# RISING TIMES


## Geared to Perform

ANNAIK LIMITED

ANNUAL REPORT 2014

# IN THIS ISSUE



# Our Vision

To be a global leader in stainless steel piping products, known for our outstanding quality and unique upstream and downstream capabilities, from manufacturing to distribution to engineering construction and environmental business.

# About AnnAik

Tracing its beginning to 1977, AnnAik Limited is today a manufacturer of forged steel flanges and high pressure forged fittings and a distributor of over 10,000 stainless steel pipes, flanges, buttwelded fittings, low/high pressure fittings, valves, stub ends, and flat products.

AnnAik's manufacturing operations are certified and awarded with ISO 9001:2008, TUV, CRN, ClassNK and SASOL certification and approval for international product standard compliance. The reliable quality of AnnAik's products also made them greatly sought after by a wide base of customers from around the world.

Similarly, the Distribution Division serves over 450 customers globally. Awarded: ISO 9001:2008 standards for quality management operation as stainless steel producer and stockiest, AnnAik also went on to achieve bizSAFE Level 3 accreditation in 2014.

In 2005, the Group diversified into environmental business by securing contracts to build wastewater treatment plants in PRC. By providing engineering construction services such as designing, fabrication, installation, testing and commissioning of mechanical systems in process plants with stainless steel products marketed by our distribution division, AnnAik has built a business that is complementary to our core business.

Today, the Group not only has five wastewater treatment plants in PRC under Build-Own-Transfer ("BOT") or Build-Own-Operate ("BOO") concept, we have also expanded our service offerings to include consulting service in water resource management to governmental & commercial operators. The Group went on to set up an environmental technologies and engineering company in Singapore in 2010 to further enhance our Environmental and Engineering Division.

Notably, AnnAik's capabilities in both upstream and downstream activities have enabled us to enhance our efficiency and cost competitiveness in our business operations. Furthermore, the use of our products in diverse industries ranging from heavy-duty to light-duty industries such as marine engineering, shipbuilding and repair, oil and gas, petrochemical, semiconductor as well as the utilities sector has empowered the Group to build a sustainable business that is poised to advance onward.

# IN CONVERSATION: MR. OW CHIN SENG

## Executive Chairman cum CEO of AnnAik Limited lends insights into factors driving the Company's performance in 2014, and shares his vision for the year forward.

**Q** Question **A** Answer from Mr. Ow Chin Seng

**Q How has 2014 been for the Group?**

**A** While the global economy continues to be shrouded by weak market demand fuelled by the impact of the sharp oil prices contraction, the Group performed reasonably well in 2014. We are pleased to announce a net profit attributable to owners of the Company at $0.72 million as compared to a loss of $0.27 million in 2013. Gross profit margin of 23.57% was also higher than the 22.44% achieved in 2013 while the gross profit was maintained at the 2013 level despite lower turnover.

**Q What factors drive the Group performance in 2014?**

**A** Primarily, the higher contributions from the Distribution and Environmental and Engineering Divisions positively impacted the Group's performance. The hike in nickel price at the beginning of 2014 also boosted the Distribution Division's gross profit. This was, however, partially offset by the gross loss registered for the Manufacturing Division due to higher production cost and pre-operating expenses arising from initial low production volume in Shinsei Industry Sdn Bhd.

The commencement of commercial production by Shinsei Industry Sdn Bhd in third quarter of 2014 and the higher revenues generated by the distribution division from newly incorporated companies – Metal Wang Pte Ltd and Ichinose Emico Valves (S) Pte Ltd – saw the Group recording revenues of $6.00 million for the three operations. However, the divestment of Shinsei Taizhou operations in June 2013 resulted in no revenue contribution from Shinsei Taizhou in 2014 as opposed to the $9.60 million recorded in 2013. Consequently, the Group's turnover decreased marginally from $52.41 million in 2013 to $49.04 million in 2014.

**"The Group performed reasonably well in 2014. We are pleased to announce a net profit attributable to owners of the Company at $0.72 million."**

Q Question A Answer from Mr. Ow Chin Seng

Turnover

$49.04 million

## Q Is the Group's restructuring efforts still ongoing?

A The Group's restructuring efforts in the past years had refocused our business strategy to leverage the strong expertise of the Group. The relocation of the Group's headquarters to the current site and the divestment of manufacturing operations in China had also further streamlined the Group's operations to bring about greater efficiency and productivity. These initiatives result in strengthened business focus and a more cohesive team that is poised to capitalise on opportunities.

Beyond building on positive momentum, the Group had also embarked on business continuity planning in 2014. Through the nurturing of a team of young capable leaders, the Group paves the way for AnnAik to advance with strength and fortitude into the future.

## Q Will the Group declare a dividend for 2014?

A Yes. The Board of Directors has proposed a first and final one-tier exempt dividend of 0.20 cent per share for the year ended 31 December 2014. The payout is subject to shareholders' approval at the annual general meeting.

We are deeply grateful to the shareholders for their unwavering support over the years. Their trust has empowered us to come this far. Of course, the synergistic partnerships we enjoyed with our customers, employees, business associates and Board of Directors are equally instrumental. Their continued support and commitment has given us the confidence that the Group will be able to rise up to any challenges on the horizon and collectively bring the business to the next level.

## Q What is the outlook for AnnAik in 2015?

A 2015 brings a mix bag of challenges and business opportunities. The sharp drop in oil prices has caused the general business sentiment to be lacklustre.

Given that the Southeast Asia region is characteristically made up of net oil importers, the lower oil prices bolster investment in infrastructure projects, which in turn translate into higher demand for steel piping products. Locally, it is expected that there will be a continuous stream of power and water related infrastructure projects as the nation renews and improves efficiency and adequacy in these areas.

Being a steel piping solution provider that services nearly every industry that requires steel piping, the Group is expected to experience volatility as the industries locally and regionally adjust to the new normal of low oil price.

To counter the volatility of the steel piping industry, the Group is actively developing the water and waste recovery management business, which is complementary to our core business. As Singapore and the rest of the World become increasingly environmentally conscientious, it is expected that the Engineering and Environmental Division will not only present growth potential for the Group, it will become a key engine of growth.

# GROUP STRUCTURE

as at 31 December 2014

**ANNAIK LIMITED**

## Manufacturing Business

- 92% Shinsei Holdings Pte Ltd
  - 100% Shinsei Industry Sdn. Bhd.

## Distribution Business

- 100% Ann Aik Pte Ltd
- 70% Wesco Steel Pte Ltd
- 50% Ichinose Emico Valves (S) Pte Ltd
- 65% AnnAik & Partners (S) Pte Ltd
  - 100% AnnAik Pipes & Fittings (Shanghai) Co., Ltd
- 60% Metal Wang Pte Ltd

## Environmental & Engineering Business

- 100% Anxon Environmental Pte Ltd
  - 60% AngWei Environmental Ecological & Engineering (Shanghai) Co., Ltd
    - 100% ChangXing LiJiaXiang New Era Wastewater Treatment Co., Ltd
  - 60% ChangXing AngWei Environmental & Ecological Engineering Co., Ltd
  - 42% Shuanglin (Huzhou) Wastewater Treatment Co., Ltd
- 100% Anxon Eco Holdings Pte Ltd
  - 88% ChangXing LinSheng Wastewater Treatment Co., Ltd
    - 100% ChangXing WuSheng Wastewater Treatment Co., Ltd
- 51% Pioneer Environmental Technology Pte Ltd
- 100% Anxon Engineering Pte Ltd
- 100% Anxon Envirotech Pte Ltd

# BOARD OF DIRECTORS

7 Mr. Lee Bon Leong, PBM, BBM, JP

2 Mr. Koh Beng Leong

3 Mr. Ng Kim Keang

1 Mr. Ow Chin Seng, PBM

5 Mr. Ow Eei Meng Benjamin

6 Mr. Ang Mong Seng, BBM

8 Dr. Choong Chow Siong

4 Dr. Yang Guo Ying

9 Mr. Daniel Lin Wei

## 1 MR. OW CHIN SENG, PBM

*Executive Chairman cum CEO*

Date of appointment:
31 March 1990
Date of last re-election:
26 April 2013

Mr. Ow Chin Seng joined the Company in 1978. As Executive Chairman, Mr. Ow is primarily responsible for the business and strategic development of the Group. With over 35 years of experience in the hardware and steel industry, Mr. Ow has been instrumental in the strategic direction and development of the Group.

Mr. Ow is currently the President of the Singapore Metal & Machinery Association, Vice President of the Singapore-China Business Association and Council Member of Singapore Chinese Chamber of Commerce and Industry. He is also active in public service activities, serving as a member on the committees of several public organisations, such as Advisor of School Advisory Committee for Pei Tong Primary School, Patron of Bukit Gombak Citizen's Consultative Committee and Honorary Chairman of Singapore Wushu Dragon & Lion Dance Federation. He was awarded the title of Pingat Bakti Masyarakat (PBM) during the National Day Award Ceremony in 2007.

## 2 MR. KOH BENG LEONG

*Executive Director*

Date of appointment:
1 January 2011
Date of last re-election:
26 April 2013

Mr. Koh Beng Leong assists the Executive Chairman cum CEO in managing the Group's operations, development and expansion. Mr. Koh holds a Masters of Professional Accounting and a Degree in Economics. He is a member of CPA Australia and Kampuchea Institute of Certified Public Accountants & Auditors. Prior to his appointment, Mr. Koh has held key management positions in various companies in Singapore and Vietnam. Currently, Mr. Koh also serves as an Independent Director for a SGX Catalist Company.

Present directorship in listed companies: Sunlight Group Holdings Limited.

## 3 MR. NG KIM KEANG

*Executive Director cum Chief Operating Officer*

Date of appointment:
3 January 2005
Date of last re-election:
27 April 2012

Mr. Ng Kim Keang joined the Company in January 2003 as Financial Controller, and was promoted to Executive Director in January 2005 and Chief Operating Officer in March 2015. Currently, Mr. Ng is responsible for managing the overall operations of the Group and the finance and accounting matters of the Group. Prior to joining the Company, Mr. Ng worked in Deloitte & Touche, Malaysia, and Ernst & Young, Singapore. Mr. Ng holds a Bachelor of Commerce from the University of Adelaide, Australia, and is a full member of CPA Australia and CA Singapore.

## 4 DR. YANG GUO YING

*Executive Director*

Date of appointment:
1 July 2013
Date of last re-election:
24 April 2014

Dr. Yang Guo Ying joined AnnAik in May 2005 as Vice General Manager of Environmental Business in China, and was promoted to Deputy Director in November 2011 and Executive Director in July 2013, respectively. He is currently responsible for managing, developing and expanding the environmental businesses of the Company in Singapore and overseas markets. Before joining the Company, Dr. Yang worked in ECO Industrial Environmental Engineering Pte Ltd as Chief Chemist/Technical Development Manager and DSO National Laboratories as Senior Member of Technical Staff. Dr. Yang holds a Doctorate degree in Philosophy (Chemistry) from the National University of Singapore, Master of Science (Chemistry) from Shanghai Institute of Organic Chemistry, Chinese Academy of Science, and Bachelor of Science (Chemistry) from Wuhan University, China.

## 5 MR. OW EEI MENG BENJAMIN

*Executive Director*

Date of appointment:
1 March 2015

Mr. Benjamin Ow worked in the Company's IT department from 2007 to 2008 before going on to pursue further studies. Rejoining the Company in February 2013 as Assistant to Executive Chairman cum CEO and Supply Chain Manager of Distribution Business in Singapore, Mr. Ow was subsequently appointed as an Executive Director in March 2015. He is currently responsible for the overall distribution business of the Group and the Group's supply chain operations – including project management, risk assessment and strategic planning. Mr. Ow holds a Master of Commerce from Macquarie University, Australia and Degree in Computing from the National University of Singapore.

