PNE Industries Ltd
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Company registration number 199905792R

PNE Industries Ltd Annual Report 2018

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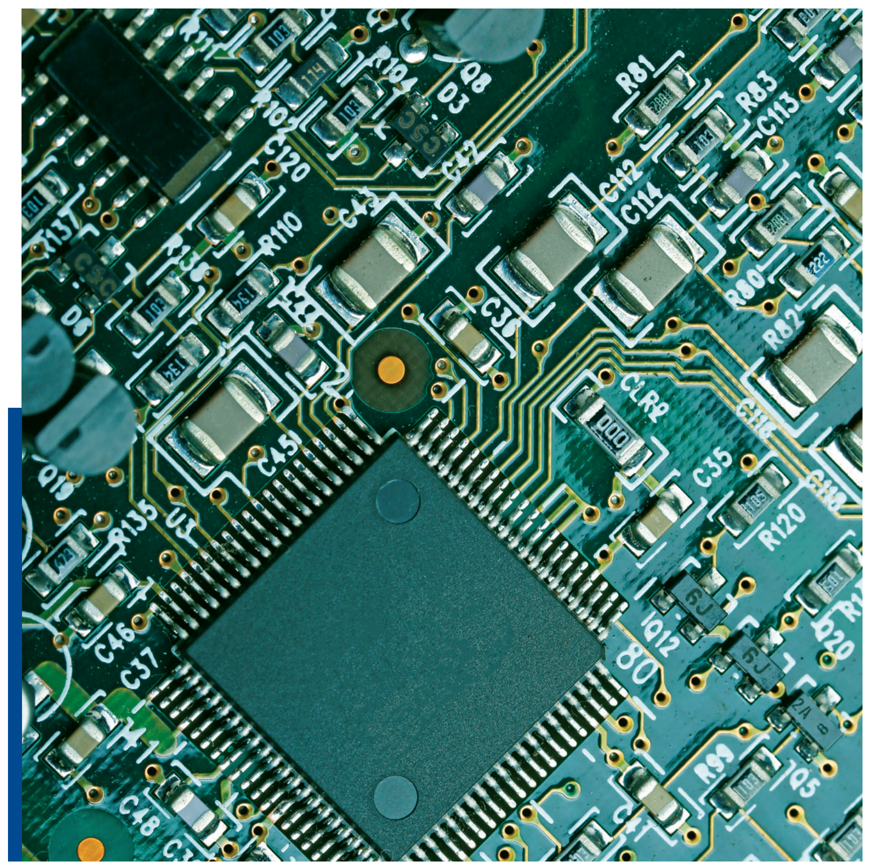
Annual Report 2018



CORPORATE PROFILE

PNE Industries Ltd has been listed on the SGX since May 2000. Its core business comprises of the following two segments:

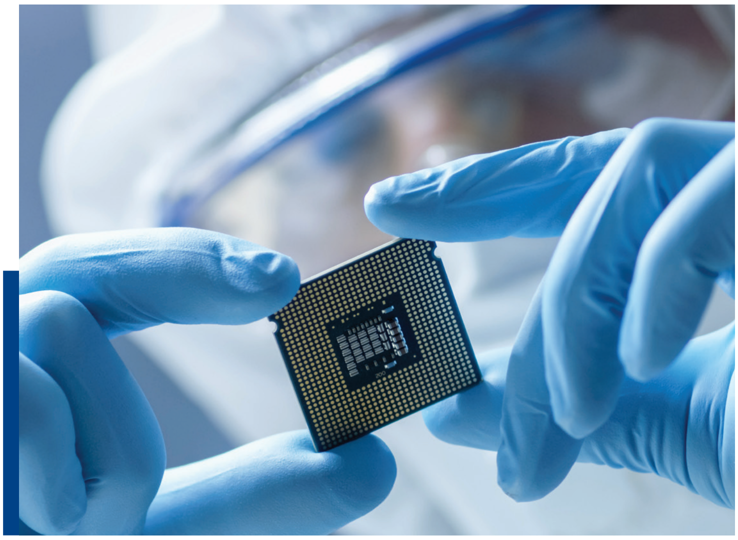
- Contract manufacturing segment – manufacturing of electronic controllers and other electrical and electronic products.
- Trading segment - manufacturing and trading of emergency lighting equipment and related products.

Headquartered in Singapore, the Group has sales offices and/or manufacturing facilities located in Singapore, Malaysia, China and the Netherlands.

The Group is committed to providing quality products and services to its customers. It has stringent controls in its manufacturing procedures to ensure the production of high quality reliable products. PNE has been awarded the ISO9001:2015, ISO14001:2015, ISO13485:2016, IATF16949:2016 certification, as well as various quality awards by its customers over the years.

CONTENT

CHAIRMAN'S STATEMENT



Dear shareholders

The past year has been challenging for PNE Industries, but as we have built up our foundation over the years, we have remained resilient. Therefore, on behalf of the Board of Directors, I would like to report the results of the past year and highlight the strategies of the PNE Group moving forward.

Year in Review

For the year ended September 30, 2018 ("FY18"), we recorded a revenue of $79.8m. This represents a $10.0m or 11% decrease from $89.8m in FY17, and can be attributed to lower contract manufacturing sales, offset partially by higher trading sales. Profit for the year was $5.3m, a decrease of $5.0m from FY17's $10.3m profit.

The contract manufacturing segment recorded a revenue of $69.3m, a drop of $10.1m or 13% from $79.4m last year due to lower customer orders. At the same time, the trading segment saw sales increasing by $0.2m or 2% to $10.6m as a result of larger sales volume in Malaysia and the stronger Malaysian Ringgit this year.

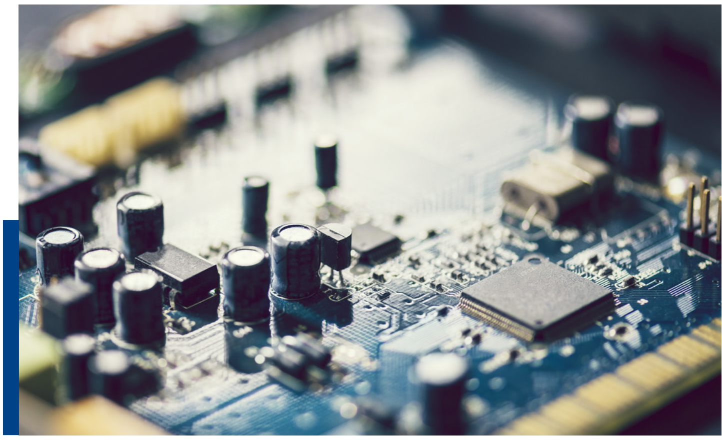
The Group's gross profit decreased by $5.5m to $18.6m from $24.1m last year. Gross profit margin also declined to 23.3% from 26.8% in FY17. The gross profit margin this year was affected by differences in product mix, as the Group sold more products with higher material cost content this year. This was aggravated by strong market competition which led to lower selling prices for existing products, while delays in the launch of new products also meant that the Group did not get to benefit from the higher margins that newer products usually enjoy.

In line with the drop in sales, distribution costs decreased by $0.5m. Administration expenses came down by a smaller $0.1m.

Other operating income declined by $0.3m due mainly to the absence of foreign exchange gains this year and lower writeback of doubtful debts, offset partially by higher interest and other income.

The Group's cash and bank balances remain strong with a rise of $1.2m this year to $36.7m. The Group generated $6.5m of cash from operating activities this year, and paid $5.0m as dividends to shareholders during the year. Most of the Group's bank balances are maintained with reputable banks in Singapore.

Although sales declined, inventories rose by $1.6m compared to the end of the last financial year. This is due to more inventories being held to better support customers' supply chain management strategies.

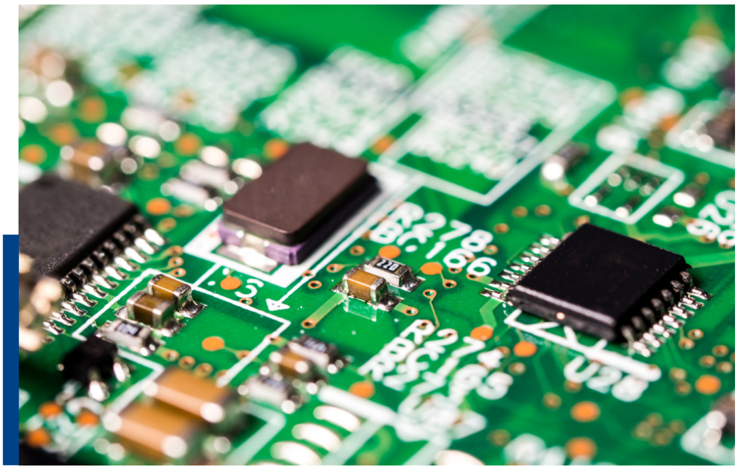


The Year Ahead

The Group has worked hard to build a firm platform for growth and stability over the years. We recognise that the marketplace is ever-evolving and we will continue to proactively adapt to stay relevant for the future of our business.

Moving forward, we foresee that the industries that the Group operates in will remain highly competitive. Brexit, which is scheduled to take effect in 2019, has caused uncertainty and volatility in the economy, especially in Europe. As the Group has a significant European customer base, demand for our products may be affected.

CHAIRMAN'S STATEMENT



Meanwhile, protracted trade tensions between the USA and China may also affect the Group as China is home to one of our manufacturing facilities. Cost pressures continue to rise in Singapore, Malaysia and China, where our operations are located. Minimum wages had risen again in Shenzhen, China, in FY18, and will also be raised in Malaysia in FY19. With our factories based in these two locations, our labour costs will be impacted.

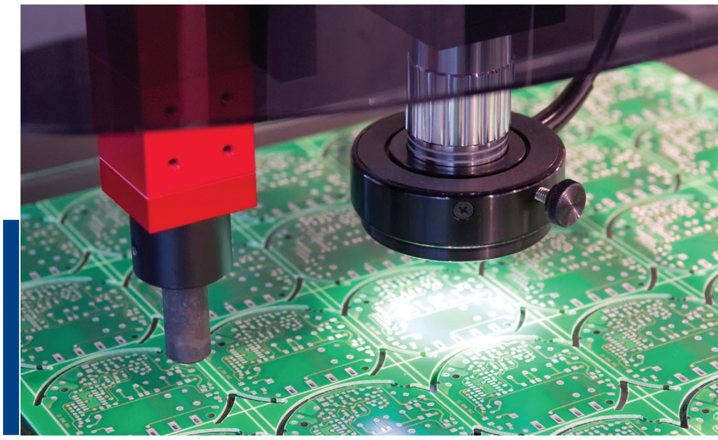
The unpredictability of orders and forecasts from customers adds on to our challenge for long-term planning. Strong market competition and persistent demand for lower pricing may also have an impact on margins in the following year.

With parts of our sales denominated in USD, volatility in the currency increases the uncertainty in managing our foreign exchange risks. Any weakening of the USD will have an adverse impact on the Group in the event that revenue is not matched by costs denominated in USD.

The Group believes though, that while we actively work to mitigate risks, some risk has to be taken to achieve our shareholder aspirations. Driving into the new year, we will continue to work on expanding our knowledge of our customers' needs and creating new solutions to meet their expectations, while striving for operational excellence. Over the past years, we have also been working on diversifying our customer base by building relationships with customers that value greater engineering support, which is particularly essential in the development of low-volume niche products. We strive to offer such value-added services to customers to differentiate ourselves from our competitors so that cost will not be our only basis for competition. Nevertheless, we have always and will remain vigilant and exercise tight rein over our costs.

Our Gratitude and Appreciation

Over the past year, the Group paid interim dividends of 3 cents, comprising of a 2 cent first interim dividend together with a 1 cent special dividend. For FY18, the Board is pleased to recommend a final dividend of 3 cents per share. This brings the total dividend for FY18 to 6 cents per share. The proposed final dividend is subject to the approval of the shareholders at the forthcoming Annual General Meeting.



To our loyal shareholders, thank you for your trust and confidence in the Group. To our Board of Directors, thank you for your leadership, commitment and support as we navigate the evolving marketplace, and work in the best interest of our stakeholders. I would also like to thank all PNE Group employees and partners for your hard work and dedication. We look forward to many continued years of business sustainability.

Tan Kong Heng
Chairman

CORPORATE INFORMATION

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996 Bendemeer Road #07-06
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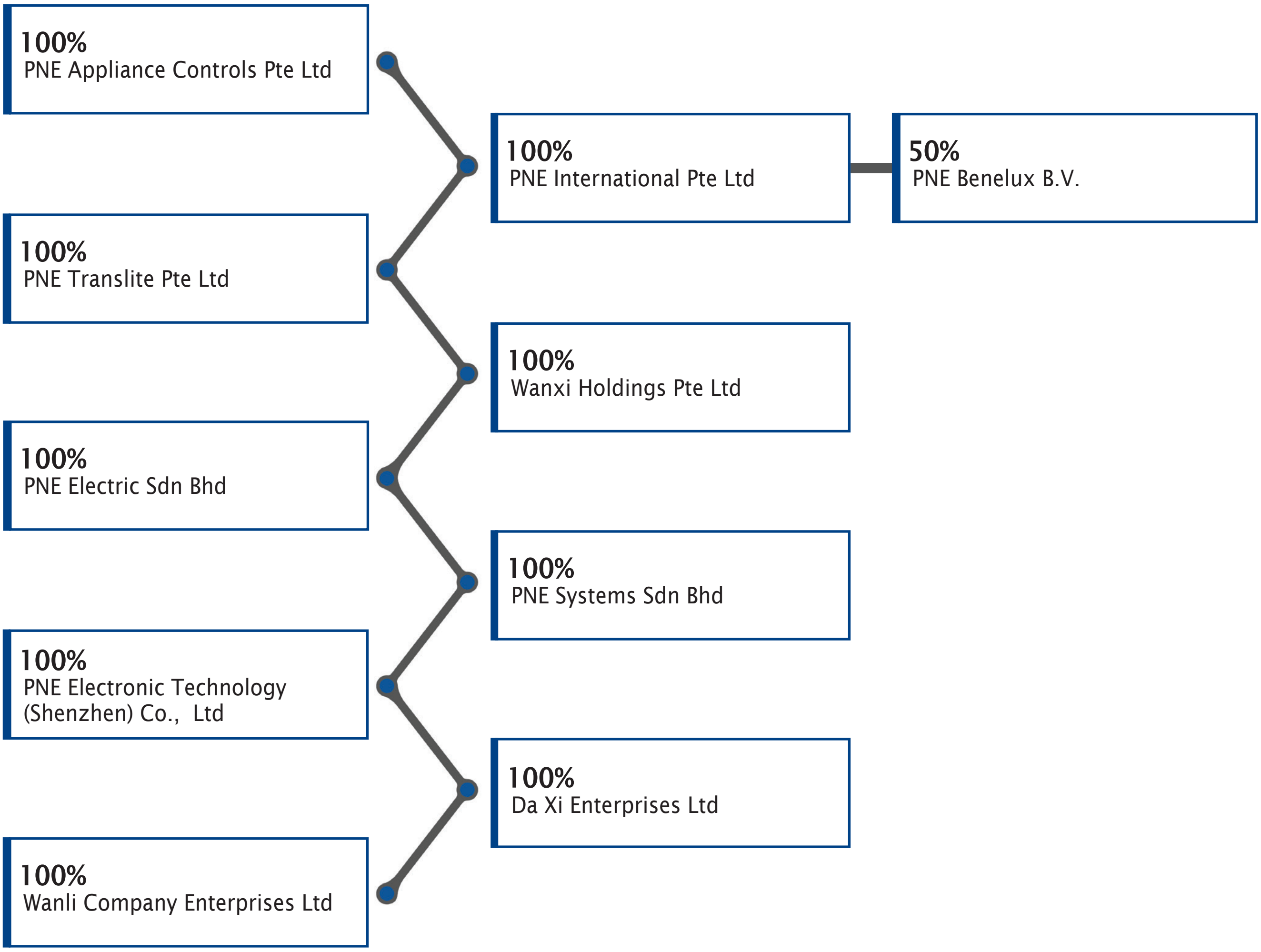
www.pne.com.sg

