineering and precision machining service with production facilities based in Singapore and Malaysia. Sheet metal fabrication is the use of sheet metal to produce structures and products for various applications, whereas precision engineering requires attention to details and knowledge for careful application of measurements, control and fabrication methods which supports the production of complex components in various industries. The customers of the Group's manufacturing business are contract manufacturers and brand owners which include subsidiaries of several established multi-national companies. The Group's customers in this segment would integrate and assemble sheet metal products provided by the Group into machineries used for various applications.

During FY2020, the revenue of the Group's manufacturing business increased by approximately 7.6% to approximately S\$10.3 million as compared to approximately S\$9.6 million for FY2019. The increase in revenue of manufacturing business was mainly due to resumption of growth in the manufacturing sector of Singapore in FY2020.

ONLINE BUSINESS

Mobile game business

During FY2020, revenue from mobile game business under the online business segment was approximately S\$1,000 in its first year of operation (FY2019: nil).

Taking advantage of the experiences from our management in the market and as part of the Group's strategy for expansion into the mobile games business, a wholly owned subsidiary of the Company was incorporated in June 2020. The operation of our new mobile game business was financed by internally generated funds of the Group. Focusing on the development of our first mobile game in the second half of FY2020, the Group has developed and launched our first mobile game in the United Kingdom and Canada in December 2020.

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In the first half of 2021, the Group has launched our mobile game to the United States market and added new features and gameplay rules to our mobile game to enhance players' experiences. In the second half of 2021, the Group will continue to optimize our mobile game by adding more new features and gameplay rules to further enhance players' experiences before promoting our game in a larger scale to other major gaming markets.

Going forward, the Group will keep reviewing our development strategy and operation of the mobile game business with a view to adapt to market changes.

GROSS PROFIT AND GROSS PROFIT MARGIN

The gross profit of the Group for FY2020 amounted to approximately S\$1.4 million, representing a decrease of approximately S\$0.7 million or 31.2% as compared with the gross profit of approximately S\$2.1 million (restated) for FY2019. The Group's gross profit margin for FY2020 was approximately 13.9%, as compared with approximately 21.8% (restated) for FY2019. This was mainly due to provision for inventory and downward pressure on the gross profit margin of our manufacturing business segment as a result of the adverse impact of the COVID-19 pandemic in FY2020.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses increased by approximately S\$1.3 million or 59.0% from approximately S\$2.2 million (restated) for FY2019 to approximately S\$3.5 million for FY2020. The increase was mainly due to new staff costs, operating lease expense for office premises and other costs incurred in operating the Group's new online business.

RESEARCH AND DEVELOPMENT EXPENSES FOR A MOBILE GAME

For FY2020, research and development expenses for our new mobile game amounted to approximately S\$0.6 million (2019: Nil). The research and development expenses mainly represented new staff costs and outsourcing expenses incurred in developing our first mobile game in the first year of operation of our online business.

LOSS ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

As a result of the above factors, the Group recorded Net Loss of approximately S\$2.6 million for FY2020 (FY2019: approximately S\$0.4 million (restated)).

FINAL DIVIDEND

The Board did not recommend the payment of any final dividend for FY2020 (FY2019: Nil).

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.

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The Group adopts a prudent cash and financial management policy. The Group's cash, mainly denominated in United States Dollars ("USD"), Singapore Dollars ("SGD"), Malaysia Ringgit ("MYR"), Renminbi ("RMB") and Hong Kong Dollars ("HKD"), are generally deposited with reputable financial institutions. The Group's borrowings and lease liabilities are denominated in SGD.

As at 31 December 2020, the Group's total equity attributable to owners of the Company amounted to approximately S\$35.7 million (2019: approximately S\$38.4 million (restated)).

As at 31 December 2020, the Group's net current assets was approximately S\$23.1 million (2019: approximately S\$25.0 million (restated)) and the Group had cash and cash equivalents, short-term and pledged bank deposits of approximately S\$23.5 million (2019: approximately S\$24.1 million). The Group had borrowings and lease liabilities of approximately S\$0.9 million (2019: approximately S\$1.7 million) and S\$1.0 million (2019: approximately S\$0.8 million), respectively.

For FY2020, the average effective interest rates of the Group's bank loans was 4.02% per annum (FY2019: 4.71% per annum).

As at 31 December 2020, the Group's current ratio (calculated by dividing current assets by current liabilities as at the end of the year) was approximately 7.3 times (2019: approximately 8.9 times (restated)). The Group's gearing ratio (calculated by dividing total borrowings and lease liabilities by total equity as at the end of the year) was approximately 5.4% (2019: approximately 6.4% (restated)).

CAPITAL STRUCTURE

There has been no change in the capital structure of the Group since the listing of the Company's shares on the main board (the "Main Board") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 July 2018 (the "Listing"). The share capital of the Company only comprises ordinary shares.

PLEDGE OF ASSETS

As at 31 December 2020, the Group's bank loan were secured by pledged bank deposits of approximately S\$0.7 million (2019: approximately S\$0.7 million), legal charges of two properties of the Group with carrying amount of approximately S\$6.7 million (2019: approximately S\$6.9 million) and corporate guarantee provided by the Company.