## 6 MR. ANG MONG SENG, BBM

*Independent Director*

Date of appointment:
31 July 2003
Date of last re-election:
27 April 2012

Mr. Ang Mong Seng is the former Member of Parliament for Hong Kah GRC (Bukit Gombak) and the Ex-Chairman of Hong Kah Town Council. With more than 34 years of experience in estate management and holding a Bachelor of Arts from Nanyang University, Mr. Ang is currently serving as Independent Director for several public-listed companies in Singapore.

Present directorship in listed companies: Gaylin Holdings Limited, Hoe Leong Corporation Limited, United Fibre System Limited, Ecowise Holdings Limited, and Chip Eng Seng Corporation Limited.

## 7 MR. LEE BON LEONG, PMB, BBM, JP

*Independent Director*

Date of appointment:
31 July 2003
Date of last re-election:
26 April 2013

Mr. Lee Bon Leong is a Senior Partner in Lee Bon Leong & Co. Appointed as a Justice of the Peace by the President of Singapore since November 1998, Mr. Lee also serves as a member of the Board of Visiting Justices and the Board of Inspection. Since August 2000, Mr. Lee has been a member of the Panel for the Disciplinary Committee of Enquiry, Public Service Commission. He is an Honorary Secretary and Trustee of the Inmates' Families Support Fund, as well as a member of the Institutional Discipline Advisory/Review Committee (IDAC/IDRC). Mr. Lee holds a Master of Laws from University of Singapore.

Mr. Lee was conferred the Public Service Star (BBM) award in 2012.

Present directorship in listed companies: Asia Enterprises Holdings Limited, and Megachem Limited.

## 8 DR. CHOONG CHOW SIONG

*Independent Director*

Date of appointment:
31 July 2003
Date of last re-election:
24 April 2014

Dr. Choong Chow Siong was an audit partner and has over 32 years of experience as a practising accountant. Dr. Choong is a Fellow Member of the Institute of Singapore Chartered Accountants (FCA, Singapore), and a member of the Chartered Institute of Arbitrators (MCIArb), UK. From 2009 to 2011, Dr. Choong also served on the Hot Review Panel of Institute of Certified Public Accountants of Singapore (ICPAS).

A co-author of the book entitled "Revenue Accounting and the 5R Revenue Theory for Management Reporting", published in 2001, Dr. Choong received an appreciation letter in relation to his research on revenue reporting and UK Revenue Recognition (FRS5 – G9 of Accounting Standards Board (ASB), UK, November 2003) from the Chairman of IASB in June 2004. The issue of new disclosure requirement in paragraph 113 of IFRS15 "Revenue from contacts with customers" on new revenue reporting of IASB, UK and FASB(USA) on 28 May 2014 is consistent with Dr. Choong's 5R Revenue Theory (1991 & 2001).

Present directorship in listed companies: Straco Corporation Limited, Viva Industrial Trust (managed by Viva Industrial Trust Management Pte. Ltd. and Viva Asset Management Pte. Ltd.)

## 9 MR. DANIEL LIN WEI

*Non-Executive Director*

Date of appointment:
24 May 2010
Date of last re-election:
24 April 2014

Mr. Daniel Lin is currently an Executive Director of Singapore-listed company Viking Offshore & Marine Ltd. Mr. Lin is also responsible for Viking's investment arm, Viking Capital, and holds portfolio of Chief Executive Officer for Viking's wholly-owned subsidiary, Viking Asset Management. Prior to this, Mr. Lin was an Executive Director of Boutique Mergers & Acquisitions Advisory Firm Blue Ocean Capital Partners.

Mr. Lin is also a Non-Executive Director of Nico Steel Holdings Ltd, as well as a member of Finance Committee with the Singapore Institute of Directors. He graduated with an honours degree in law in 2007 from Bristol University, United Kingdom.

Present directorship in listed companies: Viking Offshore And Marine Limited, and Nico Steel Holdings Limited.

# ANNAIK IS GEARED TO PERFORM

**Against the backdrop of a challenging operating environment, the Group managed to record a net profit of $0.72 million in 2014 as compared to a loss of $0.27 million in 2013.**

Gross profit was also maintained at 2013 level with improved gross profit margin of 23.57% despite lower turnover recorded. Primarily, the performance improvement is attributed to better contributions from the Distribution and the Engineering and Environmental Divisions as well as the reversal of allowance for claim on contract works amounting to $0.40. However, the positive results were partially offset by the gross loss registered in the Manufacturing Division – as a consequence of higher production costs and pre-operating expenses arising from low initial production volume in Shinsei Industry Sdn Bhd.

### Distribution Division

The Distribution Division saw an increase in sales of approximately $6.68 million or 18.57% amidst a volatile operating environment. An increase in nickel price in the beginning of 2014 brought about increased gross profit margin while the sharp contraction of oil prices in the last quarter of 2014 saw the marine and offshore industries slowing down and the Group's Distribution Division sales impacted in the last quarter of 2014.

During the year, the Group incorporated two new entities – Metal Wang Pte Ltd and Ichinose Emico Valves (S) Pte Ltd. – to trade coils and sheets and distribute valves respectively. As of 31 December 2014, both companies accordingly contribute revenues amounting to $4.73 million and $0.38 million.

## Manufacturing Division

In 2014, Shinsei Industry Sdn Bhd, which commenced commercial production only at the end of the third quarter, recorded revenue of $0.89 million under the Manufacturing Division. This, coupled with the complete divestment of Shinsei Taizhou in June 2013 resulted in no revenues being earned from Shinsei Taizhou in the year ended 31 December 2014 as compared to $9.60 million in the prior year.

Notably, the new production plant had to incur pre-operating expenses and higher production costs as a result of low initial production volume. Under the onslaught of these unfavourable factors, the Manufacturing Division recorded a gross loss and affected the Group turnover.

## Engineering and Environmental Division

The Engineering and Environmental Division continues to see stable performance and positive contribution. In 2014, the Division generated sales revenue of $7.82 million as a result of the steady increase in wastewater treatment volume in China as well as the delivery of turnkey projects in Singapore.

Established in the industry as a reliable and quality provider, the Group is poised to leverage opportunities brought forth by the increasing global awareness and emphasis in environmentally sustainable wastewater treatment solutions.

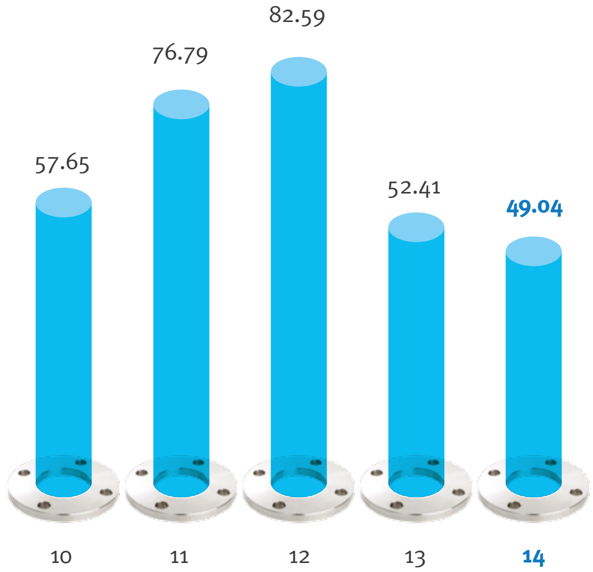
## Building Performance for 2015

While the operating environment continues to be uncertain and challenging, the wide base approach that the Group adopts towards our Distribution and Manufacturing Division assures that AnnAik stays versatile in spite of fluctuating market conditions and ever ready to tap on opportunities in the horizon.

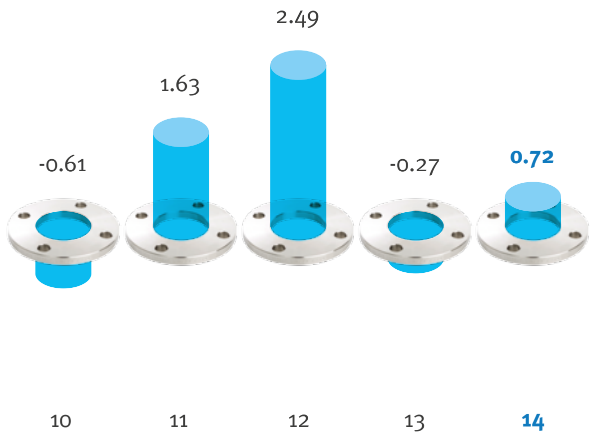
Adopting a multi-pronged approach, the Group also proactively looks to explore and develop new businesses in the water and waste recovery management sectors. The positive growth momentum of the industry and its complementary characteristics to the Group's core businesses suggest its potential in becoming a key business pillar of the Group in the near future.

# FINANCIAL HIGHLIGHTS

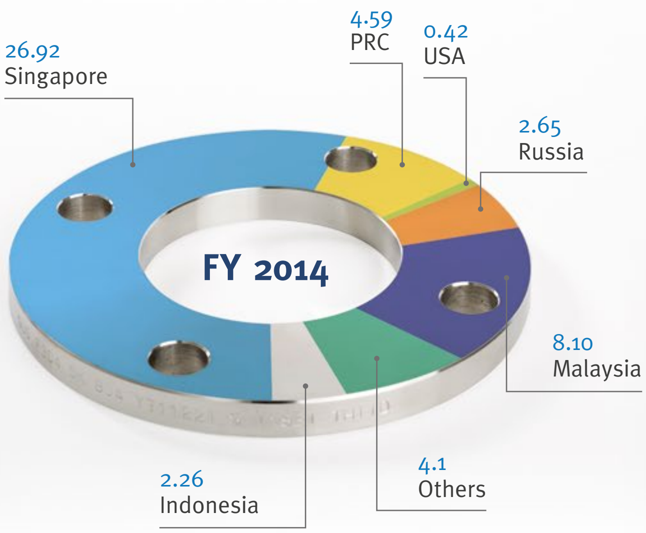
## Turnover
(S$ Million)

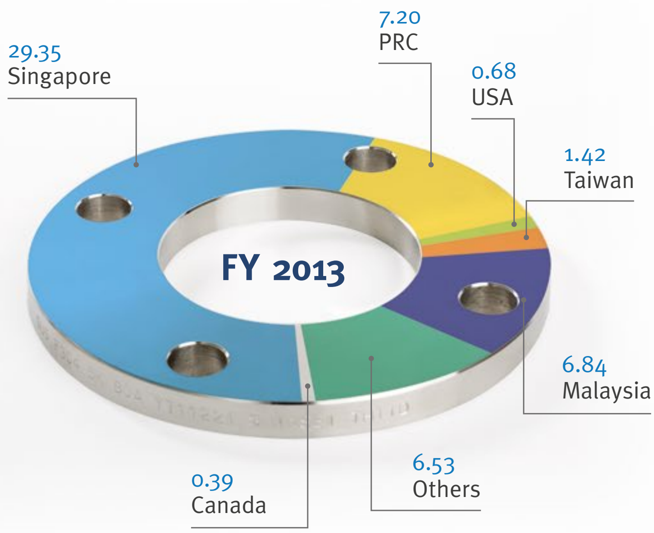



## Net Profit Attributable to Owners of the Company
(S$ Million)




## Turnover by Geographical Area
(S$ Million)



# | CORPORATE GOVERNANCE STATEMENT |

The Board of Directors ("Board") of AnnAik Limited ("the Company") is committed to high standards of corporate governance and transparency within the Company and its subsidiaries ("the Group"). The Board believes that good corporate governance includes an ethical environment and enhances the interest of all shareholders.

The Board has taken steps to comply with most of the Code of Corporate Governance 2012 (the "Code") and the requirements of the Listing Manual of The Singapore Exchange Securities Trading Limited (SGX-ST) and is working to adopt the other changes where appropriate. In the meantime, steps have been taken, as far as practicable, towards compliance in the context of the Group's business and organisation structure. This report describes the Group's corporate governance process and activities.