Company Secretary
Tan Meng Siew

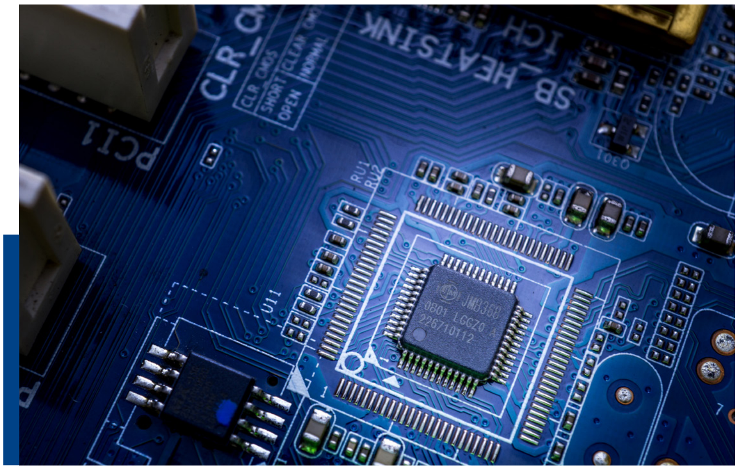
Share Registrar
Boardroom Corporate & Advisory Services Pte Ltd
50 Raffles Place #32-01
Singapore Land Tower
Singapore 048623

Auditors
Deloitte & Touche LLP
Audit Partner, Patrick Tan Hak Pheng
(Appointed in FY 2018)
6 Shenton Way #33-00
OUE Downtown 2
Singapore 068809

GROUP STRUCTURE



PRODUCTS



The Company and its subsidiaries operate primarily in two business segments – contract manufacturing and trading.

The types of products sold under the contract manufacturing business include electronic controllers and other electrical and electronic products. These products are made to each individual customer's unique specifications.

The types of products sold under the trading business include emergency lighting equipment and related products. These products are made based on general specifications for the mass market.

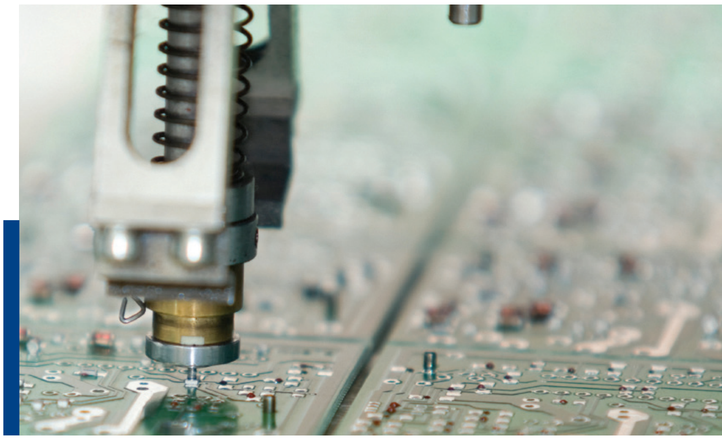
Electronic controllers

Due to the demands of increasingly sophisticated consumers, increasing number of electrical appliances are now equipped with intelligent features made possible by the use of microprocessors or by the connection to the Internet (devices incorporated with "Internet of Things" or IoT features). The Group, in collaboration with its customers, develops electronic controllers incorporating such intelligent features.

The Group manufactures smart home-lighting devices with IoT features for a leading European lighting company which allow users to control their lights over the Internet. The Group also manufactures personal handheld medical scanning devices as well as energy management systems with IoT features.

Emergency lighting equipment

Emergency lighting equipment is a type of lighting equipment that turns on or remains on when a power failure occurs. A type of such emergency lighting equipment is the "Exit" sign. "Exit" signs are self-lit signage installed in buildings to indicate to occupants the direction and location of emergency escape routes and/or exits. The Group designs, manufactures and distributes a wide range of emergency lighting equipment, including those for indoor use or outdoor use. These products are marketed under its own "PNE" brand.



BOARD OF DIRECTORS

All the Directors of the Company, excluding the independent directors, are siblings.

Mr Tan Kong Heng, *Non-executive Chairman*
First appointed on 25 September 1999. Last re-elected on 18 January 2017.
Mr Tan has been with the Group since its inception, and currently acts in an advisory role with respect to the formulation of the Group's corporate strategies and expansion plans. He started his career in the electronics industry in 1970 when he joined a local printed circuit board manufacturer as a Material Manager. Having more than 30 years of experience in the electronics manufacturing industry, Mr Tan has built up strong relationships with many industry players. Previously he was the non-executive Chairman of Sen Yue Holdings Ltd, which used to be known as PNE Micron Holdings Ltd and is listed on SGX-Catalist, and was also an executive director of PNE PCB Bhd, which is listed on the Bursa Malaysia Securities Berhad in Malaysia.

Mr Tan Koon Chwee, *Executive Managing Director*
First appointed on 25 September 1999. Last re-elected on 28 January 2016.
Mr Tan serves as the Chief Executive Officer of the Group and is the brother of Mr Tan Kong Heng. He is responsible for formulating and implementing the Group's corporate and business strategies and financial matters. He also oversees the marketing function of the Group. Mr Tan holds a Honours degree in the Bachelor of Science in Electrical and Electronic Engineering from the University of Strathclyde, Glasgow, Scotland. He has also been registered as a Professional Engineer since 1985.

Mr Tan Kong Leong, *Executive Director*
First appointed on 4 May 2000. Last re-elected on 18 January 2018.
Mr Tan assists the Managing Director in the management of the Group and in the budgeting of the costs of various projects. He is also responsible for the information technology function of the Group. In addition, he also oversees the material purchases. He joined the Group as an electronic engineer in 1986. He holds a degree in the Bachelor of Engineering (Electrical) from the Nanyang Technological University and a degree in the Master of Business Administration from the National University of Singapore.

Mr Tan Kwong Soon, *Non-executive Director*
First appointed on 4 May 2000. Last re-elected on 18 January 2018.
Mr Tan is one of the founding members of the Group. As such, he has in-depth knowledge and understanding of the Group's business. He currently acts in an advisory role in the accounting and financial matters of the Group. He holds a Diploma in Accounting from the London Chamber of Commerce and Industry. Previously he was an executive director of Sen Yue Holdings Ltd, which was used to be known as PNE Micron Holdings Ltd and is listed on SGX-Catalist, and was also a non-executive director of PNE PCB Bhd, which is listed on the Bursa Malaysia Securities Berhad in Malaysia.

Mr Tung Chee Weng, *Independent Director*
First appointed on 4 May 2000. Last re-elected on 18 January 2018.
Mr Tung was previously the General Manager of Centeonyx Pte Ltd. Prior to this, he was the General Manager of Centillion Environment & Recycling (Singapore) Pte Ltd from 2004 - 2006 and was Director (Service Division) of Veolia Water Systems (S) Pte Ltd from 1998 - 2004. From 1987-1998, he was with Seagate Technology International as a Director (Strategic Planning & Industrial Engineering). Mr Tung had also worked in various other companies in the construction and engineering industries for 17 years. He holds a Bachelor of Science (Mechanical Engineering) (Second Upper Class Honours) from the University of Strathclyde, Glasgow, Scotland.

Mr Tan Lee Khiang, *Independent Director*
First appointed on 4 May 2000. Last re-elected on 18 January 2017.
Mr Tan is presently the director of TechnoMEC Resources Pte Ltd, AFS Sejahtera Pte Ltd, and Bramar Sejahtera Pte Ltd. From 1989 to 1999, he was Senior Manager at Genisys Integrated Engineers Pte Ltd. Prior to that, he worked in various engineering, manufacturing and construction firms for 10 years. He had also acquired accounting and financial expertise from over 20 years of managing his own firm. He graduated with a Bachelor of Science (First Class Honours) in Mechanical Engineering from the University of Strathclyde, Glasgow, Scotland and is a registered Professional Engineer in Singapore.

Mr Lim Meng Wee, *Independent Director*
First appointed on 1 June 2013. Last re-elected on 18 January 2017.
Mr Lim has been the Managing Director of SP Consulting (International) Pte Ltd since 1993. Prior to this, he held various management positions in ECS Computers (Asia) Pte Ltd, Seagate Technology Singapore Pte Ltd as well as Data General Hong Kong Limited. He has a diploma in electronics and communications engineering from the Singapore Polytechnic. He is a council member of the Singapore Manufacturing Federation. Mr Lim brings with him experience in organisation management and development in various industries, namely in the areas of business excellence, business continuity management, quality, environment and occupational health and safety.

KEY MANAGEMENT

Mr Chin Chew Khay

Director of PNE Systems Sdn Bhd

Mr Chin is responsible for the overall management of this subsidiary, which is involved in the marketing and sale of the Group's lighting products in Malaysia. Mr Chin joined this subsidiary since its incorporation in 1993, and has more than 20 years' experience in marketing and selling emergency lighting equipment.

Ms Tan Bee Foon

Group Human Resource General Manager

Ms Tan has more than 10 years of human resource management and development experience in private sectors before joining the Company in 1999. Ms Tan is responsible for human resource management and general administration for the Group. She is involved in the formulation of the Group's human resource policies and employee training or development activities. In addition, Ms Tan oversees all the administrative matters of the Group. She is responsible for strategizing and directing the implementation of group-wide human resource policies, programmes, environmental, health and safety matters for the Group. Ms Tan is the sister of all the directors except the independent directors.

Ms Tan Meng Siew

Financial Controller and Company Secretary

Ms Tan was first appointed as financial controller in October 1999, and as company secretary in December 2004. She is responsible for the Group's overall finance and accounting functions. Ms Tan joined an international accounting firm in 1994 upon graduation and subsequently joined PNE PCB Pte Ltd in 1996. She is a member of the Institute of Singapore Chartered Accountants and holds the Bachelor of Accountancy (Second Class Upper Honours) from the Nanyang Technological University. Ms Tan is the daughter of the Chairman of the Company and the niece of all the directors except the independent directors.

CORPORATE GOVERNANCE

PNE Industries Ltd is committed to good standards of corporate governance to protect the interests of its shareholders and maximize long-term shareholder value. This report describes the Company's corporate governance practices with specific reference to the Code of Corporate Governance ("Code") issued in 2012 in accordance to SGX's listing rules. Explanations have been provided in the relevant sections for deviations from the Code. The Company would be reviewing the latest Code of Corporate Governance issued in August 2018 ("2018 Code"), and would update its corporate governance report in pursuance to the 2018 Code in its future annual reports in due course.

Principle 1: The Board's conduct of its affairs

The principal functions of the Board are to protect and enhance long-term shareholder value, establish the overall strategy for the Group, and to monitor the performance of management. To assist in the execution of its responsibilities, the Board is supported by the Nominating Committee ("NC"), the Remuneration Committee ("RC"), and the Audit Committee ("AC").

The Board meets at least twice a year to consider and resolve major financial and business matters of the Group. The Company's Constitution allows for telephonic and video-conference meetings. In between Board meetings, major matters concerning the Group are also put to the Board for its decision by way of circulating resolution-in-writing for the directors' approval. Where necessary, informal meetings are held to deliberate on various issues. Material transactions requiring board approval include material acquisitions or disposals of assets, investments or divestments, corporate or financial restructuring, declarations of dividends and other returns to shareholders, and transactions involving a conflict of interest for a substantial shareholder or a director or interested person transactions.

All directors act in good faith and objectively in the best interests of the Group when discharging their duties. The directors continuously update themselves to familiarise on new laws and regulations as well as changing commercial risks and developments in order to keep abreast of changes in the industry and general economic environment. Attendance at external seminars and conferences are arranged for both existing and new directors at the Company's expense as and when appropriate. New directors joining the Company are also given an orientation by the Company's Executive Directors and/or senior management to familiarise them with the Group.

During the last financial year ended September 30, 2018, two formal Board meetings were held. All directors as well as the company secretary attended the meetings.

Principle 2: Board composition and balance

The Board currently comprises of the following members:

Name	Board	Audit Committee	Nominating Committee	Remuneration Committee
Tan Kong Heng (Chairman)	Non-executive	-	Member	Member
Tan Koon Chwee (Managing Director)	Executive	-	-	-
Tan Kong Leong	Executive	-	-	-
Tan Kwong Soon	Non-executive	Member	-	-
Tung Chee Weng	Lead Independent	Chairman	Member	Chairman
Tan Lee Khiang	Independent	Member	Chairman	Member
Lim Meng Wee	Independent	Member	Member	Member

CORPORATE GOVERNANCE

The directors are qualified and experienced in various fields including engineering, manufacturing, and accountancy. The Board is of the opinion that its current size and composition is appropriate given the scope and nature of the Group's operations. It takes into consideration the skills, experience, knowledge of the Group and the industries it operates in, and competencies of board members, regardless of gender, when reviewing the composition of the Board. The Board's practice is to be gender-neutral as greater emphasis is placed on competencies and ability to contribute by the board member, and these attributes are not dependent on gender. It will continuously review its size and composition to ensure that these remain appropriate in light of ever-changing environments.