As at 31 December 2020, the Group recorded approximately S\$0.8 million (2019: approximately S\$1.5 million) of other banking facilities, which is secured by the Group's machineries.

SIGNIFICANT INVESTMENT HELD BY THE GROUP

As at 31 December 2020, there was no significant investment held by the Group (2019: Nil).

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 capital assets as at 31 December 2020.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant contingent liabilities (2019: Nil).

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CAPITAL COMMITMENTS

As at 31 December 2020, the Group did not have any significant capital commitments (2019: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2020, the Group employed 165 full-time employees (FY2019: 147 employees).

Total staff costs including Directors' emoluments which was amounted to approximately S\$3.9 million in FY2020 (FY2019: approximately S\$2.9 million), comprised salaries, wages and other staff benefits, contributions and retirement schemes. In order to attract and retain valuable employees, the performance of the Group's employees are being reviewed annually.

The Group aspires to develop and grow with our employees and is willing to invest in both work-related training and personal development of our employees. In general, the Group provides diversified on-the-job trainings based on the needs of respective positions, talents and interests of employees. The Group provides both internal and external trainings for employees, including specialised trainings for different departments on management skills as well as soft skills. Moreover, the Group established guidelines to assess the performance of and implement development programs for its employees.

Apart from contributed pension scheme in Singapore named Central Provident Fund ("CPF"), contribution pension scheme in Malaysia named Employee Provident Fund ("EPF"), defined contribution scheme in Hong Kong named Mandatory Provident Fund Scheme (the "MPF"), the central pension scheme operated by the municipal and provincial government authorities in China and job training programs, salaries increment and discretionary bonuses may be awarded to employees according to the assessment of individual performance and market situation. The emoluments of the Directors have been reviewed by the remuneration committee of the Company, having regard to the Group's operating results, market competitiveness, individual performance and achievement, and approved by the Board.

FOREIGN EXCHANGE RISK

The Group's business operations were conducted in Singapore, Malaysia, Hong Kong and China. The sales of the Group are denominated in USD, SGD and HKD. Majority of the purchases and other costs of the Group are denominated in SGD, USD, MYR, HKD and RMB. The functional currency of the Group is SGD. The Group is exposed to foreign exchange risk, primarily USD, RMB and HKD. As at 31 December 2020, the Group retains part of the proceeds from Listing in HKD and USD that are exposed to foreign exchange risk. During the year, there was no material impact to the Group arising from the fluctuation in the foreign exchange rates. 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 year.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no significant investments held, material acquisitions or disposals of subsidiaries and associated companies by the Group during FY2020. There was no plan for material investments or capital assets as at 31 December 2020.

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ENVIRONMENTAL POLICIES AND PERFORMANCE

Details of environmental policies, performance and compliance with laws and regulations are set out in the “Environmental, Social and Governance Report” in this annual report.

USE OF NET PROCEEDS FROM THE LISTING

The Group completed its 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 announcement of the Company dated 29 September 2020. On 29 September 2020, the Board, having considered the recent business environment and development of the Group (in particular the impact of the COVID-19 pandemic), resolved to change the use of the remaining unutilized Net Proceeds. For details of the revised allocation, please refer to the announcement of the Company dated 29 September 2020. Applications of the Net Proceeds during the period from the Listing date up to 31 December 2020 were as follows:

Use of Net Proceeds:	Original allocation HK\$ million	Amount utilized up to the date of revised allocation HK\$ million	Unused amount up to the date of revised allocation HK\$ million	Revised allocation HK\$ million	Utilization from the date of revised allocation to 31 December 2020 HK\$ million	Unused amount as at 31 December 2020 HK\$ million	Expected timeline for utilizing the remaining proceeds (Note)
Expansion in production capacity	46.8	16.8	30.0	8.9	0.7	8.2	Before 31 December 2022
Greater production automation	29.1	12.0	17.1	5.8	0.4	5.4	Before 31 December 2022
Enhancing our information technology system	9.4	1.1	8.3	1.9	–	1.9	Before 31 December 2022
Improving quality assurance capabilities	2.7	0.1	2.6	2.6	0.2	2.4	Before 31 December 2022
Increasing marketing efforts	1.2	–	1.2	–	–	–	
General working capital and other corporate purposes	6.0	6.0	–	10.0	5.2	4.8	Before 31 December 2021
Working capital for the business of precision engineering and precision machining services	–	–	–	30.0	10.4	19.6	Before 31 December 2021
	95.2	36.0	59.2	59.2	16.9	42.3	

As at 31 December 2020 and the date of this annual report, 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 or market conditions. As a result of the recent business environment and development of the Group (in particular the impact of the COVID-19 pandemic), the Board has resolved that the expected timeline for utilizing the remaining proceeds shall be on or before 31 December 2022 instead of 30 June 2022 and 31 December 2021.

EVENTS AFTER THE REPORTING PERIOD

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