## Board Matters

**Principle 1: The Board's Conduct of Affairs**

The responsibilities of the Board include the following:

(a) review and approve corporate strategies, financial objectives and directions of the Group;
(b) establish goals for management and monitoring the achievement of these goals;
(c) ensure management leadership of high quality, effectiveness and integrity;
(d) approve annual budgets, major funding proposals and investment proposals;
(e) review internal controls, risk management, financial performance and reporting compliance; and
(f) assume responsibility for corporate governance.

The Board makes decisions in material matters such as major funding proposals, acquisitions and divestments, disposal of major assets, corporate or financial restructuring, share issuances, dividends, annual budgets and financial plans of the Group, half yearly and annual financial reports, internal controls and risk management strategies and execution and other matters which require Board approval as specified under the Company's interested person transaction policy.

The Company has also scheduled regular meetings for this financial year. Ad-hoc meetings are convened when circumstances require. The Company's Articles of Association allow a board meeting to be conducted by way of a telephone conference or by means of a similar communication equipment whereby all persons participating in the meeting are able to hear each other. When circumstances require, ad hoc Board meetings will be arranged. The Board meets to review and discuss corporate strategies, key activities and major issues of the Group. The Board also ensures that effective management is in place and oversees the proper conduct of the Group's business. The Board is supported by the Audit Committee, Remuneration Committee and Nominating Committee.

# | CORPORATE GOVERNANCE STATEMENT |

The Board met 4 times in FY2014 to review the Group's business operation and financial performance.

The number of meetings held after 10 April 2014 up to date of this report, and the attendance of the directors are set out in the table below.

**Directors' attendance at Board and various Board Committees meetings:**

| Name of Directors | Board | | Audit Committee | | Remuneration Committee | | Nominating Committee | |
|---|---|---|---|---|---|---|---|---|
| | Held | Attended | Held | Attended | Held | Attended | Held | Attended |
| Mr. Ow Chin Seng | 4 | 4 | 2 | 2* | 1 | 1* | 1 | 1 |
| Mr. Koh Beng Leong | 4 | 4 | 2 | 2* | - | - | - | - |
| Mr. Ng Kim Keang | 4 | 4 | 2 | 2* | - | - | - | - |
| Mdm. Low Kheng[(1)] | 4 | 4 | 2 | 2* | - | - | - | - |
| Mr. Ow Eei Meng, Benjamin[(2)] (Alternate director to Mdm. Low Kheng) | 4 | 4 | 2 | 2* | - | - | - | - |
| Dr. Yang Guo Ying | 4 | 3 | 2 | 2* | - | - | - | - |
| Mr. Daniel Lin Wei | 4 | 4 | 2 | 2* | - | - | - | - |
| Mr. Ang Mong Seng | 4 | 4 | 2 | 2 | 1 | 1 | 1 | 1 |
| Mr. Lee Bon Leong | 4 | 4 | 2 | 2 | 1 | 1 | 1 | 1 |
| Dr. Choong Chow Siong | 4 | 4 | 2 | 2 | 1 | 1 | 1 | 1 |

Notes:
* Attendance by invitation
(1) Resigned as Executive Director with effect from 1 March 2015.
(2) Appointed as Executive Director with effect from 1 March 2015.

The Company had arranged for the Board to be briefed by its lawyers on the continuing obligations and various requirements expected of a public company from time to time. Further, on an ongoing basis, the Company provides the members of the Board with regular updates to enable them to keep pace with regulatory changes. The Company secretary ensures that Board procedures are followed and the Company complies with the requirements of all applicable rules and regulations.

The Company will conduct briefings and orientation programmes to familiarise newly appointed directors with the various businesses, operations and processes of the Group. Further, newly appointed directors will be provided with a formal letter setting out their duties and obligations and appropriate training to ensure that they are fully aware of their responsibilities and obligations of being a director.

**Principle 2: Board Composition and Guidance**

Currently, the Board comprises nine directors, five of whom are executive directors, one non-executive director and three independent directors. Their collective experience and contributions are valuable to the Group. The directors as at the date of this report are listed as follows:

| | |
|---|---|
| Mr. Ow Chin Seng, PBM | Executive Chairman cum Chief Executive Officer |
| Mr. Ng Kim Keang | Executive Director |
| Mr. Koh Beng Leong | Executive Director |
| Dr. Yang Guo Ying | Executive Director |
| Mr. Ow Eei Meng, Benjamin[(1)] | Executive Director |
| Mr. Daniel Lin Wei | Non-Executive Director |
| Mr. Ang Mong Seng, BBM | Independent Director |
| Mr. Lee Bon Leong, PBM, BBM, JP | Independent Director |
| Dr. Choong Chow Siong | Independent Director |

Note:
(1) Appointed as Executive Director with effect from 1 March 2015.

Having reviewed its size, the Board is of the view that:-

a) the current arrangement is adequate given that the independent directors form at least one-third of the Board composition; and
b) the composition of directors as a whole provides core competencies necessary to meet the Group's requirements with an appropriate balance and diversity of skills, experiences and knowledge, taking into account the following:-

    (i) the nature and scope of the Group's operations; and
    (ii) the independent directors are respected individuals from different backgrounds whose core competencies, qualifications, skills and experience are extensive and complementary.

The Company has a good balance of directors with a wide range of skills, experience and qualities in the fields of operations, management, financial, legal and accounting. Each director has been appointed on the strength of his calibre, experience and stature and is expected to bring a valuable range of experience and expertise to contribute to the development of the Group strategy and the performance of its business.

Profiles of the directors are found on pages 8 and 9 of this Annual Report.

All appointments and re-elections of directors are reviewed and recommended by the Nominating Committee to the Board. The independence of each independent director is reviewed by the Nominating Committee and the Board annually in accordance with the guidelines of the Code.

The Board considers an independent director as one who has no relationship with the Company, its related corporations or its officers, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement with a view to the best interests of the Company. The independence of each director is reviewed annually by Nominating Committee. Each independent director is required to complete a Director's Independence Checklist annually to confirm his independence based on the guidelines set out in the Code.

Although Dr. Choong Chow Siong, Mr. Lee Bon Leong and Mr. Ang Mong Seng served on the Board for more than nine years from the date of their first appointments, the NC rigorously reviewed their past contributions to the Group and considered that they are independent in character and judgement and there was no circumstance which would likely affect or appear to affect the directors' judgement.

The opinion was arrived at after careful assessment by the NC and the Board and the rigorous review comprised a review of, but not limited to, the following factors: (a) the length of services of Dr. Choong Chow Siong, Mr. Lee Bon Leong and Mr. Ang Mong Seng have not compromised the objectivity of Independent Directors and their commitments and abilities to discharge their duties as Independent Directors; (b) the abilities of Independent Directors to continue exercising independent judgements in the best interests of the Company; (c) the abilities of Independent Directors to express their objectives and independent views during Board and Board Committee meetings; and (d) Independent Directors, through their years of involvements with the Company, have gained valuable insights and understandings of the Group's business and together with their diverse experiences and expertise, have contributed and will continue to contribute effectively as Independent Directors by providing impartial and autonomous views at all times.

To facilitate effective management, the Board has delegated specific responsibilities to three sub-committees, namely:-

1) Audit Committee;
2) Nominating Committee; and
3) Remuneration Committee.

These committees comprise a majority of independent directors. The effectiveness of each committee is also constantly monitored by the Board.

Where necessary, the Company co-ordinates informal meeting sessions for independent directors to meet without the presence of the management.

**Principle 3: Chairman and Chief Executive Officer**

The Executive Chairman cum Chief Executive Officer ("CEO") of the Company, Mr. Ow Chin Seng, is responsible for exercising control over the quality and timeliness of the flow of information between management and the Board and ensuring compliance with the Group's guidelines on corporate governance. Mr. Ow is also responsible for the business and strategic development, business operations and the development including the expansion of the Company. He ensures that Board meetings are held regularly in accordance with an agreed schedule of meetings.

The role of Chairman is not separate from that of the CEO as the Board considers that there is considerable accountability and transparency within the Group. The independent directors currently form one-third of the Board and exercise objective judgement on corporate matters impartially, thus ensuring a balance of power and authority. As such, it would not be necessary for the Group to effect a separation of the role of Chairman and CEO.

For the reasons as stated above, the Board is of the view that it is not necessary to appoint any lead independent director.

**Principle 4: Board Membership**

## Nominating Committee ("NC")

The NC comprises four members, three of whom, including Chairman, are independent directors, Mr. Lee Bon Leong is the Chairman of the Committee, Dr. Choong Chow Siong and Mr. Ang Mong Seng. The NC's other member is Mr. Ow Chin Seng.

The NC is responsible for:-

(a) recommending to the Board of all board appointments and nomination of directors having regard to their contributions and performance based on a formal and transparent process;
(b) determining annually whether or not a director is independent;
(c) reviewing regularly the Board structure, size and composition having regard to the scope and nature of the operations, the requirements of the business, the diversity of skills, experience, gender and knowledge of the Company and the core competencies of the directors as a Group;
(d) deciding whether or not a director is able to and has been adequately carrying out duties as a director;
(e) deciding the manner in which the Board's performance may be evaluated and propose objective performance criteria for the Board's approval;
(f) reviewing the training and professional development programs for the Board; and
(g) making and reviewing plans for succession.

The NC has reviewed the independence of Mr. Ang Mong Seng, Mr. Lee Bon Leong and Dr. Choong Chow Siong for FY2014 in accordance with the Code's definition of independence and is satisfied that there are no relationships which would deem any of them not to be independent.

Currently, the Company does not have any alternate Directors.

The NC decides how the Board's performance is evaluated and proposes objective performance criteria, subject to the approval of the Board, which addresses how the Board has enhanced long-term shareholders' value. This performance evaluation also includes consideration of the Company's share price performance over a five-year period vis-a-vis the Singapore Straits Times Index and a benchmark index of its industry peers. The Board also implemented a process to be carried out by the NC for assessing the effectiveness of the Board as a whole and for assessing the contribution by each individual director to the effectiveness of the Board as a whole for FY2014.

Although the independent directors and non-executive director hold directorships in other companies which are not in the Group, the NC is of the view that there should be no restriction to the number of board representations of each director and the Board is of the view that such multiple board representations do not hinder them from carrying out their duties as directors. These directors would widen the experience of the Board and give it a broader perspective. The NC is satisfied that sufficient time and attention have been given to the Company by the Directors.

The NC identifies, evaluates and selects suitable candidates for new directorships. The NC considers factors such as the ability of the prospective candidates to contribute to discussions, the composition of the Board including the mix of expertise, skills and attributes to the existing directors so as to identify needed and/ or desired competencies to supplement the Board's existing attributes.

The NC is satisfied that directors are able to and have adequately carried out their duties as directors of the Company.

Each member of the NC shall abstain from voting on any resolution in respect of the assessment of his performance or re-nomination as a director.

The Articles of Association require that every director shall retire from office once every three years and for this purpose, at each Annual General Meeting ("AGM"), one third of the directors, or if their number is not a multiple of three, the number nearest to but not lesser than one-third of the directors, shall retire from office by rotation. In addition, a director appointed by the Board either to fill a casual vacancy or as an additional director, shall subject to retirement at the AGM immediately following his appointment but shall not be taken into account in determining the number of directors who are to retire by rotation at such a meeting. A retiring director is eligible for re-election at the meeting at which he retires.

The NC, in considering the re-election of a director, evaluates such director's contribution and performance, such as his attendance at meeting of the Board and/or Board committees, participation, candour and any special contribution.

The NC had held a meeting in February 2015 for the nomination of directors for the AGM.