Currently three out of the seven members of the Board are independent. The independence of the directors is reviewed annually by the NC. The NC adopts the definition in the Code as to what constitutes an independent director when conducting its review. The independent directors also confirmed that they do not have any relationship with the Company, its related corporations, its 10% shareholders, or its officers that may interfere, or may reasonably be perceived to interfere, with the exercise of their independent judgement.

Of the three independent directors, Messrs Tung Chee Weng and Tan Lee Khiang have each served as Board members for more than nine years. In its deliberation as to the independence of Messrs. Tung Chee Weng and Tan Lee Khiang, the NC had reviewed, amongst others, their length of service, past contributions, their declarations of independence, and whether there are any relationships with the Company, its related corporations, substantial shareholders or its officers, or circumstances that may affect or appear to affect their independent judgement in the best interest of the Company. Based on this, the NC is satisfied that they have exercised independent judgement and character in the best interests of the Company in discharging their duties and responsibilities. Considering their experience and expertise, it is in the interests of the Company to retain them as directors instead of requiring them to step down by virtue of their years of service. The Board concurs with the view of the NC.

The Chairman of the Board and the Chief Executive Officer ("CEO") of the Company are family members (see Principle 3). Guideline 2.2 of the Code recommends that independent directors should make up at least half of the Board under such a circumstance. As such, this guideline of the Code is not met as independent directors currently make up 43% of the Board. While independent directors do not make up at least half of the Board, there had been no domination of the Board's discussions or decision-making by any individual or small group of individuals. Each Board member is required to discharge their duties and responsibilities at all times and are fiduciaries who act objectively in the best interests of the Company, and in the process of doing so, each Board member will exercise their own independent judgement. Thus, it is the opinion of the Board that the decision-making process of the Board had remained independent, and was not unduly influenced by any single individual or small group of individuals. In addition, considering the contributions made by each of the non-independent directors, the Board does not consider it to be in the interests of the Company to require one or more of the non-independent directors to step down, or to appoint more independent directors, just to attain a level of at least half of the Board being independent.

Principle 3: Chairman and Managing Director

Mr Tan Kong Heng is the Chairman of the Board. Mr Tan Koon Chwee is the Managing Director and Chief Executive Officer ("CEO") of the Company. Mr Tan Kong Heng and Mr Tan Koon Chwee are brothers. The roles of the Chairman and CEO are separated in order to increase accountability and enhance the ability of the Board for independent decision making. Part of the duties of the Chairman includes the scheduling of Board meetings and setting the board meeting agenda in consultation with the Company's Managing Director. The Chairman also assists to ensure compliance with the Company's guidelines on corporate governance.

Mr Tung Chee Weng, who is the Chairman of the Board's Audit Committee, is also the Lead Independent Director. As the Lead Independent Director, Mr Tung is available to shareholders if they have concerns for which contact through the normal channels of the Chairman, the CEO, or the Financial Controller is inappropriate or is not resolved. The independent directors and the non-executive directors meet at least once a year without the presence of Management.

CORPORATE GOVERNANCE

With the separation of roles between the Chairman and the CEO, as well as the presence of independent directors on the Board, including the presence of a lead independent director, there is adequate segregation of responsibilities to ensure an appropriate balance of power and influence, thus allowing greater capacity of the Board for independent decision making.

Principles 4 and 5: Board membership and performance

The Nominating Committee ("NC") works in accordance with its written terms of reference duly adopted by the Board. It is primarily responsible for reviewing the structure, size and composition of the Board, and for assessing the effectiveness of the Board as a whole. It also determines annually whether or not a director is independent and makes recommendations to the Board on re-nomination and re-election of directors. In accordance with the Company's Constitution, one-third of the directors retire from office at each AGM and submit themselves for re-election at regular intervals of at least once every three years.

In assessing the effectiveness of the Board as a whole, the NC has to carry out a formal process annually taking into consideration both quantitative and qualitative criteria which does not change from year-to-year. Given the current size and composition of the Board, the NC is of the view that an assessment of the Board's performance as a whole is reflective of the contribution of each individual director. Thus, a formal assessment of the contribution of each individual director is currently not necessary.

No maximum number of listed company board representations for board members has been set as the NC, with the concurrence of the Board, is of the view that each director has different personal commitments, and it is thus more relevant to assess each director based on their contributions, including their ability to commit time to the Company, rather than to prescribe a maximum number of listed company board representations for them.

The NC is also responsible for identifying and nominating candidates for the approval of the Board when the need for a new director is identified, whether to fill board vacancies as and when they arise, or to enhance the Board's effectiveness and capabilities. Potential candidates are to be identified from various sources, and may include suggestions by members of the Board or the Group's professional advisors. The NC also has the authority to engage recruitment consultants to assist it in the search and assessment process for potential candidates to join the Board. The potential candidates would be evaluated based on various criteria, including amongst others, their experience, professional qualifications and personal attributes by the NC before the NC submits its recommendation to the Board for approval. For re-election of incumbent directors, the NC would also consider, amongst others, the incumbent directors' competencies, independence, participation, attendance and contributions. A new director can be appointed to the Board via a board resolution, and shall hold office until the first AGM held after his appointment, during which he would have to submit himself for re-election.

No alternate directors were appointed throughout the past year.

The NC held one meeting in the past year. All members of the NC attended the meeting.

Principle 6: Access to information

All members of the Board have separate and independent access to the Company's senior management and company secretary at all times. Should any of the directors require independent professional advice, such professionals will be hired at the Company's expense.

Prior to the Board meetings, all directors are provided with the agenda as well as the board papers and related materials (including background or explanatory information) so that the directors have complete, adequate, and timely information to enable them to be prepared for the meeting. The company secretary attends all board meetings and would ensure that board procedures and applicable requirements under the Companies' Act and Listing Manual are complied with. The company secretary also helps to facilitate good flow of information to and from Board members, and advises the Board on governance matters. The appointment and removal of the company secretary are subject to the approval of the Board as a whole.

CORPORATE GOVERNANCE

In addition to the board papers submitted to the directors for the board meeting, monthly management reports are submitted to each director to ensure that they have adequate and timely information on the Group's operations and financial performance on an on-going basis to enable them to make informed decisions to discharge their duties and responsibilities.

Principle 7: Remuneration policies

The Remuneration Committee ("RC") works in accordance with its written terms of reference duly adopted by the Board. It is primarily responsible for recommending to the Board the framework of remuneration for the Board and key executives. It also determines specific remuneration packages for each executive director, including the terms of the service agreements of the executive directors, and reviews the remuneration of the key executives. The remuneration covers all aspects of remuneration including directors' fees, salaries, allowances, bonuses, and benefits-in-kind, if any. Termination clauses incorporated in the service agreements of the executive directors are also reviewed by the RC to ensure that the clauses are fair, reasonable, and not overly generous.

None of the members of the RC specialize in the field of executive compensation. However, they possess general knowledge in this area, and are supported by the Group Human Resource General Manager. In addition, if required, external professional advice would be sought at the Company's expense. If external remuneration consultants are engaged, the RC would ensure that existing relationships, if any, between the Company and its remuneration consultants would not affect the independence and objectivity of the remuneration consultants. No remuneration consultant was appointed in the past financial year.

The RC held one meeting in the past year. All members of the RC attended the meeting.

Principle 8: Level and mix of remuneration
Principle 9: Disclosure on remuneration

The Group endeavours to set a level of remuneration that is appropriate to attract, retain and motivate all directors and staff. The remuneration generally includes a fixed as well as a variable component. The variable component is determined based on the performance of both the individual employee as well as the performance of the Group. There is no contractual provision that allows the Group to reclaim remuneration from the directors or staff in exceptional circumstances of misstatement of financial results, or misconduct resulting in financial loss to the Group, as the remuneration package is moderate and not excessive.

The Company does not have any share-based remuneration schemes for directors and employees. As most of the Group's employees are foreigners based at its overseas factories, it is not cost-efficient to set-up and maintain a share-based remuneration scheme as many of its employees may not wish or be able to participate in such schemes.

The remuneration of directors of the Company for the financial year ended September 30, 2018 are as follows:

Name of director	Base/fixed salary	Variable or performance-related income/bonuses	Fees	Options granted
$500,001 to $750,000				
Tan Koon Chwee	71%	25%	4%	NA
Tan Kong Leong	72%	25%	3%	NA
Nil to $250,000				
Tan Kong Heng	0%	0%	100%	NA
Tan Kwong Soon	0%	0%	100%	NA
Tung Chee Weng	0%	0%	100%	NA
Tan Lee Khiang	0%	0%	100%	NA
Lim Meng Wee	0%	0%	100%	NA

CORPORATE GOVERNANCE

Based on the current organization and reporting structure of the Group, it is more appropriate for three executives, who are not also directors of the Company, to be identified as the Group's top key executives instead of five as required under the Code. The names and profiles of these key executives of the Group are stated on page 6 of the annual report. Given the sensitive nature of employee remuneration, and the possible pressures from both within and outside the Group upon disclosing such information, the Board has decided that detailed disclosure of each director's and key executive's remuneration, as well as the remuneration of employees who are immediate family members of a director or the CEO is not in the interests of the Company.

Principle 10: Accountability

The Board is accountable to the shareholders while the management is accountable to the Board. When presenting the announcements for the interim and full year financial results to the shareholders, the Board aims to provide a balanced and understandable assessment of the Company's performance, position and prospects. Management assists by providing the members of the Board with management accounts and reports of the Group's results on a monthly basis, as well as other information as and when necessary, to enable the Board to make a balanced and informed assessment of the Group's performance, position and prospects. For interim results announcements, the Board provides a negative assurance confirmation that nothing had come to the attention of the Board which could render the results to be false or misleading. For full year results, the Board receives assurance from the CEO and Financial Controller that the financial statements give a true and fair view of the Group's operations and finances.

Pursuant to Rule 720(1) of the Listing Manual of the SGX-ST, the Company has received undertakings from all its directors and executive officers that they would use their best endeavours to comply with the Listing Manual of the SGX-ST, and to procure that the Company should so comply to.

Principle 11: Risk Management and Internal Controls

The Board acknowledges that risk is inherent in business and there are commercial risks to be taken in the course of generating a return on business activities. The Board's policy is that risks should be managed within the Group's overall risk tolerance. The risk management functions are currently managed by the Audit Committee ("AC").

The review of the Group's system of internal controls is a concerted and continuing process, designed to manage rather than eliminate the risk of failure to achieve business objectives. The Board acknowledges its responsibility for ensuring that there is a sound system of internal controls to safeguard the shareholders' investments and Group's assets.

Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors, and reviews performed by management, the Board, with the concurrence of the AC, is of the opinion that the Group's internal controls addressing financial, operational, compliance and information technology controls, and risk management systems were adequate and effective as at September 30, 2018. The Board has also received assurance from the CEO and Financial Controller that the Group's financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances, and on the effectiveness of the Group's risk management and internal control systems. However, it should be noted that no system of internal controls and risk management can provide absolute assurance against the occurrence of material errors, poor judgement, human error, losses, fraud or other irregularities.

The financial risks and management policies of the Group are laid out on pages 44 to 48 of the Annual Report.

CORPORATE GOVERNANCE

Principle 12: Audit Committee ("AC")

The AC currently comprises three Independent Directors and a Non-executive Director. Of the members, Mr Tan Kwong Soon has formal accounting training and experience. He and the other members of the AC have many years of experience in senior management positions and have sufficient financial management expertise to discharge the AC's functions. None of the members are former partners or directors of the Company's existing external and internal audit firms within the previous twelve months, nor do they have any financial interest in the audit firms.

The AC works in accordance with its written terms of reference duly adopted by the Board. Some of its primary responsibilities are as follows:

a. To review the audit plans and findings of the Company's internal auditors, and their evaluation of the systems of internal controls arising from their audit
b. To review the statement of financial position and statement of changes in equity of the Company and the consolidated financial statements of the Group before their submission to the Board of Directors and the external auditors' report on those financial statements
c. To review half-yearly and full year results announcements of the Company before their submission to the Board of Directors
d. To review interested person transactions
e. To review annually the independence and objectivity of the external auditors, taking into consideration the non-audit services provided to the Group
f. To ensure that a review of the effectiveness of the Group's material internal controls is conducted at least annually
g. To review the co-operation and assistance given by the management to the Group's external auditors
h. To review the re-appointment of the external auditors of the Group

The AC has full authority to investigate any matters within its terms of reference, and has full access to the management of the Company. It also has full discretion to invite any director and executive officer to attend its meetings. The external and internal auditors have unrestricted access to the AC.

The AC held two meetings during the past year. All members of the AC attended the meetings. The AC meets with the external auditors at least once a year without the presence of Management.

Having reviewed the aggregate fees paid to the auditors, and a breakdown of the fees paid for audit and non-audit services provided by the auditors, the AC is of the opinion that the independence of the auditors have not been affected by the provision of the non-audit services. Further, it was noted that the appointment of the external auditors for the Company, its subsidiaries and associated company are in compliance with Rules 712 and 715 of the SGX-ST Listing manual. The AC recommended that Messrs Deloitte & Touche LLP be nominated for re-appointment as the external auditors at the forthcoming AGM.

The Company has a whistle-blowing policy in place for the Group to allow staff or any other persons to raise concerns about possible improprieties for such matters to be independently investigated without any fears of reprisals.

Principle 13: Internal audit

The Group has outsourced the internal audit function to an accounting firm, namely BDO LLP. The internal auditors carry out their function according to the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors. The internal audit is carried out by staff with relevant qualifications and experience.

CORPORATE GOVERNANCE

The hiring, removal, evaluation and compensation of the internal auditors are approved by the AC. The internal auditors during their course of audit has unfettered access to all company's documents, records, properties and personnel, including the AC. The internal auditors' primary line of reporting is to the chairman of the AC. Administratively, they report to the Managing Director of the Company, who is assisted by the Financial Controller on this matter.

The AC annually reviews the internal audit function to ensure that it is independent, the internal audit resources are adequate, and that the internal audits are performed effectively.

The AC determines the scope of audit examination and approves the internal audit plan.

Principle 14: Shareholder Rights
Principle 15: Communication with Shareholders
Principle 16: Conduct of Shareholder Meetings

The Board aims to treat all shareholders fairly and equitably. Shareholders are kept informed of the developments and performance of the Group through timely announcements via SGXNET and the press (where appropriate) as well as the annual report. Results and any other matters that are likely to materially affect the price or value of the Company's shares are announced on a timely basis via the SGXNET in accordance to the requirements of the SGX-ST. If there is any inadvertent disclosure made to a select group, the Company would make the same disclosure publicly to all others as promptly as possible.

Active participation from shareholders at general meetings is welcomed by the Company. To facilitate voting by shareholders, the Company's Constitution allows shareholders who are unable to attend the general meetings to appoint up to 2 proxies to attend, participate and vote on their behalf. Corporations providing nominee and custodial services may also appoint more than 2 proxies to attend, participate and vote in general meetings on behalf of shareholders who hold shares through such corporations. Proxy forms can be sent to the Company by mail. Voting in absentia, such as by mail, email or fax, is currently not implemented due to concerns over integrity of information and authentication of shareholder identity.

During general meetings, each distinct issue is voted via separate resolutions by poll via electronic polling. Shareholders are briefed on the voting procedures prior to voting. An independent scrutineer is appointed to validate shareholders' votes at the meetings. Detailed results of votes cast for and against each of the resolutions and the respective percentages during such meetings are announced via SGXNET. For each meeting, minutes containing substantial and relevant comments or queries of shareholders, and the responses from the Board and management, are prepared and made available to shareholders upon request. All directors of the Company, as well as the external auditors attend the Company's general meetings to address any queries from shareholders. The annual general meeting held on January 18, 2018 was attended by all the directors. Feedback can also be provided by shareholders via the Company's website.

The Company does not have a formal dividend policy. The Board would consider factors such as the Group's performance, financial position, future plans, external economic environment, and other factors deemed appropriate when deciding the amount of dividends to be declared or proposed. The Company has paid dividends at least once annually since 2007.

Listing Rule 1207(19) – Dealing in Securities

The Group has adopted the SGX's Listing Rule 1207(19) with respect to dealings in securities for its internal compliance code. The Group's directors and officers are not allowed to deal in the Company's securities during the period beginning one month prior to the announcement of the Company's half year and full year results, and ending on the day of the announcement of the results, or while they are in possession of unpublished price-sensitive information. Directors and officers are also discouraged from dealing in the Company's securities on short-term consideration.

CORPORATE GOVERNANCE

INTERESTED PERSONS TRANSACTIONS

The Company has procedures to ensure that all transactions with interested persons are reported in a timely manner to the Audit Committee, and that the transactions are carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its shareholders. There were no interested persons transactions with amounts of $100,000 or more during the year ended September 30, 2018. The Company does not have any shareholders' mandate for interested persons transactions.

MATERIAL CONTRACTS AND LOANS

Pursuant to Rule 1207(8) of the Listing Manual, the Company confirms that there were no material contracts and loans of the Company and its subsidiaries involving the interests of the controlling shareholder, either still subsisting at the end of the financial year or if not then subsisting, which were entered into since the end of the previous financial year.

Directors' Statement

for the financial year ended September 30, 2018

The directors present their statement together with the audited consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the financial year ended September 30, 2018.

In the opinion of the directors, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company as set out on pages 22 to 64 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at September 30, 2018, and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts when they fall due.

1. DIRECTORS

The directors of the Company in office at the date of this statement are:

Tan Kong Heng
Tan Koon Chwee
Tan Kong Leong
Tan Kwong Soon
Tung Chee Weng
Tan Lee Khiang
Lim Meng Wee

2. ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate.

3. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors of the Company holding office at the end of the financial year had no interests in the share capital and debentures of the Company and related corporations as recorded in the register of directors' shareholdings kept by the Company under Section 164 of the Singapore Companies Act except as follows:

Names of directors and companies in which interests are held	Shareholdings registered in names of directors	
	At beginning of year	At end of year
PNE Industries Ltd		
- Ordinary shares		
Tan Kong Heng	8,829,100	8,829,100
Tan Koon Chwee	9,334,875	9,334,875
Tan Kong Leong	8,614,875	8,614,875
Tan Kwong Soon	4,709,750	4,709,750
Tan Lee Khiang	25,000	25,000

The directors' interests in the shares of the Company as at October 21, 2018 were the same as at September 30, 2018.

Directors' Statement

for the financial year ended September 30, 2018

4. SHARE OPTIONS

(a) *Options to take up unissued shares*
During the financial year, no options to take up unissued shares of the Company or any corporation in the Group were granted.

(b) *Options exercised*
During the financial year, there were no shares of the Company or any corporation in the Group issued by virtue of the exercise of an option to take up unissued shares.

(c) *Unissued shares under option*
At the end of the financial year, there were no unissued shares of the Company or any corporation in the Group under option.

5. AUDIT COMMITTEE

The Audit Committee of the Company carried out its functions in accordance with Section 201B of the Singapore Companies Act, Cap. 50, and the Singapore Exchange Listing Manual.

The Audit Committee is chaired by Mr Tung Chee Weng, an independent director, and includes Mr Tan Lee Khiang and Mr Lim Meng Wee, both are independent directors and Mr Tan Kwong Soon, a non-executive director.

The Audit Committee works in accordance with written terms of reference duly adopted by the Board. Some of its primary responsibilities are as follows:

(a) To review the audit plans and findings of the Company's internal auditors, and their evaluation of the systems of internal controls arising from their audit;

(b) To review the statement of financial position and statement of changes in equity of the Company and the consolidated financial statements of the Group before their submission to the Board of Directors and the external auditors' report on those financial statements;

(c) To review half-yearly and full-year results announcements of the Group and Company before their submission to the Board of Directors;

(d) To review interested person transactions;

(e) To review annually the independence and objectivity of the external auditors, taking into consideration the non-audit services provided to the Group;

(f) To ensure that a review of the effectiveness of the Group's significant internal controls is conducted at least annually;

(g) To review the co-operation and assistance given by the management to the Group's external auditors; and

(h) To review the re-appointment of the external auditors of the Group.

The Audit Committee has full authority to investigate any matters within its terms of reference, and has full access to the management of the Company. It also has full discretion to invite any director and executive officer to attend its meetings. The external and internal auditors have unrestricted access to the Audit Committee.

The Audit Committee held 2 meetings during the year. All members of the Audit Committee attended both meetings.

Directors' Statement

for the financial year ended September 30, 2018

The Audit Committee has recommended to the directors the nomination of Deloitte & Touche LLP for re-appointment as external auditors at the forthcoming Annual General Meeting of the Company.

The Group is in compliance with Listing Rules 712 and 715 of the Singapore Exchange Securities Trading Limited as suitable auditing firms have been appointed to meet the Group's audit obligations.

6. AUDITORS

The auditors, Deloitte & Touche LLP, have expressed their willingness to accept re-appointment.

ON BEHALF OF THE DIRECTORS

Tan Koon Chwee

Tan Kong Leong

December 14, 2018

Independent Auditor's Report to the members of PNE Industries Ltd

for the financial year ended September 30, 2018

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of PNE Industries Ltd (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at September 30, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 22 to 64.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ("the Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at September 30, 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How the matter was addressed in the audit
Allowance for doubtful receivables As at September 30, 2018, the Group has net trade receivables of \$31.7 million, which is approximately 31.0% of total assets. Allowances for doubtful debts amounted to \$1.9 million as at the end of the reporting period. On reviewing trade receivables for objective evidence of impairment, management considered the age of the outstanding balance, recent historical payment patterns and other available information covering the creditworthiness of the customers.	We performed the following: • Evaluated the design and implementation of relevant controls over the valuation of trade receivables. • Assessed and challenged the reasonableness of management's basis for the recognition of the allowance for doubtful debts, which include evaluation of the creditworthiness and the past collection history of significant debtors, as well as receipts subsequent to year end for significant past due amounts yet to be collected as at year end.

Independent Auditor's Report to the members of PNE Industries Ltd

for the financial year ended September 30, 2018

Key Audit Matters *(continued)*

Key audit matters	How the matter was addressed in the audit
The assessment of recoverable amounts requires management to make significant judgement regarding the identification of impaired receivables and expectations of future cash inflows from customers. The accounting policy for allowance of doubtful receivables is disclosed in Note 2 to the financial statements and its relevant disclosure has been set out in Note 7 to the financial statements.	We have also assessed and validated the adequacy and appropriateness of the disclosures made in the financial statements, regarding trade receivables and the related risks such as credit risk and the aging of trade receivables as disclosed in Notes 4(c)(iii) and 7.
Allowance for inventories	
As at September 30, 2018, the Group has inventories of $20.3 million, which is approximately 19.9% of its total assets. The Group has made an allowance for inventories during the year amounting to $1.9 million. The value of the inventories and the usage are affected by market demand and technological advances. Management is required to assess at each reporting date whether there is any indication that the cost of inventories exceeds the net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. There is judgement involved in assessing the level of inventory allowance required. The relevant disclosure with respect to allowance for inventories has been set out in Note 9 to the financial statements.	We performed the following: • Evaluated the design and implementation of relevant controls over the valuation of inventories. • Enquired with and challenged management on their analysis and assessment made in arriving at the allowance for inventories and assessed the reasonableness and accuracy of the allowance recognised. • On a sample basis, assessed the net realisable value of inventories and challenged the appropriateness of the level of inventory allowance, considering the expected demand and actual selling price for selected samples. • Assessed and evaluated the inventory aging analysis of the Group at year end, and any subsequent usage and sale of inventories after year end, taking into consideration the impact of changes in technology and customers' preference and our knowledge of the Group's business and the industry in which it operates. We have also assessed and validated the adequacy and appropriateness of the disclosures made in the financial statements in Note 9.

Independent Auditor's Report to the members of PNE Industries Ltd

for the financial year ended September 30, 2018

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor's Report to the members of PNE Industries Ltd

for the financial year ended September 30, 2018

Auditor's Responsibilities for the Audit of the Financial Statements *(continued)*

(d) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Patrick Tan Hak Pheng.

Deloitte & Touche LLP
Public Accountants and Chartered Accountants, Singapore

December 14, 2018

Statements of Financial Position

as at September 30, 2018

	Note	Group		Company	
		2018	2017	**2018**	2017
		$'000	$'000	**$'000**	$'000
ASSETS					
Current assets					
Cash and bank balances	6	**36,698**	35,501	**22,935**	22,102
Trade receivables	7	**31,730**	34,690	**31**	91
Other receivables	8	**1,905**	1,965	**98**	55
Inventories	9	**20,346**	18,770	**-**	-
Total current assets		**90,679**	90,926	**23,064**	22,248
Non-current assets					
Property, plant and equipment	10	**6,765**	6,824	**-**	-
Investments in subsidiaries	11	**-**	-	**19,514**	19,514
Investment in associate	12	**448**	745	**-**	-
Available-for-sale investments	13	**4,098**	3,806	**3,119**	3,131
Deferred tax assets	14	**254**	354	**-**	-
Total non-current assets		**11,565**	11,729	**22,633**	22,645
Total assets		**102,244**	102,655	**45,697**	44,893
LIABILITIES AND EQUITY					
Current liabilities					
Trade payables	15	**18,475**	18,517	**39**	36
Other payables	16	**2,547**	3,336	**518**	704
Income tax payable		**384**	941	**83**	32
Total current liabilities		**21,406**	22,794	**640**	772
Non-current liability					
Deferred tax liabilities	14	**55**	59	**-**	-
Capital and reserves					
Share capital	17	**36,991**	36,991	**36,991**	36,991
Currency translation deficit		**(7,099)**	(7,864)	**-**	-
Capital reserve		**303**	303	**-**	-
Investment revaluation reserve		**33**	45	**33**	45
Accumulated profits		**50,555**	50,327	**8,033**	7,085
Total equity		**80,783**	79,802	**45,057**	44,121
Total liabilities and equity		**102,244**	102,655	**45,697**	44,893

See accompanying notes to financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the financial year ended September 30, 2018

	Note	2018 $'000	2017 $'000
Revenue	18	**79,844**	89,783
Cost of sales		**(61,249)**	(65,690)
Gross profit		**18,595**	24,093
Other operating income	19a	**1,012**	1,359
Distribution costs		**(2,439)**	(2,946)
Administrative expenses		**(10,460)**	(10,582)
Other operating expenses	19b	**(134)**	(144)
Share of results of associate	12	**106**	216
Profit before tax		**6,680**	11,996
Income tax expense	20	**(1,417)**	(1,693)
Profit for the year	21	**5,263**	10,303
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**765**	(1,343)
Available-for-sale investment	13	**(12)**	14
Other comprehensive income for the year, net of tax		**753**	(1,329)
Total comprehensive income for the year		**6,016**	8,974
Earnings per share (cents)			
Basic and diluted	22	**6.3**	12.3

See accompanying notes to financial statements.

Statements of Changes in Equity

for the financial year ended September 30, 2018

	Share capital $'000	Currency translation deficit[1] $'000	Capital reserve[2] $'000	Investment revaluation reserve $'000	Accumulated profits $'000	Total $'000
Group						
Balance at October 1, 2016	36,991	(6,521)	303	31	50,094	80,898
Total comprehensive income for the year						
Profit for the year	-	-	-	-	10,303	10,303
Other comprehensive income for the year	-	(1,343)	-	14	-	(1,329)
Total	-	(1,343)	-	14	10,303	8,974
Dividend, representing transaction with owners, recognised directly in equity (Note 25)	-	-	-	-	(10,070)	(10,070)
Balance at September 30, 2017	36,991	(7,864)	303	45	50,327	79,802
Total comprehensive income for the year						
Profit for the year	-	-	-	-	5,263	5,263
Other comprehensive income for the year	-	765	-	(12)	-	753
Total	-	765	-	(12)	5,263	6,016
Dividend, representing transaction with owners, recognised directly in equity (Note 25)	-	-	-	-	(5,035)	(5,035)
Balance at September 30, 2018	**36,991**	**(7,099)**	**303**	**33**	**50,555**	**80,783**

(1) Comprises exchange differences arising from the translation of the net investment in foreign entities.

(2) Laws and regulations in the People's Republic of China ("PRC") require foreign investment enterprises to appropriate from profit after tax, an amount to the capital reserve fund.

See accompanying notes to financial statements.