The NC is of the opinion that the independence of the non-executive directors is maintained and that each director has contributed to the effectiveness of the Board as a whole and has recommended the re-election of the following directors to be put forward for re-election at the forthcoming Annual General Meeting:-

| | |
|---|---|
| Mr. Ow Chin Seng | (Retiring pursuant to Article 115) |
| Mr. Ng Kim Keang | (Retiring pursuant to Article 115) |
| Mr. Ang Mong Seng | (Retiring pursuant to Article 115) |
| Mr. Ow Eei Meng Benjamin | (Retiring pursuant to Article 119) |

Mr. Ow Eei Meng Benjamin was appointed as executive director with effect from 1 March 2015.

**Principle 5: Board Performance**

The performance of the individual director is assessed on the basis of each director's contribution to the Group and/or the levels of participation in various Board committees and attendance at Board meetings.

In assessing the Board's performance as a whole, both quantitative and qualitative criteria are considered. Such criteria include return on equity and the achievement of strategic objectives.

The NC, in considering the re-appointment of any director, evaluates the performance of the director. The NC and the Chairman of the Board implemented a self-assessment process that required each director to assess the performance of the Board as a whole for FY2014. The self-assessment process took into consideration, inter alia, board structure, corporate strategy and planning, risk management and internal control, performance measurement and compensation, succession planning, financial reporting, conduct of meetings and communication with shareholders. The NC is of the view that the performance of the Board as a whole for FY2014 has been satisfactory.

## Board Committees

Certain functions have been delegated to various Board committees, namely, the Audit Committee, Remuneration Committee and Nominating Committee. The members of these committees are set out below:

Nominating Committee ("NC")
Mr. Lee Bon Leong, Chairman
Dr. Choong Chow Siong
Mr. Ang Mong Seng
Mr. Ow Chin Seng

Remuneration Committee ("RC")
Mr. Ang Mong Seng, Chairman
Mr. Lee Bon Leong
Dr. Choong Chow Siong

Audit Committee ("AC")
Dr. Choong Chow Siong, Chairman
Mr. Lee Bon Leong
Mr. Ang Mong Seng

In place of physical meetings, the Board and Board Committees also circulate written resolutions for approval by the relevant members of the Board and Board Committees.

**Principle 6: Access to Information**

Prior to each Board meeting, the members of the Board are provided with relevant materials on budgets, forecasts, internal financial statements, material events and transactions complete with background and explanations in a form and quality appropriate to facilitate the Board to make an informed decision. As a general rule, board papers are sent to directors at least three days in advance in order for the directors to be adequately prepared for the meeting. In addition, the independent directors have separate and independent access to the Group's senior management and the advice and services of the company secretary. The appointment and removal of Company Secretary are subject to the Board's approval.

The Group currently does not have a formal procedure to seek independent advice. However, the directors may, on a case-to-case basis, propose to the Board that such independent and professional advice be obtained, the cost of which will be borne by the Group.

The company secretary attends all Board meetings and also ensures that the requirements of the Singapore Companies Act and all other rules and regulations of the SGX-ST are complied with.

**Principle 7: Procedures for developing remuneration policies**
**Principle 8: Level and mix of remuneration**
**Principle 9: Disclosure on remuneration**

## Remuneration Committee ("RC")

The RC comprises of three independent directors, Mr. Ang Mong Seng, Mr. Lee Bon Leong and Dr. Choong Chow Siong. The Chairman of the RC is Mr. Ang Mong Seng. The RC reviews and recommends remuneration packages of the executive directors and executive officers and development in the Group with the goal of building capable and committed management teams.

The functions of the RC include the following:-

a) Annual review of the remuneration of each of the directors and executive officers;
b) Recommendations to the Board on a framework of remuneration of the directors and executive officers;
c) Determination of specific remuneration packages for the directors, executive officers and associates of controlling shareholders; and
d) Implement and administer Share Option Scheme.

The recommendations of the RC will be submitted for endorsement by the entire Board. All aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits-in-kind shall be reviewed by the RC.

Each member of the RC will abstain from reviewing and approving his own remuneration and the remuneration packages of persons related to him. The Group has and will continue to disclose in the Annual Report the total remuneration paid to the directors. The RC meets at least once per financial year and the RC has held one meeting in February 2015.

Independent directors do not have service agreements with the Company. The independent directors received directors' fees which are recommended by the Board for approval at the Company's AGM.

The executive directors do not receive directors' fees and are paid based on their Service Agreements with the Company. In setting the remuneration packages of the executive directors, the Company takes into account the performance of the Group and that of the executive directors which are aligned with long term interest of the Group.

Key management personnel's remuneration is set in accordance with a remuneration framework comprising basic salary (including a variable bonus and benefits-in-kind).

The Company does not use contractual provisions to allow the Company to reclaim incentive components of remuneration from executive directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company. Executive directors owe a fiduciary duty to the Company. The Company should be able to avail itself to remedies against the executive directors in the event of such breach of fiduciary duties.

The RC can, upon direction by the Board, engage any external professional advice on matters relating to remuneration as and when the need arises.

**Disclosure on directors' remuneration paid/payable in FY2014 and the breakdown of their remuneration:**

| | Remuneration paid / payable In FY2014 | | | | | Breakdown of the Directors' Remuneration | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name of Director | Up To $250,000 | $250,001 To $500,000 | $500,001 To $750,000 | $750,001 To $1,000,000 | $1,000,001 To $1,250,000 | Salary & CPF % | Fee % | Bonus % | Other Benefits % | Total % |
| Mr. Ow Chin Seng[1] | - | X | - | - | - | 81 | 2 | 7 | 10 | 100 |
| Mdm. Low Kheng[1] | X | - | - | - | - | 76 | - | 6 | 18 | 100 |
| Mr. Ng Kim Keang | - | X | - | - | - | 68 | - | 5 | 27 | 100 |
| Mr. Koh Beng Leong[2] | X | - | - | - | - | 67 | - | 5 | 28 | 100 |
| Dr. Yang Guo Ying | - | X | - | - | - | 69 | - | 7 | 24 | 100 |
| Mr. Ow Eei Meng, Benjamin[3] (Alternate director to Mdm. Low Kheng) | X | - | - | - | - | 70 | - | 12 | 18 | 100 |
| Mr. Daniel Lin Wei | X | - | - | - | - | - | 89 | - | 11 | 100 |
| Mr. Ang Mong Seng | X | - | - | - | - | - | 91 | - | 9 | 100 |
| Mr. Lee Bon Leong | X | - | - | - | - | - | 91 | - | 9 | 100 |
| Dr. Choong Chow Siong | X | - | - | - | - | - | 91 | - | 9 | 100 |

Notes:

1 Mr. Ow Chin Seng and Mdm. Low Kheng are husband and wife.

2 Mr. Koh Beng Leong is the nephew of Mr. Ow Chin Seng and Mdm. Low Kheng.

3 Mr. Ow Eei Meng, Benjamin is the son of Mr. Ow Chin Seng and Mdm. Low Kheng and cousin of Mr. Koh Beng Leong.

The above remuneration bands include share options granted under the AnnAik Employee Share Option Scheme 2013.

**Disclosure on top 5 key management personnel remuneration paid/payable in FY2014 and the breakdown of their remuneration:**

| | Remuneration paid / payable In FY2014 | | | | | Breakdown of the Executives' Remuneration | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name of Key Management Personnel | Up To $250,000 | $250,001 To $500,000 | $500,001 To $750,000 | $750,001 To $1,000,000 | $1,000,001 To $1,250,000 | Salary & CPF % | Fee % | Bonus % | Other Benefits % | Total % |
| Mr. Peh Choon Chieh(1) | X | - | - | - | - | 75 | - | 13 | 12 | 100 |
| Mr. Steve Cheong Wai Meng | X | - | - | - | - | 77 | - | 6 | 17 | 100 |
| Mr. Loke Siew Meng | X | - | - | - | - | 71 | - | 16 | 13 | 100 |
| Mr. Lim Khan Choon | X | - | - | - | - | 93 | - | 7 | - | 100 |
| Mr. Ow Eei Phurn(2) | X | - | - | - | - | 76 | - | 9 | 15 | 100 |

Notes:

(1) Mr. Peh Choon Chieh is the nephew of Mr. Ow Chin Seng and Mdm. Low Kheng

(2) Mr. Ow Eei Phurn is the son of Mr. Ow Chin Seng and Mdm. Low Kheng and cousin of Mr. Koh Beng Leong.

The above remuneration bands include share options granted to employees under the AnnAik Employee Share Option Scheme 2013.

The annual aggregate amount of the total remuneration paid to top 5 key management personnel for FY2014 is approximately S$646,000.

The annual aggregate amount of the termination, retirement and post-employment benefits granted to Directors and the Group CEO under their current contracts of employment or appointment (as the case may be) as at FY2014 is approximately S$636,000.

Save as disclosed, there is no employee (who is not director) whose remuneration exceeds S$50,000 during FY2014 and is immediate family member of a Director or the CEO.

The Company has adopted the AnnAik Employee Share Option Scheme 2013 (the "ESOS"), which was approved by the shareholders at an Extraordinary General Meeting held on 18 September 2013, as part of a compensation plan to motivate Directors and employees of the Group to greater dedication, loyalty and higher standards of performance. The ESOS Committee members consist of Mr. Ang Mong Seng, Mr. Lee Bon Leong and Dr. Choong Chow Siong. Further details are found on pages 29 and 30 of this Annual Report.

**Principle 10: Accountability**

The Board is accountable to the shareholders and other stakeholders while the management is accountable to the Board.

The Board aims at informing shareholders of the performance of the Group on a more frequent and timely manner. Also, the Board believes that this move will further enhance the Group's relationships with investors and the media.

**Principle 11: Risk Management and Internal Controls**

The Board acknowledges that it is responsible for ensuring that management maintains a sound system of internal controls to safeguard the shareholders' investments and the Group's assets. The Board believes that, in the absence of any evidence to the contrary, the system of internal control maintained by management and that was in place throughout the financial year provides reasonable, but not absolute, assurance against material financial misstatements of loss, and include the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risk.

The Board has received assurance from the CEO and Finance Director, the financial records of the Company have been properly maintained and the Company's financial statements for the year ended 31 December 2014 give a true and fair view of the Company's operations and finances; and the effectiveness of the Company's risk management and internal control are adequate.

As part of the annual statutory audit on financial statements, the external auditors report to the AC and the appropriate level of management any material weaknesses in financial controls over the areas which are significant to the audit. The AC also reviews the effectiveness of the actions taken by the management on the recommendations made by the internal and external auditors in this respect.

No risk committee has been established as the AC has assumed the responsibility of the risk management function and oversees the overall adequacy and effectiveness of the Company's risk management systems and procedures.

The Board and AC have reviewed the adequacy of the Group's internal controls that address the Group's financial, operational and compliance risks. Based on the internal controls established and maintained, work performed by the internal auditors, reviewed by management, and the statutory audit by the external auditors, the Board and Audit Committee are of the opinion that the Group's internal controls, including financial, operational, compliance and information technology controls, and risk management systems, are adequate and effective as at 31 December 2014.

**Principle 12: Audit Committee**

The AC comprises independent directors, Dr. Choong Chow Siong, Mr. Lee Bon Leong and Mr. Ang Mong Seng. The Chairman of the AC is Dr. Choong Chow Siong. The members of the AC are knowledgeable and familiar with financial, corporate governance and regulatory disclosure requirements. The Board believes that they possess the necessary qualifications and experiences in discharging their duties as a member of the AC.

The AC performs the following functions:

(a) Review of the audit plans of and reports from the external and internal auditors;
(b) Review of the co-operation given by the Group's officers to the external and internal auditors;
(c) Review of the consolidated financial statements of the Group and the financial statements of the Company before their submission to the Board;
(d) Review of the independence and objectivity of the external auditors and nomination of the external auditors for reappointment;
(e) Review of all interested person transactions, if any, to ensure that they comply with the approved internal control procedures and have been conducted on an arms' length and normal commercial terms and are not prejudicial to the interests of the shareholders of the Company;
(f) Meeting with the external auditors without the presence of management annually, to discuss any problems and concerns they may have;
(g) Review the adequacy and effectiveness of the Company's risk management and internal control systems (including financial, operational, compliance and information technology controls) and to report to the Board annually; and
(h) Undertake such other functions and duties as may be required by the relevant laws or provisions of the Listing Manual of the SGX-ST (as may be amended from time to time) and as may be requested by the Board.