Statements of Changes in Equity

for the financial year ended September 30, 2018

	Share capital $'000	Investment revaluation reserve $'000	Accumulated profits $'000	Total $'000
Company				
Balance at October 1, 2016	36,991	31	11,471	48,493
Total comprehensive income for the year				
Profit for the year	-	-	5,684	5,684
Other comprehensive income for the year	-	14	-	14
Total	-	14	5,684	5,698
Dividend, representing transaction with owners, recognised directly in equity (Note 25)	-	-	(10,070)	(10,070)
Balance at September 30, 2017	36,991	45	7,085	44,121
Total comprehensive income for the year				
Profit for the year	-	-	5,983	5,983
Other comprehensive income for the year	-	(12)	-	(12)
Total	-	(12)	5,983	5,971
Dividend, representing transaction with owners, recognised directly in equity (Note 25)	-	-	(5,035)	(5,035)
Balance at September 30, 2018	**36,991**	**33**	**8,033**	**45,057**

See accompanying notes to financial statements.

Consolidated Statement of Cash Flows

for the financial year ended September 30, 2018

	2018 $'000	2017 $'000
Operating activities		
Profit before tax	**6,680**	11,996
Adjustments for:		
Share of results of associate	**(106)**	(216)
Depreciation expense	**821**	758
Loss on impairment on property, plant and equipment	**2**	(5)
Interest income	**(624)**	(502)
(Gain) Loss on disposal of property, plant and equipment	**(11)**	4
Property, plant and equipment written off	**10**	120
Reversal of allowance for doubtful trade receivables	**(79)**	(257)
Allowance for inventories	**82**	54
Operating profit before movements in working capital	**6,775**	11,952
Trade receivables	**3,323**	(8,731)
Other receivables	**46**	(1,007)
Inventories	**(1,515)**	(4,657)
Trade payables	**(195)**	6,882
Other payables (See Note)	**(637)**	776
Cash generated from operations	**7,797**	5,215
Interest received	**624**	502
Income tax paid	**(1,903)**	(2,058)
Net cash from operating activities	**6,518**	3,659
Investing activities		
Dividend received from associate	**395**	225
Proceeds from disposal of property, plant and equipment	**20**	87
Purchase of property, plant and equipment	**(603)**	(1,731)
Purchase of available-for-sale investment (See Note)	**(425)**	(270)
Net cash used in investing activities	**(613)**	(1,689)

See accompanying notes to financial statements.

Consolidated Statement of Cash Flows

for the financial year ended September 30, 2018

	2018 $'000	2017 $'000
Financing activities		
Fixed deposits and bank balances pledged	**(7)**	10
Dividends paid	**(5,035)**	(10,070)
Net cash used in financing activities	**(5,042)**	(10,060)
Net increase (decrease) in cash and cash equivalents	**863**	(8,090)
Cash and cash equivalents at beginning of year	**35,342**	43,934
Net effect of foreign exchange rate changes	**327**	(502)
Cash and cash equivalents at end of year (Note 6)	**36,532**	35,342

Note to Consolidated Statement of Cash Flows:
In 2017, $121,000 of the consideration for the acquisition of the available-for-sale investment remained unpaid at the end of the financial year and was recorded in other payables (Note 16). The amount was settled during the year.

See accompanying notes to financial statements.

Notes to Financial Statements

for the financial year ended September 30, 2018

1. GENERAL

The Company (Registration No. 199905792R) is incorporated in Singapore with its principal place of business and registered office at 996 Bendemeer Road, #07-06, Singapore 339944. The Company is listed on the Singapore Exchange Securities Trading Limited. The financial statements are expressed in Singapore dollars.

The principal activity of the Company is that of investment holding. The principal activities of the subsidiaries are disclosed in Note 11.

The consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the year ended September 30, 2018 were authorised for issue by the Board of Directors on December 14, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with the historical cost basis, except as disclosed in the accounting policies below, and are drawn up in accordance with the provisions of the Singapore Companies Act and Financial Reporting Standards in Singapore ("FRSs").

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of FRS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in FRS 2 *Inventories* or value in use in FRS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

Notes to Financial Statements

for the financial year ended September 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

ADOPTION OF NEW AND REVISED STANDARDS

On October 1, 2017, the Group adopted all the new and revised FRSs and Interpretations of FRSs ("INT FRSs") that are effective from that date and are relevant to its operations. The adoption of these new/revised FRSs, INT FRSs does not result in changes to the Group's and Company's accounting policies and has no material effect on the amounts reported for the current or prior years.

Adoption of a new financial reporting framework in 2018

In December 2017, the Accounting Standards Council ("ASC") has issued a new financial reporting framework - Singapore Financial Reporting Standards (International) ("SFRS(I)"), which is to be adopted by Singapore-incorporated companies listed on the Singapore Exchange ("SGX"), for annual periods beginning on or after January 1, 2018. SFRS(I) is identical to the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Group and the Company will be adopting the new framework for the first time for the financial year ending September 30, 2019 and SFRS(I) 1 *First-time Adoption of Singapore Financial Reporting Standards (International)* will be applied in the first set of SFRS(I) financial statements.

SFRS(I) 1 First-time Adoption of Singapore Financial Reporting Standards (International)

As a first-time adopter, the Group and the Company are to apply retrospectively, accounting policies based on each SFRS(I) effective as at the end of the first SFRS(I) reporting period (September 30, 2019), except for areas of exceptions and optional exemptions set out in SFRS(I) 1. In the first set of SFRS(I) financial statements for the financial year ending September 30, 2019, an additional opening statement of financial position as at the date of transition (October 1, 2017) will be presented, together with related notes. Reconciliation statements from previously reported FRS amounts and explanatory notes on transition adjustments are required for equity as at the date of transition (October 1, 2017) and as at the end of the last financial year under FRS (September 30, 2018), and for total comprehensive income and cash flows reported for the last financial year under FRS (for the year ended September 30, 2018). Additional disclosures may also be required for specific transition adjustments if applicable.

Management has performed a detailed analysis of the transition options and other requirements of SFRS(I) and has determined that there will be no change to the Group's and the Company's current accounting policies under FRS or material adjustments on the initial transition to the new framework, other than those that may arise from implementing certain new SFRS(I) pronouncements effective at the same time (see below), and the election of certain transition options available under SFRS(I) 1 including:

- Option to use fair value as deemed cost for certain property, plant and equipment
- Option to reset the translation reserve to zero as at date of transition

As SFRS(I) 1 requires a first-time adopter to apply accounting policies based on each SFRS(I) effective as at the end of the first SFRS(I) reporting period (September 30, 2019), it is not possible to know all possible effects as at date of authorisation of the current year's financial statements. If there are any subsequent pronouncements on SFRS(I) that are effective as at September 30, 2019, they may impact the disclosures of estimated effects described below.

New SFRS(I) that may have impact

The following SFRS(I) pronouncements are expected to have an impact to the Group and the Company in the periods of their initial application under the new SFRS(I) framework:

<u>Effective for annual periods beginning on or after January 1, 2018</u>
- SFRS(I) 9 *Financial Instruments*
- SFRS(I) 15 *Revenue from Contracts with Customers*

<u>Effective for annual periods beginning on or after January 1, 2019</u>
- SFRS(I) 16 *Leases*

Notes to Financial Statements

for the financial year ended September 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

SFRS(I) 9 *Financial Instruments*

SFRS(I) 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities (ii) general hedge accounting and (iii) impairment requirements for financial assets.

Key requirements of SFRS(I) 9 that are relevant to the Group:

- All recognised financial assets that are within the scope of SFRS(I) 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income (FVTOCI). All other debt instruments and equity investments are measured at fair value through profit or loss (FVTPL) at the end of subsequent accounting periods. In addition, under SFRS(I) 9, entities may make an irrevocable election, at initial recognition, to measure an equity investment (that is not held for trading) at FVTOCI, with only dividend income generally recognised in profit or loss.

- With some exceptions, financial liabilities are generally subsequently measured at amortised cost. With regard to the measurement of financial liabilities designated as at FVTPL, SFRS(I) 9 requires that the amount of change in fair value of such financial liability that is attributable to changes in the credit risk be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch to profit or loss. Changes in fair value attributable to the financial liability's credit risk are not subsequently reclassified to profit or loss.

- In relation to the impairment of financial assets, SFRS(I) 9 requires an expected credit loss model to be applied. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms. Under SFRS(I) 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The adoption of SFRS(I) 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

SFRS(I) 9 will take effect from financial years beginning on or after January 1, 2018. The Group plans to elect to apply the short-term exemption under SFRS(I) 1, which exempt the Group from applying SFRS(I) 9 to comparative information.

Notes to Financial Statements

for the financial year ended September 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Management anticipates that the initial application of SFRS(I) 9 will result in changes to the accounting policy relating to financial instruments. Management will consider whether a lifetime or 12-month expected credit losses on financial instruments should be recognised, which is dependent on whether there has been a significant increase in the credit risk of the financial instruments from initial recognition to the date of initial application of SFRS(I) 9. The Group is currently finalising their transition adjustments.

SFRS(I) 15 *Revenue from Contracts with Customers*
SFRS(I) 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.

The core principle of SFRS(I) 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under SFRS(I) 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in SFRS(I) 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by SFRS(I) 15.

Management does not expect the adoption of the above SFRS(I) is to have a material impact on the financial statements of the Group in the period of their initial adoption. However, additional disclosures for trade receivables and revenue may be required including any significant judgement and estimation made. The Group is currently finalising the transition adjustments.

Notes to Financial Statements

for the financial year ended September 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

SFRS(I) 16 *Leases*

The Standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The identification of leases, distinguishing between leases and service contracts, are determined on the basis of whether there is an identified asset controlled by the customer.

Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and assets and liabilities recognised in respect of all leases (subject to limited exemptions for short-term leases and leases of low value assets). The Standard maintains substantially the lessor accounting approach under the existing framework.

The standard will affect primarily the accounting for the Group's operating leases. The future minimum rental expense payable under significant non-cancellable leases is disclosed in Note 23. Management has yet to determine to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit or loss and classification of cash flows. Management does not plan to early adopt SFRS(I) 16.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Notes to Financial Statements

for the financial year ended September 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable FRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under FRS 39, or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's separate financial statements, investments in subsidiaries are carried at cost less any impairment in net recoverable value that has been recognised in profit or loss.

Notes to Financial Statements

for the financial year ended September 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

BUSINESS COMBINATIONS

Acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the acquisition date fair values of assets given, liabilities incurred by the Group to the former owners of the acquiree, and equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates at fair value, with changes in fair value recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under the FRS are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with FRS 12 *Income Taxes* and FRS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment awards transactions with share-based payment awards transactions of the acquirer in accordance with the method in FRS 102 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

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Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another FRS.

Notes to Financial Statements

for the financial year ended September 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year from acquisition date.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or where appropriate, a shorter period. Income and expense is recognised on an effective interest basis for debt instruments.

Financial assets

Financial assets are initially measured at fair value plus transaction costs, except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Loans and receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

Available-for-sale financial assets

Certain shares held by the Group are classified as being available for sale and are stated at fair value. Fair value is determined in the manner described in Note 4. Gains and losses arising from changes in fair value are recognised in other comprehensive income with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income and accumulated in revaluation reserve is reclassified to profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established. The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at end of the reporting period. The change in fair value attributable to translation differences that result from a change in amortised cost of the available-for-sale monetary asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

For available-for-sale equity investments that do not have a quoted price in an active market and where fair value cannot be reliably measured, they shall be measured at cost less accumulated impairment losses.

Notes to Financial Statements

for the financial year ended September 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents in the statement of cash flows

Cash and cash equivalents in the statement of cash flows comprise cash on hand and demand deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted.

For available-for-sale equity instruments, a significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables where the carrying amount is reduced through the use of an allowance account. When a trade or other receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the profit or loss. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

In respect of available-for-sale equity instruments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any subsequent increase in fair value after an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

Notes to Financial Statements

for the financial year ended September 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity instruments

Classification as debt or equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Trade and other payables

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Offsetting arrangements

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the Group and the Company have a legally enforceable right to set off the recognised amounts; and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously. A right to set-off must be available today rather than being contingent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy.

CAPITAL RESERVE

Pursuant to relevant laws and regulations in the PRC applicable to foreign investment enterprises and the Articles of Association of the PRC subsidiaries, the dividend declaring subsidiaries are required to maintain two statutory reserves, being a statutory surplus reserve fund and an enterprise fund. Appropriations to such reserves are made out of profit after taxation of the statutory financial statements of the subsidiaries. The subsidiaries are required to transfer 10% of its profit after taxation as reported in its PRC statutory financial statements to the statutory surplus reserve fund until the balance reached 50% of its registered capital. The statutory surplus reserve fund can be used to make up prior year losses incurred and, with approval from relevant government authority, to increase capital.

Notes to Financial Statements

for the financial year ended September 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Costs comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets, other than freehold land, over their estimated useful lives, using the straight-line method, on the following bases:

Leasehold land	-	Lease term of 56 to 97 years
Buildings	-	2% to 5%
Plant and machinery	-	10% to 20%
Furniture, fittings and office equipment	-	10% to 33.33%
Motor vehicles	-	10% to 20%

Fully depreciated assets still in use are retained in the financial statements.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

IMPAIRMENT OF TANGIBLE ASSETS

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Notes to Financial Statements

for the financial year ended September 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

ASSOCIATES

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with FRS 105. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of FRS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with FRS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with FRS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with FRS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from

Notes to Financial Statements

for the financial year ended September 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

<u>Sale of goods</u>

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Notes to Financial Statements

for the financial year ended September 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interest income
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income
Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Management fee income
Management fee income is recognised when earned.

RETIREMENT BENEFIT COSTS
Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered the services entitling them to the contributions. Payments made to state-managed retirement benefit schemes, such as the Singapore Central Provident Fund, are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

EMPLOYEE LEAVE ENTITLEMENT
Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

INCOME TAX
Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted in countries where the Company and subsidiaries operate by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Notes to Financial Statements

for the financial year ended September 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited outside profit or loss (either in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss (either in other comprehensive income or directly in equity, respectively), or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION

The individual financial statements of each Group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are presented in Singapore dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rate of exchange prevailing on the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Singapore dollars using exchange rates prevailing at the end of the reporting period. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity under the header of foreign currency translation reserve.

Notes to Financial Statements

for the financial year ended September 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income and accumulated in a separate component of equity under the header of foreign currency translation reserve.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policies

Management is of the opinion that there are no critical judgements involved that have a significant effect on the amounts recognised in the financial statements (apart from those involving estimations which are dealt with below).

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

<u>Allowances for doubtful receivables</u>

On reviewing trade receivables for objective evidence of impairment, management considered the age of the outstanding balance, recent historical payment patterns and other available information covering the creditworthiness of the customers. The assessment of recoverable amounts requires management to make significant judgements regarding the identification of impaired receivables and expectations of future cash inflows from customers.

The carrying amount of trade receivables is disclosed in Note 7.

Notes to Financial Statements

for the financial year ended September 30, 2018

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Allowance for inventories

The value of the inventories and the usage are affected by market demand and technological advances. Management is required to assess at each reporting date whether there is any indication that the cost of inventories exceeds the net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. There is judgement involved in assessing the level of inventory allowance required.

The carrying amount of inventories is disclosed in Note 9.

Valuation of available-for-sale investments

Management determined the fair value of certain of the Group's available-for-sale investments, comprising investment in quoted equity shares and unquoted equity shares, with the former by reference to market price at the end of reporting period and the latter based on independent professional valuation.

The carrying amount of available-for-sale investments is disclosed in Note 13.

4. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT

(a) Categories of financial instruments

The following table sets out the financial instruments as at the end of the reporting period:

	Group		Company	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Financial Assets				
Loans and receivables				
(including cash and cash equivalents)	**68,765**	70,543	**23,040**	22,199
Available-for-sale financial assets	**4,098**	3,806	**3,119**	3,131
Financial Liabilities				
Amortised cost	**21,022**	21,853	**557**	740

(b) Financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements

The Group and Company do not have any financial instruments which are subject to enforceable master netting arrangements or similar netting arrangements.

(c) Financial risk management policies and objectives

The Group's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates and interest rates.

The Group does not hold nor issue derivative financial instruments for speculative purpose.

There has been no change to the Group's exposure to these financial risks nor the manner in which it manages and measures the risks.

(i) Foreign exchange risk management

Foreign exchange risk arises from a change in foreign currency exchange rate which is expected to have an adverse effect on the Group and the Company in the current reporting period and in future years.

Notes to Financial Statements

for the financial year ended September 30, 2018

4. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT *(continued)*

The Group has sales and purchases primarily denominated in United States dollars, Malaysian ringgit and Singapore dollars. Fluctuations in the exchange rate between the United States dollars, Malaysian ringgit and Singapore dollars against the functional currency of the Group entity will therefore have an impact on the Group. With a higher proportion of sales than purchases and expenses denominated in either United States dollars or Malaysian ringgit, any depreciation of United States dollars or Malaysian ringgit against Singapore dollars will have an unfavourable impact on the Group.

The Group does not have any formal policy with respect to the foreign currency exposure and does not intend to pursue such a policy in the future.

At the reporting date, the carrying amounts of significant monetary assets and monetary liabilities denominated in currencies other than the respective Group entities' functional currencies are as follows:

	Group				Company			
	Assets		Liabilities		Assets		Liabilities	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
United States dollars	**68,203**	72,549	**38,454**	35,409	**18,153**	20,942	**-**	-
Singapore dollars	**4,291**	5,485	**271**	-	**-**	-	**-**	-
Malaysian ringgit	**1,817**	1,808	**1**	-	**492**	696	**-**	-

The Company has investments in foreign subsidiaries and associate whose net assets are exposed to currency risk.

Foreign currency sensitivity

The following table details the sensitivity to a 10% increase and decrease in the relevant foreign currencies against the functional currency of each Group entity. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes receivables to and payables from foreign operations within the Group where they gave rise to an impact on the Group's profit or loss.

If the United States dollar, Singapore dollar and Malaysian ringgit weakens by 10% against the functional currency of each Group entity with all other variables being held constant, profit or loss will decrease by:

	US dollar impact		Singapore dollar impact		Malaysian ringgit impact	
	2018	2017	**2018**	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Profit or loss						
Group	**2,975**(i)	3,714(i)	**402**(i)	549(i)	**182**(i)	181(i)
Company	**1,815**(ii)	2,094(ii)	**-**	-	**49**(ii)	70(ii)

Notes to Financial Statements

for the financial year ended September 30, 2018

4. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT *(continued)*

If the United States dollar, Singapore dollar and Malaysian ringgit strengthens by 10% against the functional currency of each Group entity with other variables being held constant, profit or loss will increase by the same amount above.

(i) This is mainly attributable to the exposure outstanding on foreign currency denominated cash and bank balances, receivables and payables at year end.

(ii) This is mainly attributable to the exposure on foreign currency denominated cash and bank balances at year end.

(ii) Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group and the Company are exposed to interest rate risk for financial instruments with a floating interest rate that is reset as market rates change. The Group manages its interest rate risk by monitoring the movements in the market interest rates closely.

No sensitivity analysis is prepared as the Group and the Company do not expect any material effect on the Group's and the Company's profit or loss arising from the effects of reasonably possible changes to interest rates on interest bearing financial instruments at the end of the reporting period.

(iii) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group and the Company. The Group and the Company have adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial losses from defaults.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics except that as at September 30, 2018, the Group has 3 (2017 : 2) major outstanding third party debtors amounting to $22,225,000 (2017 : $23,056,000) which accounted for 66% (2017 : 63%) of the total gross trade receivable balance.

The Group places its cash and bank balances with reputable institutions.

The carrying amount of financial assets recorded in the financial statements, grossed up for any allowances for losses represents the Group's and Company's maximum exposure to credit risk without taking into account the value of any collateral or other security obtained.

Further details of credit risks on trade and other receivables are disclosed in Notes 7 and 8 respectively.

(iv) Equity price risk management

The Group is exposed to equity risks arising from equity investments classified as available-for-sale. Available-for-sale equity investments are held for strategic rather than trading purposes. The Group does not actively trade available-for-sale investments.

Further details of these equity investments can be found in Note 13.

Notes to Financial Statements

for the financial year ended September 30, 2018

4. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT *(continued)*

Equity price sensitivity

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date.

In respect of the quoted available-for-sale equity investments, if the equity price had been 5% higher/lower while all other variables were held constant; the Group's investment revaluation reserve would increase/decrease by $156,000 (2017 : $157,000). 5% is the sensitivity rate used when reporting equity price risk internally to key management personnel and represents management's assessment of the reasonably possible change in equity price.

(v) Liquidity risk management

The Group maintains sufficient cash and cash equivalents, and internally generated cash flows to finance its activities. The Group minimises liquidity risk by keeping committed credit lines available.

The Group and the Company do not have interest-bearing financial liabilities and assets except for fixed deposits held by the Group as disclosed in Note 6.

All financial assets and financial liabilities of the Group and the Company are repayable on demand or due within 1 year from the end of the reporting period.

(vi) Fair value of financial assets and financial liabilities

The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The fair values of other classes of financial assets and liabilities are disclosed in the respective notes to financial statements.

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique and inputs used).

	Fair value as at ($'000)			
	2018	2017		
Financial assets	**Assets**	**Assets**	**Fair value hierarchy**	**Valuation technique and key input**
Available-for-sale investments (see Note 13)				
Quoted equity shares	**3,119**	3,131	Level 1	Quoted bid prices in an active market.
Unquoted equity shares	**979**	- [(1)]	Level 3	Market approach – in this approach, the price of recent investment method is used to estimate the fair value.

[(1)] In 2017, the investment of unquoted equity shares was measured at cost less accumulated impairment losses, as it does not have a quoted price in an active market and management had determined that its fair value cannot be reliably measured.

Notes to Financial Statements

for the financial year ended September 30, 2018

4. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT *(continued)*

(d) Capital management policies and objectives

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of issued capital, reserves and retained earnings.

The Company's Board of Directors reviews the capital structure on a yearly basis and balances the Group's overall capital structure through the payment of dividends.

The Group's overall strategy remains unchanged from prior year.

5. OTHER RELATED PARTY TRANSACTIONS

Some of the Group's transactions and arrangements are with related parties and the effect of these on the basis determined between the parties is reflected in these financial statements. The balances are unsecured, interest-free, repayable on demand and expected to be settled in cash, unless otherwise stated.

During the year, a member of the Group entered into the following transactions with a related party:

	Group	
	2018	2017
	$'000	$'000
Transactions with associate:		
Purchase of goods	**92**	30
Commission expense	**1,863**	2,285

Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	Group	
	2018	2017
	$'000	$'000
Short-term benefits	**2,356**	2,259
Post-employment benefits	**55**	52
	2,411	2,311

Notes to Financial Statements

for the financial year ended September 30, 2018

6. CASH AND BANK BALANCES

	Group		Company	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Fixed deposits	**29,542**	25,401	**21,397**	17,788
Cash and bank balances	**7,156**	10,100	**1,538**	4,314
Total	**36,698**	35,501	**22,935**	22,102
Less: Fixed deposits and bank balances pledged	**(166)**	(159)		
Cash and cash equivalents in consolidated statement of cash flows	**36,532**	35,342		

Cash and bank balances comprise cash and fixed deposits held by the Group and the Company which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Fixed deposits bear interest at average interest rates ranging from 0.05% to 3.10% (2017 : 0.05% to 3.10%) per annum and with a tenure of three months or less (2017 : three months or less). Fixed deposits of $166,000 (2017 : $159,000) have been pledged for bank guarantees granted to third parties on behalf of the Group.

At September 30, 2018, the Group had cash and bank balances placed with banks in the People's Republic of China amounting to $258,000 (2017 : $936,000). The repatriation of these cash into Singapore is subject to the Foreign Exchange Control Regulations in China.

7. TRADE RECEIVABLES

	Group		Company	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Subsidiaries (Note 11)	-	-	**31**	91
Outside parties	**33,647**	36,697	-	-
Allowance for doubtful trade receivables – outside parties	**(1,917)**	(2,007)	-	-
	31,730	34,690	**31**	91

The average credit period on sales of goods ranged from 30 days to 100 days (2017: 30 days to 100 days). No interest is charged on outstanding trade receivables that are beyond the credit timeframe.

Allowance for doubtful trade receivables is determined by reference to past default experience.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits are reviewed on an ongoing basis.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, management believes that there is no further credit provision required in excess of the allowance for doubtful trade receivables.

Notes to Financial Statements

for the financial year ended September 30, 2018

7. TRADE RECEIVABLES *(continued)*

The table below is an analysis of trade receivables as at September 30:

	Group		Company	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Not past due and not impaired	**30,823**	31,886	**31**	91
Past due but not impaired [(i)]	**907**	2,804	**-**	-
	31,730	34,690	**31**	91
Impaired receivables - individually assessed [(ii)]				
- Past due more than 12 months or poor response to repayment demands	**1,917**	2,007	**-**	-
Less: Allowance for impairment	**(1,917)**	(2,007)	**-**	-
	-	-	**-**	-
Total trade receivables, net	**31,730**	34,690	**31**	91

[(i)] Aging of receivables that are past due but not impaired:

	Group		Company	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Up to 3 months	**173**	204	**-**	-
4 months to 6 months	**601**	2,589	**-**	-
7 months to 12 months	**115**	6	**-**	-
More than 12 months	**18**	5	**-**	-
	907	2,804	**-**	-

[(ii)] These amounts are stated before any deduction for impairment losses. These receivables are not secured by any collateral or credit enhancements.

Movements in the allowance for doubtful trade receivables are as follows:

	Group	
	2018	2017
	$'000	$'000
Balance at beginning of year	**2,007**	2,345
Reversal of allowance made during the year	**(79)**	(257)
Written off during the year	**(14)**	(79)
Exchange differences	**3**	(2)
Balance at end of year	**1,917**	2,007

Notes to Financial Statements

for the financial year ended September 30, 2018

8. OTHER RECEIVABLES

	Group		Company	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Value-added tax recoverable	**601**	619	**-**	-
Prepayments	**282**	419	**24**	49
Deposits	**219**	212	**-**	-
Subsidiaries (Note 11)	**-**	-	**27**	6
Export tax rebates recoverable	**685**	575	**-**	-
Others	**118**	140	**47**	-
	1,905	1,965	**98**	55

Management has considered the credit quality of other receivables at the end of the reporting period, and is of the view that these receivables are recoverable and none of the above receivables are past due or impaired.

9. INVENTORIES

	Group	
	2018	2017
	$'000	$'000
Finished goods	**5,652**	5,915
Work in progress	**1,952**	1,158
Raw materials	**12,742**	11,697
	20,346	18,770

Movement in the allowance for inventories:

Balance at beginning of year	**1,808**	1,803
Charge to profit or loss	**82**	54
Exchange differences	**13**	(49)
Balance at end of year	**1,903**	1,808

During the year, an allowance for inventory obsolescence of $82,000 (2017 : $54,000) was made in respect of write-down of inventory to net realisable value.