Apart from the above functions, the AC commissions and reviews the findings of internal investigations into matters where there is suspicion of fraud or irregularities, failure of internal controls or infringement of any Singapore law, rule or regulation which has or likely to have a material impact on the operating results and/or financial position of the Group. In the event that a member of the AC is interested in any matter being considered by the AC, he will abstain from reviewing that particular transaction or voting on that particular resolution.

It has been proposed that the AC will meet at least two times a year and as frequently as is required. In FY2014, the AC has met two times to review and approve the Group's half yearly announcement of FY2014 unaudited results, full year announcement of FY2014 unaudited results and approval of audit planning memorandum for statutory audit in FY2014.

The AC has reviewed all non-audit services provided by the auditors and they would not, in the AC's opinion, affect the independence of the external auditors. The aggregate amount of fees paid or payable to auditors for the financial year ended 31 December 2014, audit service fees amount to S$215,000 and non-audit service fees amount to S$22,000.

The AC has full access to and co-operation of management and has full discretion to invite any director or executive officer to attend the meetings and has been given reasonable resources to enable it to discharge its functions.

Pursuant to Listing Rule 716, the Board and AC are satisfied that the appointment of different auditors for its subsidiaries would not compromise the standard and effectiveness of the audit of the Company. The details of the auditors are outlined in Notes 14 & 15 to the financial statements. The Company has also complied with Rule 712 of the Listing Manual of SGX-ST in relation to the auditing firms.

The AC also meets with the external auditors and internal auditors, without the presence of management, at least once a year. For FY2014, the AC met once with the external auditors and internal auditors without presence of the management.

The accounts for the year were audited by Ernst & Young LLP and the AC has recommended to the Board that Ernst & Young LLP be nominated for re-appointment as auditors at the forthcoming AGM.

No former partner or director of the Company's existing auditing firm is a member of the AC.

The Company has put in place a whistle-blowing policy in order to develop a culture of openness, accountability and integrity. The policy encourages employees and external parties to raise concerns, in confidence, about possible irregularities to Dr. Choong Chow Siong, the

Chairman of the AC. It aims to provide an avenue to employees and external parties to raise concerns and offer reassurance that they will be protected from reprisals or victimisation for whistle-blowing in good faith within the limits of the law. There were no whistle-blowing matters noted/raised during the year.

**Principle 13: Internal Audit**

Since FY2004, the Company, upon the recommendation of the AC, appointed Messrs UHY Lee Seng Chan & Co. as internal auditors.

The scope of internal audit is to:-

(a) Review the effectiveness of the Group's material internal controls;
(b) Provide assurance that key business and operational risks are identified and managed;
(c) Internal controls are in place and functioning as intended; and
(d) Operations are conducted in an effective and efficient manner.

The AC reviews the activities of the internal auditor on a regular basis, including overseeing and monitoring the implementation of the improvements required on internal control weaknesses identified. The AC reviews the adequacy and effectiveness of the internal audit function on an annual basis and is satisfied with its adequacy and effectiveness.

The internal auditors report directly to the Chairman of the AC on any material weaknesses and risks identified in the course of the audit which will also be communicated to management. Management would accordingly update the AC on the status of the remedial action plans.

The AC and the Board review the adequacy of the internal audit function annually and are satisfied that there are adequate internal controls in the Group.

**Principle 14: Shareholder Rights**
**Principle 15: Communication with Shareholders**
**Principle 16: Greater Shareholder Participation**

All shareholders are treated fairly and equitably to facilitate their ownership rights. The Articles of Association allow a member of the Company, who is unable to attend the general meeting in person, to appoint one or two proxies to attend and vote at the meeting in place of the member.

The Group believes that a high standard of disclosure is crucial to raising the level of corporate governance. All information relating to the Group's new initiatives are first disseminated via SGXNet followed by a news release (if appropriate), which is also available on the SGX-ST's website.

The Group does not practice selective disclosure. Price sensitive information is publicly released via SGXNet and the results and annual reports are announced or issued within the mandatory period. All shareholders of the Company will receive a copy of the Annual Report and the Notice of AGM at least 14 days before the meeting. The Notice of AGM is also advertised in a national newspaper.

At the AGM, shareholders are given opportunities to express their views and ask the Board and management questions regarding the operations of the Group. The Chairman is available at the AGM to answer those questions regarding the operations of the Group. The Chairman of the AC, RC and NC are normally available at the AGM to answer those questions relating to the work of these Committees.

The Company's external auditors are also invited to attend the AGM to assist the Directors in addressing any relevant queries relating to the conduct of the audit and audited report.

For greater transparency and fairness in the voting process, voting at shareholders' meetings were conducted by poll since 2013. This allows all shareholders present or represented at the meetings to vote on a one-share-one vote basis. The voting results of all votes cast for or against each resolution is then announced at the meeting and broadcasted via SGXNet after the meeting.

Each distinct issue requiring shareholders' approval is proposed as a separate resolution at the general meeting.

The Company records minutes of all general meetings and questions and comments from shareholders together with the responses of the Board and management.

The Company does not have a fixed dividend policy. The form, frequency and amount of dividends will depend on the Company's earnings, general financial condition, results of operations, capital requirements, cash flow, general business condition, development plans and other factors as the directors may deem appropriate.

The Company will review its Articles of Association from time to time such amendments to the Articles of Association to be in line with the applicable requirements or rules and regulations governing the continuing obligations.

## Dealings in Securities

The Company has adopted an Internal Code of Best Practices on Securities Transactions to directors and key employees (including employees with access to price-sensitive information to the Company's shares) of the Group setting out the code of conduct on transactions in the Company's shares by these persons in compliance with the Rule 1207 (19) of the Listing Manual of SGX-ST.

All the key employees, officers and directors of the Company are reminded not to deal in the Company's securities during the period commencing one month before the announcement of the Company's half year and full year financial statements and ending on the date of announcement of the results.

The Company issues email notification to all its officers including directors, officers and employees which they are reminded that they should refrain from dealing in the securities of the Company:

(i) during the one month before and up to the date of announcement of half year and full year results;
(ii) on short term considerations; and
(iii) at any time if they are in possession of unpublished material price-sensitive information.

The Company has complied with Listing Rule 1207 (19) of the Listing Manual of SGX-ST.

## Interested Person Transactions ("IPT")

The Group has adopted an internal policy in respect of any transactions with interested person within the definition of Chapter 9 of the Listing Manual of SGX-ST and has set out procedures for review and approval of all interested person transactions.

The aggregate value of all interested person transaction during the financial year ended 31 December 2014 was as follows:

| Name of Interested Person | Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) | Aggregate value of all interested person transactions conducted during the financial year under review under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S$100,000) |
|---|---|---|
| Lee Bon Leong & Co.<br>- Provision of legal services | 170,822 | – |

## Risk Management

The Group regularly reviews and improves its business and operational activities to identify areas of significant business risks as well as to take appropriate measures to control and mitigate these risks. The Group reviews all significant control policies and procedures and highlights all significant matters to the AC and the Board. The financial risk management objectives and policies are outlined in Note 42 to the financial statements.

## Material Contracts

Pursuant to Rule 1207(8) of the Listing Manual of SGX-ST, the Company confirms that there were no material contracts (including loans) of the Company or its subsidiaries involving the interests of the managing director, each director or controlling shareholder subsisted at the end of the financial year or have been entered into since the end of the previous financial year.

## Use of Proceeds

General Disclosure of the status on the use of proceeds raised from disposal of 32% shares of Shinsei Group and 11% shares of Both-Well Group pursuant to Chapter 8 whether such a use is in accordance with the stated use are as follows:

| Use of proceeds | Amount allocated as disclosed in Circular 13 December 2013 (S$'000) | Total amount utilised (S$'000) | Balance amount (S$'000) |
|---|---|---|---|
| Purchase of raw materials and working capital | 5,000 | 5,000 | – |
| Undertake new investment | 1,646 | 330 | 1,316 |
| Total | 6,646 | 5,330 | 1,316 |

# FINANCIAL STATEMENTS

# | DIRECTORS' REPORT |

The directors are pleased to present their report to the members together with the audited consolidated financial statements of AnnAik Limited (the "Company") and its subsidiaries (collectively, the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2014.

## Directors

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

| | |
|---|---|
| Ow Chin Seng | (Executive Chairman cum Chief Executive Officer) |
| Ng Kim Keang | |
| Koh Beng Leong | |
| Dr Yang Guo Ying | |
| Ow Eei Meng, Benjamin | (Appointed as Executive Director on 1 March 2015) |
| Ang Mong Seng | |
| Lee Bon Leong | |
| Dr Choong Chow Siong | |
| Lin Wei, Daniel | |

## Arrangements to enable directors to acquire 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, except for the share options mentioned in the Directors' Report.

## Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Cap. 50, an interest in shares and share options of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

| | Direct interest | | Deemed interest | |
|---|---|---|---|---|
| Name of director | At beginning of financial year or date of appointment | At the end of financial year | At beginning of financial year or date of appointment | At the end of financial year |
| **AnnAik Limited** | | | | |
| *Ordinary shares* | | | | |
| Ow Chin Seng | 67,536,758 | 67,536,758 | 8,274,924 | 8,274,924 |
| Low Kheng | 8,274,924 | 8,274,924 | 67,536,758 | 67,536,758 |
| Ng Kim Keang | 1,441,000 | 1,441,000 | – | – |
| Koh Beng Leong | 12,000 | 12,000 | – | – |
| Dr Yang Guo Ying | 36,000 | 36,000 | – | – |
| Ow Eei Meng, Benjamin | – | – | 2,919,400 | 2,919,400 |
| Ang Mong Seng | 720,000 | 720,000 | – | – |
| Lee Bon Leong | 3,142,000 | 3,142,000 | 120,000 | 120,000 |
| Dr Choong Chow Siong | 480,000 | 480,000 | – | – |

### Directors' interests in shares and debentures (cont'd)

| Name of director | Direct interest: At beginning of financial year or date of appointment | Direct interest: At the end of financial year | Deemed interest: At beginning of financial year or date of appointment | Deemed interest: At the end of financial year |
|---|---|---|---|---|
| *Options to subscribe for ordinary shares under the AnnAik Share Option Scheme* | | | | |
| Ow Chin Seng | 2,890,000 | 2,890,000 | 1,330,000 | 1,330,000 |
| Low Kheng [(1)] | 1,330,000 | 1,330,000 | 2,890,000 | 2,890,000 |
| Ng Kim Keang | 5,070,000 | 5,070,000 | – | – |
| Koh Beng Leong | 1,050,000 | 1,050,000 | – | – |
| Dr Yang Guo Ying | 1,600,000 | 1,600,000 | – | – |
| Ang Mong Seng | 180,000 | 180,000 | – | – |
| Lee Bon Leong | 180,000 | 180,000 | – | – |
| Dr Choong Chow Siong | 180,000 | 180,000 | – | – |
| Lin Wei, Daniel | 93,000 | 93,000 | – | – |

(1) Resigned as Executive Director with effect from 1 March 2015

By virtue of Section 7 of the Singapore Companies Act, Mr Ow Chin Seng and Madam Low Kheng are deemed to have an interest in all the related corporations of the Company.

There was no change in any of the above-mentioned interest between the end of the financial year and 21 January 2015.

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment, if later, or at the end of the financial year.

### Directors' contractual benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit which is required to be disclosed under Section 201(8) of the Singapore Companies Act, by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has substantial financial interest.