Notes to Financial Statements

for the financial year ended September 30, 2018

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land $'000	Freehold land $'000	Buildings $'000	Plant and machinery $'000	Furniture, fittings and office equipment $'000	Motor vehicles $'000	Total $'000
Group							
Cost:							
At October 1, 2016	1,949	291	4,756	9,400	1,225	863	18,484
Additions	-	-	27	1,301	300	103	1,731
Disposals	-	-	-	-	(98)	(72)	(170)
Write off	-	-	-	(1,036)	(94)	-	(1,130)
Exchange differences	(118)	(18)	(268)	(293)	(26)	(34)	(757)
At September 30, 2017	1,831	273	4,515	9,372	1,307	860	18,158
Additions	-	-	13	365	123	102	603
Disposals	-	-	-	(44)	(9)	(70)	(123)
Write off	-	-	-	(30)	(43)	-	(73)
Exchange differences	82	12	187	102	(2)	22	403
At September 30, 2018	**1,913**	**285**	**4,715**	**9,765**	**1,376**	**914**	**18,968**
Accumulated depreciation:							
At October 1, 2016	536	-	1,717	7,705	931	694	11,583
Depreciation for the year	30	-	102	481	93	52	758
Eliminated on disposals	-	-	-	-	(22)	(57)	(79)
Write off	-	-	-	(924)	(86)	-	(1,010)
Exchange differences	(33)	-	(85)	(225)	(13)	(24)	(380)
At September 30, 2017	533	-	1,734	7,037	903	665	10,872
Depreciation for the year	32	-	106	496	133	54	821
Eliminated on disposals	-	-	-	(35)	(9)	(70)	(114)
Write off	-	-	-	(26)	(37)	-	(63)
Exchange differences	24	-	62	106	(5)	16	203
At September 30, 2018	**589**	**-**	**1,902**	**7,578**	**985**	**665**	**11,719**
Impairment:							
At October 1, 2016	103	-	388	5	-	-	496
Reversal of impairment for the year	-	-	-	(5)	-	-	(5)
Exchange differences	(6)	-	(23)	-	-	-	(29)
At September 30, 2017	97	-	365	-	-	-	462
Impairment for the year	-	-	-	2	-	-	2
Exchange differences	4	-	16	-	-	-	20
At September 30, 2018	**101**	**-**	**381**	**2**	**-**	**-**	**484**
Carrying amount:							
At September 30, 2018	**1,223**	**285**	**2,432**	**2,185**	**391**	**249**	**6,765**
At September 30, 2017	1,201	273	2,416	2,335	404	195	6,824

Notes to Financial Statements
for the financial year ended September 30, 2018

11. INVESTMENTS IN SUBSIDIARIES

	Company 2018 $'000	Company 2017 $'000
Unquoted equity shares, at cost	**19,514**	19,514
Due from subsidiary – non-trade	**544**	510
Less: Allowance for impairment loss	**(544)**	(510)
	-	-
Total	**19,514**	19,514

Details of the subsidiaries are as follows:

Name of subsidiary	Proportion of ownership interest/ voting power held 2018 %	2017 %	Principal activities/ Country of incorporation
Da Xi Enterprises Ltd[3]	**100**	100	Trading of electrical and electronic products / British Virgin Islands
PNE Appliance Controls Pte Ltd	**100**	100	Dealers in electronic and electrical appliances / Singapore
PNE Electric Sdn Bhd[1]	**100**	100	Manufacture of electronic and electrical products / Malaysia
PNE Electronic Technology (Shenzhen) Co., Ltd[2]	**100**	100	Manufacture of electronic and electrical products / People's Republic of China
PNE International Pte Ltd	**100**	100	Investment holding / Singapore
PNE Systems Sdn Bhd[1]	**100**	100	Dealers in domestic and commercial electrical appliances / Malaysia
PNE Translite Pte Ltd	**100**	100	Trading and assembly of emergency lighting, electrical apparatus, light fittings and related products / Singapore
Wanli Company Enterprises Ltd[3]	**100**	100	Trading of electrical and electronic products / British Virgin Islands
Wanxi Holdings Pte Ltd	**100**	100	Investment holding / Singapore

Notes to Financial Statements

for the financial year ended September 30, 2018

11. INVESTMENTS IN SUBSIDIARIES *(continued)*

Notes:

Audited by Deloitte & Touche LLP, Singapore except as follows:

(1) Audited by overseas practices of Deloitte Touche Tohmatsu Limited.

(2) Audited by another firm of auditors, Shenzhen Yida Certified Public Accountants.

(3) Not required to be audited by law in the country of incorporation and not material.

The Group is in compliance with Listing Rules 712 and 715 of the Singapore Exchange Securities Trading Limited as management is of the view that suitable auditing firms have been appointed to meet the Group's audit obligations.

Some of the Company's transactions and arrangements are between members of the Group and related companies and the effect of these, on the basis determined between the parties, is reflected in these financial statements. The balances are unsecured, interest-free and repayable on demand.

There were no significant restrictions on the Company or its subsidiaries' ability to access or use the assets and settle the liabilities of the Group.

Significant transactions with subsidiaries:

	Company	
	2018	2017
	$'000	$'000
Dividend income	**5,498**	5,535
Management fee income	**1,704**	1,704

12. INVESTMENT IN ASSOCIATE

	Group	
	2018	2017
	$'000	$'000
Unquoted equity shares, at cost	**155**	155
Share of post-acquisition accumulated profits, net of dividends received	**370**	659
Currency realignment	**(77)**	(69)
	448	745

Notes to Financial Statements

for the financial year ended September 30, 2018

12. INVESTMENT IN ASSOCIATE *(continued)*

Details of the Group's associate are as follows:

Name of associate	Proportion of ownership interest/ voting power held 2018 %	2017 %	Principal activities/ Country of incorporation
PNE Benelux BV [1]	**50**	50	Marketing and engineering services/ The Netherlands

Note:

[1] No audit is required in the country of incorporation and the share of results are not material to the Group.

Summarised financial information in respect of the Group's associate is set out below:

	2018 $'000	2017 $'000
Current assets	**1,281**	2,057
Non-current assets	**26**	47
Total assets	**1,307**	2,104
Current liabilities	**(520)**	(700)
Net assets	**787**	1,404
Revenue	**2,172**	2,499
Profit for the year	**212**	431
Group's share of associate's profit for the year	**106**	216
Dividends received from associate during the year	**395**	225

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in these consolidated financial statements:

	2018 $'000	2017 $'000
Net assets of the associate	**787**	1,404
Proportion of the Group's ownership in associate	**50%**	50%
Group's share of associate's net assets	**394**	702
Goodwill	**48**	48
Exchange differences	**6**	(5)
Carrying amount of the Group's share of associate's net assets	**448**	745

Notes to Financial Statements

for the financial year ended September 30, 2018

13. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Quoted equity shares [1]	**3,119**	3,131	**3,119**	3,131
Unquoted equity shares [2]	**979**	675	-	-
Total	**4,098**	3,806	**3,119**	3,131

[1] The quoted available-for-sale equity shares represent an investment in PNE PCB Berhad. The investment offers the Group the opportunity for return through dividend income and fair value gains. During the financial year, a fair value loss of $12,000 (2017 : gain of $14,000) was recorded in other comprehensive income. The fair value of quoted securities was based on the quoted closing prices on the last market day of the financial year.

[2] The unquoted available-for-sale equity shares represent an investment in DSP Innovation BV, a company incorporated in Netherlands, that is engaged in system software and application activities. In 2017, the investment held was measured at cost less accumulated impairment losses, as it does not have a quoted price in an active market and management determined that its fair value cannot be reliably measured. During the year, the available-for-sale equity investment was valued by an independent valuer by reference to the price of recent investment.

14. DEFERRED TAX ASSETS (LIABILITIES)

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the year:

	Provisions	Tax over book depreciation	Total
	$'000	$'000	$'000
Group			
Balance at October 1, 2016	316	(18)	298
Credit (Charge) to profit or loss for the year	40	(40)	-
Exchange differences	(2)	(1)	(3)
Balance at September 30, 2017	354	(59)	295
(Charge) Credit to profit or loss for the year (Note 20)	(76)	5	(71)
Exchange differences	(24)	(1)	(25)
Balance at September 30, 2018	**254**	**(55)**	**199**

Notes to Financial Statements

for the financial year ended September 30, 2018

14. DEFERRED TAX ASSETS (LIABILITIES) *(continued)*

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is the analysis of the deferred tax balances (after offset) for statement of financial position presentation purposes:

	Group	
	2018	2017
	$'000	$'000
Deferred tax assets	**254**	354
Deferred tax liabilities	**(55)**	(59)
	199	295

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed profits of subsidiaries for which deferred tax liabilities have not been recognised is $16,223,000 (2017 : $15,305,000). No deferred tax liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not crystallise in the foreseeable future.

15. TRADE PAYABLES

	Group		Company	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Outside parties	**18,309**	18,333	**39**	36
Related parties (Note 5)	**166**	184	**-**	-
	18,475	18,517	**39**	36

The average credit period on purchases of goods is 30 to 90 days (2017 : 30 to 90 days). No interest is charged on outstanding trade payable balances beyond the credit timeframe.

16. OTHER PAYABLES

	Group		Company	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Accruals	**2,547**	3,336	**518**	704

Notes to Financial Statements
for the financial year ended September 30, 2018

17. SHARE CAPITAL

	Group and Company			
	2018	2017	**2018**	2017
	'000	'000	**$'000**	$'000
	Number of ordinary shares			
Issued and paid-up capital:				
At the beginning and end of year	**83,917**	83,917	**36,991**	36,991

Fully paid ordinary shares, which have no par value, carry one vote per share and a right to dividend as and when declared by the Company.

18. REVENUE

	Group	
	2018	2017
	$'000	$'000
Sale of goods	**79,844**	89,783

19a. OTHER OPERATING INCOME

	Group	
	2018	2017
	$'000	$'000
Interest income from fixed deposits	**624**	502
Foreign exchange gain	-	477
Reversal of allowance for doubtful trade receivables	**79**	257
Reversal of impairment loss on property, plant and equipment	-	5
Income from sale of scrap	**149**	118
Gain on disposal of property, plant and equipment	**11**	-
Other	**149**	-
	1,012	1,359

19b. OTHER OPERATING EXPENSES

	Group	
	2018	2017
	$'000	$'000
Foreign exchange loss	**122**	-
Property, plant and equipment written off	**10**	120
Loss on disposal of property, plant and equipment	-	4
Impairment loss on property, plant and equipment	**2**	20
	134	144

Notes to Financial Statements

for the financial year ended September 30, 2018

20. INCOME TAX EXPENSE

	Group	
	2018	2017
	$'000	$'000
Current tax:		
Singapore	**529**	1,131
Foreign	**848**	601
Deferred tax	**24**	(7)
(Over) Under provision in prior years:		
Current tax	**(31)**	(39)
Deferred tax	**47**	7
	1,417	1,693

The income tax expense varied from the amount of income tax expense determined by applying the Singapore income tax rate of 17% (2017 : 17%) to profit before tax as a result of the following differences:

	Group	
	2018	2017
	$'000	$'000
Profit before tax	**6,680**	11,996
Income tax expense at statutory rate	**1,136**	2,039
Non-deductible (Non-taxable) items	**152**	(10)
Effects of different tax rates of overseas operations	**314**	(31)
Exempt income	**(156)**	(175)
Under (Over) provision of taxes in prior years	**16**	(32)
Others	**(45)**	(98)
	1,417	1,693

Notes to Financial Statements

for the financial year ended September 30, 2018

21. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	Group	
	2018	2017
	$'000	$'000
Directors' remuneration:		
Directors of the Company	**1,572**	1,579
Directors of subsidiaries	**67**	59
Employee benefits expense (including directors' remuneration)	**15,689**	16,145
Cost of defined contribution plans (included in employee benefits expense)	**721**	720
Audit fees:		
Paid to auditors of the Company	**146**	143
Paid to other auditors	**29**	31
Non-audit fees:		
Paid to auditors of the Company	**12**	11
Paid to other auditors	**5**	5
Cost of inventories included in cost of sales	**61,249**	65,690

22. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	Group	
	2018	2017
Profit for the year ($'000)	**5,263**	10,303
Number of fully paid ordinary shares in issue during the year (in '000)	**83,917**	83,917

As there are no dilutive potential ordinary shares issued and/or granted, the fully diluted earnings per share is the same as the basic earnings per share.

Notes to Financial Statements

for the financial year ended September 30, 2018

23. OPERATING LEASE ARRANGEMENTS

	Group	
	2018	2017
	$'000	$'000
Minimum lease payments under non-cancellable operating leases recognised as an expense in the year	**634**	619

At the end of the reporting period, outstanding commitments in respect of non-cancellable operating leases were as follows:

	Group	
	2018	2017
	$'000	$'000
Within one year	**581**	572
In the second to fifth years inclusive	**420**	334
	1,001	906

Operating lease payments represent rentals payable by the Group for certain of its office premises and office equipment. Leases are negotiated for an average term of 3 to 6 years (2017 : 3 to 6 years) and rentals are fixed for an average of 3 to 6 years (2017 : 3 to 6 years).

24. SEGMENT INFORMATION

(a) Business segment

The Group determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

The Group is organised into business units based on their products on which information is prepared and reportable to the Group's chief operating decision maker for the purposes of resources allocation and assessment of performance.

The Group's reportable segments are therefore contract manufacturing, trading and others, as described below:

Contract manufacturing - The products sold include electronic controllers and electronic and electrical products.

Trading - The products sold include emergency lighting equipment and related products.

Others - Refer to others which do not fall into the above segments.

Notes to Financial Statements

for the financial year ended September 30, 2018

24. SEGMENT INFORMATION *(continued)*

Information regarding the Group's reporting segments is presented below.

(i) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

	Revenue		Profit	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Contract manufacturing	**69,273**	79,417	**4,053**	8,872
Trading	**10,571**	10,366	**1,656**	1,934
Others	-	-	**241**	472
Total	**79,844**	89,783	**5,950**	11,278
Interest income			**624**	502
Share of results of associate			**106**	216
Profit before tax			**6,680**	11,996
Income tax expense			**(1,417)**	(1,693)
Profit for the year			**5,263**	10,303

Revenue reported above represents revenue generated from external customers after excluding all inter-segment sales between contract manufacturing segment and trading segment during the year amounting to $9,621,000 (2017 : $9,132,000).

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2. Segment profit represents the profit earned by each segment, before finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Notes to Financial Statements
for the financial year ended September 30, 2018

24. SEGMENT INFORMATION *(continued)*

(ii) Segment assets and liabilities

	2018 $'000	2017 $'000
Segment assets		
Contract manufacturing	**55,236**	57,328
Trading	**5,439**	4,872
Others	**519**	794
Total segment assets	**61,194**	62,994
Unallocated	**41,050**	39,661
Consolidated assets	**102,244**	102,655
Segment liabilities		
Contract manufacturing	**19,367**	19,826
Trading	**1,104**	1,167
Others	**551**	860
Total segment liabilities	**21,002**	21,853
Unallocated	**439**	1,000
Consolidated liabilities	**21,461**	22,853

All assets are allocated to reportable segments other than cash and bank balances (Note 6), available-for-sale investments (Note 13) and deferred tax assets (Note 14).

All liabilities are allocated to reportable segments other than income tax payable and deferred tax liabilities (Note 14).

(iii) Other segment information

	Depreciation		Additions to non-current assets*		Investment in associate		Allowance for inventories	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Contract manufacturing	**761**	695	**597**	1,672	-	-	**158**	(51)
Trading	**60**	63	**6**	59	-	-	**(76)**	105
Others	-	-	**304**	675	**448**	745	-	-
	821	758	**907**	2,406	**448**	745	**82**	54

* excluding deferred tax assets

In addition to the depreciation reported above, impairment loss of $2,000 (2017 : reversal of $5,000) attributable to the reportable segment under contract manufacturing was recognised in respect of property, plant and equipment in 2018.

Notes to Financial Statements

for the financial year ended September 30, 2018

24. SEGMENT INFORMATION *(continued)*

(b) **Geographical information**

The Group's activities are mainly located in Europe, Malaysia, Singapore and the People's Republic of China.