### Options

The AnnAik Share Option Scheme 2003 was approved by the shareholders of the Company at an Extraordinary General Meeting held on 31 July 2003. This share option scheme expired on 31 July 2008. During financial year 2013, the Company had adopted the AnnAik Employee Share Option Scheme 2013 which was approved by the shareholders of the Company at an Extraordinary General Meeting held on 18 September 2013. The Share Option Scheme was administered by the Remuneration Committee comprising Messrs Ang Mong Seng, Lee Bon Leong and Choong Chow Siong.

Under the Share Option Scheme, an option entitles the option holder to subscribe for one (1) new ordinary share in the Company at an exercise price per share determined with reference to the market price of the Company's share at the time of grant of the option. The Remuneration Committee may at its discretion, fix the exercise price of the option at a discount up to 20% of the market price of the Company's share.

Options granted with an exercise price set at the market price of the Company's share shall only be exercised after the first anniversary but before the tenth anniversary for executive directors and employees (fifth anniversary for non-executive directors) from the date of grant. Options granted with the exercise price set at a discount to the market price of the Company's share can only be exercised after the second anniversary but before the tenth anniversary for executive directors and employees (fifth anniversary for non-executive directors) from the date of grant. The options may be exercised in whole or in part on the payment of the relevant exercise price. Options granted will lapse when the option holder ceases to be a full-time employee or executive/non-executive director of the Company or any subsidiary of the Group subject to certain exceptions as determined by the Remuneration Committee.

As at 31 December 2014, the details of the share options held by the directors of the Company under the Share Option Scheme are as follows:

| Name of director | Aggregate options granted since commencement of the Scheme to 31.12.2014 | Aggregate options exercised since commencement of the Scheme to 31.12.2014 | Aggregate options cancelled/ lapsed since commencement of the Scheme to 31.12.2014 | Aggregate options outstanding as at 31.12.2014 |
|---|---|---|---|---|
| Ow Chin Seng | 4,090,000 | (1,200,000) | – | 2,890,000 |
| Low Kheng | 1,930,000 | (600,000) | – | 1,330,000 |
| Ng Kim Keang | 5,670,000 | (600,000) | – | 5,070,000 |
| Koh Beng Leong | 1,050,000 | – | – | 1,050,000 |
| Dr Yang Guo Ying | 1,600,000 | – | – | 1,600,000 |
| Ang Mong Seng | 1,680,000 | (360,000) | (1,140,000) | 180,000 |
| Lee Bon Leong | 1,680,000 | (360,000) | (1,140,000) | 180,000 |
| Dr Choong Chow Siong | 1,680,000 | (360,000) | (1,140,000) | 180,000 |
| Lin Wei, Daniel | 93,000 | – | – | 93,000 |

There were no (2013: 13,339,000) options granted during the financial year ended 31 December 2014. During the financial year, no (2013 : Nil) share of the Company has been issued by virtue of the exercise of an option to take up unissued shares.

### Options (cont'd)

Details of the options to subscribe for ordinary shares of the Company pursuant to the employee share option plans as at 31 December 2014.

| Date of grant | Balance at 1.1.2014 | Granted | Exercised | Cancelled/ Lapsed | Balance at 31.12.2014 | Exercise price per option | Exercise period |
|---|---|---|---|---|---|---|---|
| 30.6.2004 | 134,000 | – | – | (134,000) | – | 0.200 | 1.7.2006 to 30.6.2014 |
| 30.6.2006 | 1,764,000 | – | – | – | 1,764,000 | 0.092 | 1.7.2008 to 30.6.2016 |
| 30.4.2007 | 2,650,000 | – | – | – | 2,650,000 | 0.240 | 1.5.2009 to 30.4.2017 |
| 14.6.2007 | 1,560,000 | – | – | – | 1,560,000 | 0.280 | 15.6.2009 to 14.6.2017 |
| 23.5.2008 | 1,610,000 | – | – | – | 1,610,000 | 0.200 | 24.5.2010 to 23.5.2018 |
| 16.10.2013 | 12,706,000 | – | – | (471,000) | 12,235,000 | 0.083 | 17.10.2015 to 15.10.2023 |
| 16.10.2013 | 633,000 | – | – | – | 633,000 | 0.083 | 17.10.2015 to 15.10.2018 |
| | 21,057,000 | – | – | (605,000) | 20,452,000 | | |

Since the commencement date of Share Option Scheme till the end of the financial year:

- except as disclosed above, no options were granted to directors of the Company, controlling shareholders or their associates;
- no person has received 5% or more of the total number of options granted under the Share Option Scheme, except for Mr Ow Chin Seng and Mr Ng Kim Keang; and
- except as disclosed above, no options were granted at a discount to the market price of the shares at the time of the grant.

At the end of the financial year, there were no unissued shares of the Company or any corporation in the Group under option, except as described in the preceding paragraphs.

### Audit committee

The Audit Committee of the Company comprises three non-executive independent directors. The members of the Audit Committee at the end of the financial year and the date of this report are:

Dr Choong Chow Siong - Chairman
Ang Mong Seng
Lee Bon Leong

The Audit Committee ("AC") carried out its functions in accordance with Section 201B (5) of the Singapore Companies Act, Cap 50, including the following:

- Reviewed the audit plans of the internal and external auditors of the Group and the Company, and reviewed the internal auditor's evaluation of the adequacy of the Company's system of internal accounting controls and the assistance given by the Group and the Company's management to the external and internal auditors.
- Reviewed the half yearly and annual financial statements and the auditor's report on the annual financial statements of the Group and the Company before their submission to the board of directors.
- Reviewed effectiveness of the Group and the Company's material internal controls, including financial, operational and compliance controls, information technology controls and risk management via reviews carried out by the internal auditor.

### Audit committee (cont'd)

- Met with the external auditor, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC.

- Reviewed legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators.

- Reviewed the cost effectiveness and the independence and objectivity of the external auditor.

- Reviewed the nature and extent of non-audit services provided by the external auditor.

- Recommended to the board of directors the external auditor to be nominated, approved the compensation of the external auditor, and reviewed the scope and results of the audit.

- Reported actions and minutes of the AC to the board of directors with such recommendations as the AC considered appropriate.

- Reviewed interested person transactions in accordance with the requirements of the Singapore Exchange Securities Trading Limited's Listing Manual.

The Audit Committee has full access to and co-operation of the management and has been given the resources required for it to discharge its functions properly. 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.

### Auditor

Ernst & Young LLP have expressed their willingness to accept reappointment as auditor.

**On behalf of the board of directors:**

Koh Beng Leong
Director

Ng Kim Keang
Director

Singapore
30 March 2015

# STATEMENT BY DIRECTORS

We, Koh Beng Leong and Ng Kim Keang, being two of the directors of AnnAik Limited, do hereby state that, in the opinion of the directors,

(i) the accompanying balance sheets, consolidated income statement, consolidated statement of comprehensive income, statements of changes in equity, and consolidated cash flow statement together with the notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2014 and the results of the business, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date, and

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

**On behalf of the board of directors:**

Koh Beng Leong
Director

Ng Kim Keang
Director

Singapore
30 March 2015

# INDEPENDENT AUDITOR'S REPORT

To the Members of AnnAik Limited

## Report on the financial statements

We have audited the accompanying financial statements of AnnAik Limited (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 34 to 107, which comprise the balance sheets of the Group and the Company as at 31 December 2014, the statements of changes in equity of the Group and the Company and the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility 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 Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, 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; transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

## Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2014 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date.

## 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 subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore

30 March 2015

# CONSOLIDATED INCOME STATEMENT

For the financial year ended 31 December 2014

| | Note | Group 2014 $'000 | Group 2013 $'000 |
|---|---|---|---|
| **Revenue** | 4 | 49,042 | 52,410 |
| Cost of sales | | (37,480) | (40,649) |
| **Gross profit** | | 11,562 | 11,761 |
| Other income | 5 | 1,896 | 1,475 |
| Distribution expenses | | (1,889) | (1,708) |
| Administrative expenses | | (9,109) | (8,335) |
| Other operating expenses | | (423) | (1,636) |
| Share of result of an associate | | 156 | (66) |
| Finance costs | 6 | (685) | (560) |
| **Profit before tax** | 7 | 1,508 | 931 |
| Taxation | 8 | (715) | (441) |
| **Profit for the year** | | 793 | 490 |
| **Attributable to:** | | | |
| Owners of the Company | | 724 | (273) |
| Non-controlling interests | | 69 | 763 |
| | | 793 | 490 |
| **Earnings/(loss) per share (cents):** | | | |
| Basic and diluted | 9 | 0.29 | (0.11) |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2014

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Profit for the year | 793 | 490 |
| **Other comprehensive income:** | | |
| Items that may be reclassified subsequently to profit or loss | | |
| - Exchange differences on translation of foreign operations | 1,203 | 153 |
| **Other comprehensive income for the year, net of tax** | 1,203 | 153 |
| **Total comprehensive income for the year** | 1,996 | 643 |
| **Total comprehensive income attributable to:** | | |
| Owners of the Company | 1,623 | 137 |
| Non-controlling interests | 373 | 506 |
| | 1,996 | 643 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# BALANCE SHEETS

As at 31 December 2014

| | Note | Group 2014 $'000 | Group 2013 $'000 | Company 2014 $'000 | Company 2013 $'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 10 | 30,702 | 20,754 | – | – |
| Prepaid land rental | 11 | 331 | 314 | – | – |
| Goodwill | 12 | 497 | 497 | – | – |
| Intangible assets | 13 | 11,698 | 10,038 | – | – |
| Investment in subsidiaries | 14 | – | – | 25,319 | 17,956 |
| Investment in an associate | 15 | 2,771 | 2,427 | – | – |
| Available-for-sale financial assets | 16 | 5,667 | 10,553 | 5,667 | 10,553 |
| Club membership | 17 | 190 | 190 | 190 | 190 |
| Refundable deposits | 18 | 924 | 668 | – | – |
| Amounts due from subsidiaries | 22 | – | – | 7,848 | 6,181 |
| Amounts due from related parties | 20 | 5,468 | – | 5,468 | – |
| Deferred tax assets | 32 | 23 | 80 | – | – |
| | | 58,271 | 45,521 | 44,492 | 34,880 |
| **Current assets** | | | | | |
| Inventories | 19 | 32,519 | 20,849 | – | – |
| Trade and other receivables | 20 | 18,484 | 21,364 | 1,545 | 10,336 |
| Prepayments | | 452 | 557 | 8 | 6 |
| Amount due from contract customer | 21 | – | 1,582 | – | – |
| Amounts due from subsidiaries and an associate | 22 | 567 | 404 | 6,115 | 8,926 |
| Cash and bank balances | 23 | 7,288 | 10,913 | 1,526 | 4,817 |
| | | 59,310 | 55,669 | 9,194 | 24,085 |
| Assets classified as held for sale | 24 | 4,486 | – | 4,486 | – |
| | | 63,796 | 55,669 | 13,680 | 24,085 |
| **Current liabilities** | | | | | |
| Trade payables | 25 | 2,392 | 1,158 | – | – |
| Other payables and accruals | 26 | 3,887 | 4,447 | 588 | 674 |
| Finance leases | 27 | 305 | 272 | – | – |
| Bank overdrafts | 28 | 318 | 276 | – | – |
| Bills payables | 29 | 19,237 | 8,884 | – | – |
| Bank loans | 30 | 6,271 | 4,667 | – | – |
| Provision for income tax | | 433 | 149 | – | – |
| | | 32,843 | 19,853 | 588 | 674 |
| **Net current assets** | | 30,953 | 35,816 | 13,092 | 23,411 |
| **Non-current liabilities** | | | | | |
| Finance leases | 27 | 251 | 397 | – | – |
| Bank loans | 30 | 16,836 | 11,555 | – | – |
| Government grants | 31 | 2,155 | 2,072 | – | – |
| Deferred tax liabilities | 32 | 277 | 252 | – | – |
| **Net assets** | | 69,705 | 67,061 | 57,584 | 58,291 |

# BALANCE SHEETS

As at 31 December 2014

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2014 | 2013 | 2014 | 2013 |
| | Note | $'000 | $'000 | $'000 | $'000 |
| **Equity attributable to equity holders of the Company** | | | | | |
| Share capital | 33 | 36,131 | 36,131 | 36,131 | 36,131 |
| Reserves | 34 | 28,405 | 26,748 | 21,453 | 22,160 |
| **Equity attributable to owners of the Company** | | 64,536 | 62,879 | 57,584 | 58,291 |
| Non-controlling interests | | 5,169 | 4,182 | – | – |
| | | 69,705 | 67,061 | 57,584 | 58,291 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2014

| | Share capital $'000 | Currency translation reserve $'000 | Reserve fund $'000 | Share options reserve $'000 | Retained earnings $'000 | Attributable to owners of the Company $'000 | Non-controlling interests $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| **2014** | | | | | | | | |
| Balance at 1 January 2014 | 36,131 | (291) | 44 | 900 | 26,095 | 62,879 | 4,182 | 67,061 |
| Total comprehensive income for the year | – | 899 | – | – | 724 | 1,623 | 373 | 1,996 |
| Expiry of share options | – | – | – | (44) | 44 | – | – | – |
| Grant of equity-settled share options to employees (Note 36) | – | – | – | 360 | – | 360 | – | 360 |
| Dividends paid (Note 37) | – | – | – | – | (249) | (249) | – | (249) |
| Capital contributions from non-controlling interests | – | – | – | – | – | – | 537 | 537 |
| Acquisition of non-controlling interest in a subsidiary without a change in control | – | – | – | – | (77) | (77) | 77 | – |
| **Balance at 31 December 2014** | 36,131 | 608 | 44 | 1,216 | 26,537 | 64,536 | 5,169 | 69,705 |
| **2013** | | | | | | | | |
| Balance at 1 January 2013 | 36,131 | (701) | 32 | 915 | 27,063 | 63,440 | 10,951 | 74,391 |
| Total comprehensive income for the year | – | 410 | – | – | (273) | 137 | 506 | 643 |
| Expiry of share options | – | – | – | (64) | 64 | – | – | – |
| Grant of equity-settled share options to employees (Note 36) | – | – | – | 49 | – | 49 | – | 49 |
| Dividends paid (Note 37) | – | – | – | – | (747) | (747) | – | (747) |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | (28) | (28) |
| Disposal of a subsidiary (Note 14) | – | – | – | – | – | – | (7,899) | (7,899) |
| Appropriation to reserve fund (Note 35) | – | – | 12 | – | (12) | – | – | – |
| Capital contributions from non-controlling interests | – | – | – | – | – | – | 809 | 809 |
| Acquisition of non-controlling interest in a subsidiary without a change in control | – | – | – | – | – | – | (157) | (157) |
| **Balance at 31 December 2013** | 36,131 | (291) | 44 | 900 | 26,095 | 62,879 | 4,182 | 67,061 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2014

| | Share capital $'000 | Share option reserve $'000 | Retained earnings $'000 | Total equity $'000 |
|---|---|---|---|---|
| **Company** | | | | |
| **2014** | | | | |
| At 1 January 2014 | 36,131 | 900 | 21,260 | 58,291 |
| Total comprehensive loss for the year | – | – | (818) | (818) |
| Expiry of share options | – | (44) | 44 | – |
| Grant of equity-settled share options to employees (Note 36) | – | 360 | – | 360 |
| Dividends paid (Note 37) | – | – | (249) | (249) |
| **At 31 December 2014** | 36,131 | 1,216 | 20,237 | 57,584 |
| **2013** | | | | |
| At 1 January 2013 | 36,131 | 915 | 27,004 | 64,050 |
| Total comprehensive loss for the year | – | – | (5,061) | (5,061) |
| Expiry of share options | – | (64) | 64 | – |
| Grant of equity-settled share options to employees (Note 36) | – | 49 | – | 49 |
| Dividends paid (Note 37) | – | – | (747) | (747) |
| **At 31 December 2013** | 36,131 | 900 | 21,260 | 58,291 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 31 December 2014

| | Note | Group 2014 $'000 | Group 2013 $'000 |
|---|---|---|---|
| **Cash flows from operating activities :** | | | |
| Profit before income tax | | 1,508 | 931 |
| Adjustments for: | | | |
| Allowance for doubtful debts (net) | 20 | (13) | 54 |
| (Reversal of allowance)/allowance for claim on contract work | 21 | (398) | 727 |
| Amortisation of intangible assets | 13 | 474 | 410 |
| Amortisation of prepaid land rental | 11 | 7 | 16 |
| Amortisation of government grant | 5 | (74) | (64) |
| Bad debts written off | | – | 45 |
| Depreciation of property, plant and equipment | 10 | 1,065 | 1,339 |
| Finance costs | 6 | 685 | 560 |
| Gain on dilution of equity interest in subsidiaries and associates | 5 | – | (788) |
| Loss/(gain) on disposal of property, plant and equipment | | 7 | (40) |
| Gain on liquidation of an associate | 5 | – | (3) |
| Impairment of available-for-sale financial assets | 24 | 400 | 553 |
| Loss on deregistration of a subsidiary | | – | 31 |
| Loss on disposal of intangible assets | | 1 | 20 |
| Interest income | 5 | (105) | (33) |
| Property, plant and equipment written off | | – | 5 |
| Allowance/(reversal of allowance) for slow moving inventories | | 130 | (1,138) |
| Share-based payment expenses | 36 | 360 | 49 |
| Share of result of associate | | (156) | 66 |
| Unrealised foreign exchange loss/(gain) | | 43 | (658) |
| **Operating profit before working capital changes** | | 3,934 | 2,082 |
| (Increase)/decrease in: | | | |
| Trade receivables | | (4,566) | 928 |
| Other receivables | | 9,421 | (9,885) |
| Inventories | | (11,800) | 2,176 |
| Increase/(decrease) in: | | | |
| Trade payables | | 1,234 | (2,033) |
| Other payables | | (547) | 5,946 |
| **Cash used in operations** | | (2,324) | (786) |
| Interest paid | | (685) | (512) |
| Interest income received | | 92 | 33 |
| Income taxes paid | | (338) | (516) |
| **Net cash flows used in operating activities** | | (3,255) | (1,781) |

# CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 31 December 2014

| | Note | Group 2014 $'000 | Group 2013 $'000 |
|---|---|---|---|
| **Cash flows from investing activities :** | | | |
| Proceeds on disposal of property, plant and equipment | | 1 | 49 |
| Proceeds from disposal of intangible assets | | – | 2 |
| (Increase)/decrease in amount due from associates | | (163) | 19 |
| Increase in amounts due from related parties | 20 | (5,468) | – |
| Purchase of property, plant and equipment | 10 | (10,229) | (13,669) |
| Acquisition of additional interest in a subsidiary | | – | (113) |
| Additions to intangible assets | 13 | (1,316) | (1,075) |
| Disposal of equity interest in subsidiaries and associate | | – | 6,646 |
| Contributions from non-controlling interests | A | 417 | 809 |
| **Net cash flows used in investing activities** | | (16,758) | (7,332) |
| **Cash flows from financing activities :** | | | |
| Proceeds from bills payables, net | | 10,353 | 4,848 |
| Proceeds from government grants | | – | 200 |
| Proceeds from bank loans | | 11,628 | 11,152 |
| Repayment of bank loans | | (5,134) | (11,372) |
| Repayment of obligations under finance leases | | (327) | (234) |
| Dividends paid | | (249) | (747) |
| Dividends paid to non-controlling interests | | – | (28) |
| **Net cash flows generated from financing activities** | | 16,271 | 3,819 |
| Net decrease in cash and cash equivalents | | (3,742) | (5,294) |
| Cash and cash equivalents at beginning of year | | 10,637 | 15,735 |
| Effect of exchange rate changes on the balance of cash held in foreign currencies | | 75 | 196 |
| **Cash and cash equivalents at end of year (Note 23)** | | 6,970 | 10,637 |

**Note A: Contributions from non-controlling interests**

During the financial year, out of the contributions from non-controlling interests of $537,000 (2013: $809,000), the non-controlling shareholders have paid an amount of $417,000 (2013: $809,000). The remaining balance of $120,000 (2013: $Nil) was still outstanding as at 31 December 2014.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

## 1. Corporate information

AnnAik Limited (the "Company") is a limited liability company incorporated and domiciled in Singapore and is listed on the mainboard of the Singapore Exchange ("SGX-ST").

The registered office and principal place of business of the Company is located at 52, Tuas Avenue 9, Singapore 639193.

The principal activity of the Company is that of investment holding.

The principal activities of the subsidiaries and associate are disclosed in Notes 14 and 15 to the financial statements respectively.

Related parties refer to companies where a shareholder of the Company is a member of the key management personnel of those entities.

## 2. Summary of significant accounting policies

### 2.1 Basis of preparation

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards ("FRS").

The financial statements have been prepared on a historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Singapore Dollars ("SGD or $") and all values in the tables are rounded to the nearest thousand ("$'000") except when otherwise indicated.

### 2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards which are effective for annual financial periods beginning on or after 1 January 2014. The adoption of these standards did not have any effect on the financial performance or position of the Group and the Company.

### 2.3 Standards issued but not yet effective

The Group has not adopted the following standards that have been issued but not yet effective and relevant to the Group:

| *Description* | *Effective for annual periods beginning on or after* |
|---|---|
| Improvements to FRSs (January 2014) | |
| (a) Amendments to FRS 102 *Share Based Payment* | 1 July 2014 |
| (b) Amendments to FRS 103 *Business Combinations* | 1 July 2014 |
| (c) Amendments to FRS 108 *Operating Segments* | 1 July 2014 |
| (d) Amendments to FRS 113 *Fair Value Measurements* | 1 July 2014 |
| (e) Amendments to FRS 16 *Property, Plant and Equipment* and FRS 38 *Intangible Assets* | 1 July 2014 |
| (f) Amendments to FRS 24 *Related Party Disclosures* | 1 July 2014 |

## 2. Summary of significant accounting policies (cont'd)

### 2.3 Standards issued but not yet effective (cont'd)

| *Description* | *Effective for annual periods beginning on or after* |
|---|---|
| Improvements to FRSs (February 2014) | |
| (a) Amendments to FRS 103 *Business Combinations* | 1 July 2014 |
| (b) Amendments to FRS 113 *Fair Value Measurement* | 1 July 2014 |
| Amendments to FRS 27 *Equity Method in Separate Financial Statements* | 1 January 2016 |
| Amendments to FRS 16 *Property, Plant and Equipment* and FRS 38 *Intangible Assets* | 1 January 2016 |
| FRS 115 *Revenue from Contracts with Customers* | 1 January 2017 |
| FRS 109 *Financial Instruments* | 1 January 2018 |

Except for Amendments to FRS 27, FRS 109 and FRS 115, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of Amendments to FRS 27, FRS 109, and FRS 115 is described below.

<u>Amendments to FRS 27 *Equity Method in Separate Financial Statements*</u>

Amendments to FRS 27 are effective for financial periods beginning on or after 1 January 2016. These amendments allow the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. Upon adoption of Amendments to FRS 27, the dividend is recognised in profit or loss unless the entity elects to use the equity method, in which case the dividend is recognised as a reduction from the carrying amount of the investment.

<u>FRS 109 *Financial Instruments*</u>

FRS 109 is effective for financial periods beginning on or after 1 January 2018. FRS 109 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in FRS 39. The approach in FRS 109 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets, and enables companies to reflect their risk management activities better in their financial statements, and, in turn, help investors to understand the effect of those activities on future cash flows. FRS 109 is principle-based, and will more closely align hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. The impairment requirements in FRS 109 are based on an expected credit loss model and replace the FRS 39 incurred loss model.