The Group's revenue is analysed by geographical location of its customers and the analysis on the carrying amount of non-current assets is based on geographical location of its assets.

	Revenue from external customers		Non-current assets	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
Poland	**16,486**	18,475	-	-
Hungary	**5,101**	10,980	-	-
Europe (excluding Poland and Hungary)	**31,201**	20,972	**1,426**	1,420
People's Republic of China	**9,289**	17,464	**1,476**	1,505
Indonesia	**4,294**	4,996	-	-
Malaysia	**8,009**	7,635	**8,435**	8,545
Singapore	**4,258**	4,525	**228**	259
Others	**1,206**	4,736	-	-
	79,844	89,783	**11,565**	11,729

(c) **Information about major customers**

Included in revenue arising from contract manufacturing sales to customers is revenue of $49,910,000 (2017 : $51,005,000) which arose from sales to the Group's 3 (2017 : 2) major group of customers, each of whom accounted for more than 10% of the Group's total external revenue.

25. DIVIDENDS

On February 12, 2018, a one-tier tax-exempt final dividend of $0.030 per share (2017 : $0.030 per share) was paid to shareholders in respect of the year ended September 30, 2017, amounting to a total dividend of $2,518,000 (2017 : $2,518,000 for the year ended September 30, 2016).

In respect of the financial year ended September 30, 2018:

(a) The Company declared and paid a one-tier tax-exempt interim dividend of $0.020 per share totaling $1,678,000 on June 8, 2018 (2017 : one-tier tax-exempt interim dividend of $0.020 per share totaling $1,678,000).

(b) The Company declared and paid a one-tier tax-exempt special interim dividend of $0.010 per share totaling $839,000 on June 8, 2018 (2017 : one-tier tax-exempt special interim dividend of $0.070 per share totaling $5,874,000).

(c) The directors proposed that a one-tier tax-exempt dividend of $0.030 per share be paid to shareholders. This dividend is subject to the approval of the shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The total estimated dividend to be paid is $2,518,000.

Statistics of Shareholdings

As at December 6, 2018

Issued share capital	:	S$36,991,168
Number of shares	:	83,916,757
Voting rights	:	one vote per share

Size of Shareholdings

Size of Shareholdings	No. of Shareholders	Percentage	No. of Shares Held	Percentage
1 - 99	24	2.07%	1,031	0.00%
100 - 1,000	298	25.65%	151,734	0.18%
1,001 - 10,000	573	49.31%	2,348,251	2.80%
10,001 - 1,000,000	253	21.77%	16,185,229	19.29%
1,000,001 AND ABOVE	14	1.20%	65,230,512	77.73%
	1,162	**100.00%**	**83,916,757**	**100.00%**

Based on information available to the Company as at 06 December 2018, approximately 19.20% of the issued ordinary shares of the Company is held by the public and, therefore, Rule 723 of the Listing Manual issued by the Singapore Exchange Securities Trading Limited is complied with.

Top Twenty Shareholders As At 06 December 2018

S/No.	Name	No. of Shares	Percentage
1	TAN KOON CHWEE	9,334,875	11.12%
2	TAN KONG HENG	8,829,100	10.52%
3	TAN KONG LEONG	8,614,875	10.27%
4	TAN KONG SIN	7,863,232	9.37%
5	ESTATE OF TAN KWANG HUA, DEC'D	6,384,375	7.61%
6	TAN KWONG SOON	4,709,750	5.61%
7	TAN KONG HOCK	4,596,750	5.48%
8	LAM KUE YEN	3,830,500	4.56%
9	TAN KONG BOON	3,227,550	3.85%
10	TAN KONG GUAN	2,520,000	3.00%
11	TAN BEE FOON	1,823,905	2.17%
12	CHEW CHOO LING	1,325,150	1.58%
13	CHUA CHENG HWEE RONA (CAI JINGHUI RONA)	1,125,500	1.34%
14	TAN KIAN HIE	1,044,950	1.25%
15	TAN KIM KIM	984,500	1.17%
16	OCBC SECURITIES PRIVATE LIMITED	954,050	1.14%
17	TAN PAI LI	878,200	1.05%
18	TAN JIAN HUI	741,187	0.88%
19	TAN TEE CHING	622,500	0.74%
20	CITIBANK NOMINEES SINGAPORE PTE LTD	616,050	0.73%
		70,026,999	**83.44%**

Statistics of Shareholdings

As at December 6, 2018

Substantial Shareholders as shown in the Register of Substantial Shareholders

S/No.	Name of Shareholders	No. of Shares Direct Interest	No. of Shares Deemed Interest
1	TAN KOON CHWEE	9,334,875	Nil
2	TAN KONG LEONG	8,614,875	Nil
3	TAN KONG SIN	7,863,232	Nil
4	TAN KONG HENG	8,829,100	Nil
5	ESTATE OF TAN KWANG HUA (DECEASED)	6,384,375	Nil
6	TAN KWONG SOON	4,709,750	Nil
7	TAN KONG HOCK	4,596,750	Nil

Notice of Annual General Meeting

PNE INDUSTRIES LTD (Company Registration No. 199905792R)

NOTICE IS HEREBY GIVEN that the Nineteenth Annual General Meeting of the Company will be held at Orchid Country Club, 1 Orchid Club Road, Sapphire 1, Orchid Lodge, Level 2, Singapore 769162 on Thursday, 17 January 2019 at 9.00 a.m., to transact the following business:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Statement and Financial Statements for the year ended 30 September 2018 and the Auditors' Report thereon.

2. To declare a final dividend of S$0.03 (2017: S$0.03) per ordinary share for the year ended 30 September 2018.

3. To approve the Directors' Fees of S$147,500/- (2017: S$147,500/-) for the year ended 30 September 2018.

4(a). To re-elect Mr Tan Koon Chwee, the Director retiring pursuant to Regulation No. 93 of the Company's Constitution.

4(b). To re-elect Mr Tan Lee Khiang, the Director retiring pursuant to Regulation No. 93 of the Company's Constitution.

4(c). To re-elect Mr Lim Meng Wee, the Director retiring pursuant to Regulation No. 93 of the Company's Constitution.

5. To re-appoint Messrs Deloitte & Touche LLP as the Company's Auditors and to authorise the Directors to fix their remuneration.

AS SPECIAL BUSINESS

To consider and, if thought fit, pass the following Resolutions No. 6 as Ordinary Resolution:

6. "That pursuant to Section 161 of the Companies Act, Cap. 50, authority be and is hereby given to the Directors to:

   (i) (aa) issue shares in the Company ("Shares") whether by way of rights, bonus or otherwise; and/or

   (bb) make or grant offers, agreements or options (collectively, "Instruments") that might or would require Shares to be issued during the continuance of this authority or thereafter, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Shares,

   at any time and upon such terms and conditions and for such purposes and to such persons as the directors may, in their absolute discretion, deem fit; and

   (ii) issue Shares in pursuance of any Instrument made or granted by the directors while such authority was in force (notwithstanding that such issue of Shares pursuant to the Instruments may occur after the expiration of the authority contained in this resolution),

   Provided that:

   (iii) the aggregate number of the Shares to be issued pursuant to such authority (including the Shares to be issued in pursuance of Instruments made or granted pursuant to such authority), does not exceed 50% of the total number of issued Shares (as calculated in accordance with paragraph (iv)

Notice of Annual General Meeting

PNE INDUSTRIES LTD (Company Registration No. 199905792R)

below), and provided further that where shareholders of the Company ("Shareholders") are not given the opportunity to participate in the same on a pro-rata basis ("non-pro-rata basis"), then the Shares to be issued under such circumstances (including the Shares to be issued in pursuance of Instruments made or granted pursuant to such authority) shall not exceed 20% of the total number of issued Shares (as calculated in accordance with paragraph (iv) below);

(iv) (subject to such manner of calculation as may be prescribed by the Singapore Exchange Securities Trading Limited (the "SGX-ST")) for the purpose of determining the aggregate number of the Shares that may be issued under paragraph (iii) above, the total number of issued Shares shall be based on the total number of issued Shares of the Company (excluding treasury shares) at the time such authority was conferred, after adjusting for:

(aa) new Shares arising from the conversion or exercise of any convertible securities;

(bb) new Shares arising from exercising share options or the vesting of share awards which are outstanding or subsisting at the time such authority was conferred; and

(cc) any subsequent bonus issue, consolidation or subdivision of the Shares;

and, in relation to an Instrument, the number of Shares shall be taken to be that number as would have been issued had the rights therein been fully exercised or effected on the date of the making or granting of the Instrument; and

(v) (unless revoked or varied by the Company in general meeting), the authority so conferred shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held whichever is the earlier."

7. To transact any other business.

By Order of the Board

TAN MENG SIEW
Company Secretary

Singapore
Date: 28 December 2018

Notice of Annual General Meeting

PNE INDUSTRIES LTD (Company Registration No. 199905792R)

Note:

A member is entitled to appoint a proxy to attend and vote in his place. A proxy need not be a Member of the Company. Members wishing to vote by proxy at the Meeting may use the proxy form enclosed. To be valid, the completed proxy form must be lodged at the registered office of the Company at 996 Bendemeer Road #07-06, Singapore 339944 not less than 48 hours before the Meeting.

NOTICE OF BOOK CLOSURE

NOTICE IS HEREBY GIVEN that the Share Transfer Books and Register of Members of PNE Industries Ltd will be closed at 5.00 p.m. on **25 January 2019** for the preparation of Final Dividend entitlement and shall reopen on the following working day.

Duly completed and stamped registrable transfers received by the Company's Registrar, Boardroom Corporate & Advisory Services Pte. Ltd., at 50 Raffles Place #32-01 Singapore Land Tower, Singapore 048623 up to 5.00 p.m. **25 January 2019** will be registered to determine shareholders' entitlements to the said dividend. Members whose securities accounts with The Central Depository (Pte) Limited are credited with shares at 5.00 p.m. on **25 January 2019** will be entitled to the proposed dividend.

Payment of the dividend, if approved by the members at the AGM to be held on 17 January 2019, will be made on **15 February 2019**.

EXPLANATORY NOTE TO RESOLUTION 4(a):

Mr. Tan Koon Chwee is the Managing Director of the Company. He will, upon re-election, continue to serve as Managing Director of the Company. Mr. Tan Koon Chwee was last re-elected in 2016.

EXPLANATORY NOTE TO RESOLUTION 4(b):

Mr. Tan Lee Khiang is an Independent Director. He is the Chairman of the Nominating Committee and a member of the Audit and Remuneration Committees, respectively. He will, upon re-election, continue to serve as Chairman of the Nominating Committee and as a member of the Audit and Remuneration Committees, respectively. Mr. Tan Lee Khiang was last re-elected in 2017.

EXPLANATORY NOTE TO RESOLUTION 4(c):

Mr. Lim Meng Wee is an Independent Director. He is a member of the Audit, Remuneration and Nominating Committees, respectively. He will, upon re-election, continue to serve as a member of the respective Committees. Mr. Lim Meng Wee was last re-elected in 2017.

EXPLANATORY NOTES ON SPECIAL BUSINESS TO BE TRANSACTED:

The ordinary resolution proposed in item (6) above if passed will empower the Directors of the Company from the date of the above Meeting to issue shares in the Company up to an amount not exceeding in total 50% of the total number of issued shares in the capital of the Company with a sub-limit of 20% other than on a pro-rata basis to shareholders for the time being for such purposes as they consider would be in the interests of the Company. This authority will, unless previously revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company.

PERSONAL DATA PRIVACY:

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

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Proxy Form

PNE INDUSTRIES LTD
Company registration no. 199905792R
(Incorporated in the Republic of Singapore)

IMPORTANT

1. For investors who have used their CPF moneys to buy shares of PNE Industries Ltd, this Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF Investors who wish to vote should contact their CPF Approved Nominees.

I/We ____ NRIC / Passport No.________________
of (address) ____
being a *member/members of PNE Industries Ltd, hereby appoint

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

and/or (delete as appropriate)

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on Thursday, 17 January 2019 at 9.00 a.m., and at any adjournment thereof.

The proxy is required to vote as indicated with an "X" on the resolutions set out in the Notice of Meeting and summarised below. If no specific direction as to voting is given, the proxy/proxies may vote or abstain at his discretion.

No.	Resolution	For	Against
1.	To receive and adopt the Directors' Statement and Financial Statements for the year ended 30 September 2018.		
2.	To declare a final dividend of S$0.03 (2017: S$0.03) per ordinary share for the year ended 30 September 2018.		
3.	To approve the Directors' Fees of S$147,500/- (2017: S$147,500/-) for the year ended 30 September 2018.		
4(a).	To re-elect Mr Tan Koon Chwee, the Director retiring pursuant to Regulation No. 93 of the Company's Constitution.		
4(b).	To re-elect Mr Tan Lee Khiang, the Director retiring pursuant to Regulation No. 93 of the Company's Constitution.		
4(c).	To re-elect Mr Lim Meng Wee, the Director retiring pursuant to Regulation No. 93 of the Company's Constitution.		
5.	Re-appointment of Messrs Deloitte & Touche LLP as the Company's Auditors.		
6.	Approval of the ordinary resolution pursuant to Section 161 of the Companies Act, Cap. 50.		

Signed this ________ day of ______________ 2019.

Total Number of Shares

____
Signature(s) of Member(s)/ Common Seal

FOLD THIS FLAP FOR SEALING

Proxy Form

The Company Secretary
PNE Industries Ltd
996 Bendemeer Road #07-06
Singapore 339944

2ND FOLD HERE

3RD FOLD HERE

Notes:

a) A member entitled to attend and vote at the Annual General Meeting is entitled to appoint no more than two proxies to attend and vote on his behalf and such proxy need not be a member of the Company. Where a member appoints two proxies, the appointments shall be invalid unless he specifies the proportion (expressed as a percentage of the whole) of his shareholding to be represented by each proxy.

b) A member of the Company which is a corporation is entitled to appoint its authorised representative or proxy by resolution of its directors or other governing body such person as it thinks fit to vote on its behalf.

c) The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or if such appointor is a corporation under its common seal or under the hand of its attorney.

d) Where an instrument appointing a proxy or proxies is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.

e) An instrument appointing a proxy must be deposited at the registered office of the Company, 996 Bendemeer Road #07-06, Singapore 339944 not less than 48 hours before the time appointed for holding the meeting.

f) The Company shall be entitled to reject a Proxy Form which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the Proxy Form. In addition, in the case of shares entered in the Depository Register, the Company may reject a Proxy Form if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

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