<u>FRS 115 *Revenue from Contracts with Customers*</u>

FRS 115 is effective for financial periods beginning on or after 1 January 2017. FRS 115 establishes a five-step model that apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles).

Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group is currently evaluating the impact of the changes and assessing whether the adoption of Amendments to FRS 27, FRS 109 and FRS 115 will have an impact on the Group.

## 2. Summary of significant accounting policies (cont'd)

### 2.4 Basis of consolidation and business combinations

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

– De-recognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
– De-recognises the carrying amount of any non-controlling interest;
– De-recognises the cumulative translation differences recorded in equity;
– Recognises the fair value of the consideration received;
– Recognises the fair value of any investment retained;
– Recognises any surplus or deficit in profit or loss;
– Re-classifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

(b) Business combinations and goodwill

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any), that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation, is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another FRS.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

## 2. Summary of significant accounting policies (cont'd)

### 2.4 Basis of consolidation and business combinations (cont'd)

(b) Business combinations and goodwill (cont'd)

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating units to which goodwill have been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

### 2.5 Transactions with non-controlling interests

Non-controlling interest ("NCI") represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from equity attributable to owners of the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

### 2.6 Foreign currency

The financial statements are presented in Singapore Dollars, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(a) Transactions and balances

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

## 2. Summary of significant accounting policies (cont'd)

### 2.6 Foreign currency (cont'd)

(b) Consolidated financial statements

For consolidation purpose, the assets and liabilities of foreign operations are translated into SGD at the rate of exchange ruling at the end of the reporting period and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For partial disposals of associates or jointly controlled entities that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

### 2.7 Subsidiaries

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

### 2.8 Associates

An associate is an entity over which the Group has the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control of those policies.

The Group accounts for its investment in an associate using the equity method from the date on which it becomes an associate.

On acquisition of the investment, any excess of the cost of the investment over the Group's share of the net fair value of the investee's identifiable assets and liabilities is accounted as goodwill and is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the entity's share of the associate's profit or loss in the period in which the investment is acquired.

Under the equity method, the investment in associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The profit or loss reflects the share of results of the operations of the associate. Distributions received from the associate reduce the carrying amount of the investment. Where there has been a change recognised in other comprehensive income by the associate, the Group recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and associate are eliminated to the extent of the interest in the associate.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in associate. The Group determines at the end of each reporting period whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss.

The financial statements of the associate are prepared as the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

## 2. Summary of significant accounting policies (cont'd)

### 2.9 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Freehold land has an unlimited useful life and therefore is not depreciated.

Depreciation is computed on a straight-line basis over the estimated useful life of the asset as follows:

| | | |
|---|---|---|
| Freehold building | - | 45 years |
| Leasehold building | - | lease terms of 30 years |
| Plant and equipment | - | 5 to 10 years |
| Motor vehicles | - | 5 to 8 years |
| Furniture, renovation, fixtures and equipment | - | 5 to 10 years |

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual values, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

### 2.10 Intangible assets

(a) Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

(b) Other intangible assets

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial acquisition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

## 2. Summary of significant accounting policies (cont'd)

### 2.10 Intangible assets (cont'd)

(b) Other intangible assets (cont'd)

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite useful lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Service concession arrangements

Intangible asset representing consideration received for construction services provided under service concession arrangements are recognised to the extent that the Group has a right to charge fees for the usage of the wastewater treatment plants and are amortised on a straight-line basis over the concession period from commencement of the operation of the plants.

Technical know-how

Technical know-how is amortised on a straight-line basis over 10 years commencing from the date of completion of the wastewater treatment plant.

Club membership

The useful life of club membership is indefinite as it is lifetime membership and has no dates of expiry.

### 2.11 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in profit or loss.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

## 2. Summary of significant accounting policies (cont'd)

### 2.12 Financial instruments

(a) Financial assets

**Initial recognition and measurement**

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

**Subsequent measurement**

The subsequent measurement of financial assets depends on their classification as follows:

(i) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

(ii) Available-for-sale financial assets

Available-for-sale financial assets include equity securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is de-recognised.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

**De-recognition**

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

## 2. Summary of significant accounting policies (cont'd)

### 2.12 Financial instruments (cont'd)

(b) Financial liabilities

**Initial recognition and measurement**

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

**Subsequent measurement**

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

**De-recognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the balance sheets, when and only when, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### 2.13 Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

(a) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

## 2. Summary of significant accounting policies (cont'd)

### 2.13 Impairment of financial assets (cont'd)

(a) Financial assets carried at amortised cost (cont'd)

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

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 to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

(b) Financial assets carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(c) Available-for-sale financial assets

In the case of equity investments classified as available-for-sale, objective evidence of impairment include (i) significant financial difficulty of the issuer or obligor; (ii) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered; and (iii) a significant or prolonged decline in the fair value of the investment below its costs. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income and recognised in profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in profit or loss; increase in their fair value after impairment are recognised directly in other comprehensive income.

## 2. Summary of significant accounting policies (cont'd)

### 2.14 Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. A component of the Group is classified as a 'discontinued operation' when the criteria to be classified as held for sale have been met or it has been disposed of and such a component represents a separate major line of business or geographical area of operations or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations.

In profit or loss of the current reporting period, and of the comparative period of the previous year, all income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in profit or loss.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

### 2.15 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

### 2.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

- Raw materials (for manufacturing products): purchase costs on a weighted average basis.

- Finished goods and work-in-progress (for manufacturing products): costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average basis.

- Finished goods (for distribution products and engineering): purchase costs on a first-in first-out basis.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

### 2.17 Segment reporting

For management purposes, the Group is organised into business segment. A business segment is a distinguishable component of the Group that is engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The operating business segments are managed separately by the general managers in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 41, including the factors to identify the reportable segments and the measurement basis of segment information.

## 2. Summary of significant accounting policies (cont'd)

### 2.18 Prepaid land rental

Prepaid land rental represents payments in advance for the rights to use lands for an agreed period. The amounts prepaid are amortised on a straight-line basis over the lease term ranging from 25 to 50 years.

### 2.19 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 an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### 2.20 Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the balance sheet and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Where loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grant.

### 2.21 Financial guarantee

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees are recognised initially as a liability at fair value, adjusted for transactions costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, financial guarantees are recognised as income in profit or loss over the period of the guarantee. If it is probable that the liability will be higher than the amount initially recognised less amortisation, the liability is recorded at the higher amount with the difference charged to profit or loss.

### 2.22 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

## 2. Summary of significant accounting policies (cont'd)

### 2.23 Employee benefits

(a) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Singapore company in the Group makes contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. In addition, the subsidiary companies in the People's Republic of China ("PRC") pay fixed contributions into the retirement insurance and medical insurance schemes organised by the social security bureau and has no further payment obligations once the contributions have been paid. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

(b) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. The estimated liability for leave is recognised for services rendered by employees up to the end of the reporting period.

(c) Employee share option plans

Employees of the Group receive remuneration in the form of share options as consideration for services rendered. The cost of these equity-settled transactions with employees is measured by reference to the fair value of the options at the date on which the options are granted. This cost is recognised in profit or loss, with a corresponding increase in the share option reserve, over the vesting period. The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of options that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefit expense.

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market condition or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied. The share option reserve is transferred to retained earnings upon expiry of the share options. When the options are exercised, the share option reserve is transferred to share capital if new shares are issued, or to treasury shares if the options are satisfied by the reissuance of treasury shares.

### 2.24 Leases

**As lessee**

Finance leases which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

## 2. Summary of significant accounting policies (cont'd)

### 2.25 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable. The Group assesses its revenue arrangements to determine if it is acting as principal or agent.

(a) Sale of goods

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.

(b) Engineering construction project

Revenue derived from the engineering construction project is recognised by reference to the stage of completion of the project works at the end of the reporting period as determined by the surveys of the works performed.

(c) Service income from environmental business

Service income of the Group's environmental business is recognised when the services have been rendered.

(d) Interest income

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

(e) Dividend income

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

### 2.26 Taxes

(a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

## 2. Summary of significant accounting policies (cont'd)

### 2.26 Taxes (cont'd)

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries and associate, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

(c) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of sales tax included.

## 2. Summary of significant accounting policies (cont'd)

### 2.27 Share capital and share issuance expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

### 2.28 Contingencies

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but is not recognised because:

(i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the balance sheet of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

### 2.29 Related parties

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and Company if that person:

(i) has control or joint control over the Company;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Group or Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies :

(i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

## 3. Significant accounting judgements and estimates

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

### 3.1 Judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the consolidated financial statements:

(a) Business registration of People's Republic of China ("PRC") entities

The Group's operations in the PRC are governed by the legal system of the PRC. The PRC legal system is a codified system with written laws, regulations, rules and other regulatory documents. In prior years, by virtue of ownership agreements entered with certain PRC individuals, which resulted in changes to the Group's entity interest in its two subsidiaries and an associate of the Group based in PRC, the business registration files of these subsidiaries and associate have not been amended accordingly to reflect the current shareholding structure. In 2011, management effected and completed the amendment of the business registration file for one of the subsidiaries. On 11 February 2014, management obtained legal advice that the current business registrations of the other subsidiary and the associate does not expose the Group to any non-compliance with the PRC legal system. The non-controlling interests of subsidiaries and investment in associate attributable to the PRC individuals are $344,000 (2013: $284,000) and $1,847,000 (2013: $1,613,000) respectively.

(b) Allowance for inventories

The Group carried out inventory review on a product-by-product basis to determine the allowance for slow-moving inventories and whether inventories are stated at the lower of cost and net realisable value. For the purpose of determining whether inventories are stated at the lower of cost and net realisable value, management's estimates of the net realisable value of the inventories at the end of the reporting period are based primarily on the latest selling prices and the market conditions.

(c) Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax provisions already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the relevant tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

## 3. Significant accounting judgements and estimates (cont'd)

### 3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of 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 discussed below.

(a) Impairment of goodwill

Goodwill acquired in a business combination is allocated, at acquisition to the cash-generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated to Angwei Environmental Ecological & Engineering (Shanghai) Co., Ltd as described in Note 12 to the financial statements.

To determine whether there is an impairment of goodwill at the end of the reporting period, it is necessary to compare the carrying value of goodwill with the recoverable amount from the cash generating unit to which the goodwill is allocated. The recoverable amount represents the present value of the estimated future cash flows expected to arise from the cash-generating unit. In arriving at the recoverable amount, management exercises its judgement in estimating the future cash flows and discount rates, as described in Note 12. Management is of the view that there is no impairment loss for goodwill for the year ended 31 December 2014.

(b) Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's loans and receivables at the end of the reporting period is disclosed in Note 44 to the financial statements. If the present value of estimated future cash flows of receivables that are past due but not impaired and those that are impaired, varies by 10% from management's estimates, the Group's allowance for impairment will increase by $1,341,000 (2013: $883,000).

## 4. Revenue

| | Group | |
|---|---|---|
| | **2014** | **2013** |
| | $'000 | $'000 |
| Sale of goods | 41,224 | 44,525 |
| Engineering construction | 3,004 | 186 |
| Environmental service income [1] | 4,814 | 7,699 |
| | 49,042 | 52,410 |

[1] Amount includes revenue amounting to $1,316,000 (2013: $1,075,000) relating to services for the construction of an asset being operated under service concession rights arrangement as described in Note 13.

## 5. Other income

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Interest income from third parties | 105 | 33 |
| Gain on disposal of property, plant and equipment | – | 40 |
| Gain on liquidation of an associate | – | 3 |
| Gain on dilution of equity interest in a subsidiary and an associate | – | 788 |
| Government subsidy | 546 | 398 |
| Government grant | 74 | 64 |
| Reversal of allowance for claim on contract work (Note 21) | 398 | – |
| Reimbursement of arbitration costs (Note 21) | 454 | – |
| Net foreign exchange gain | 182 | – |
| Others | 137 | 149 |
| | 1,896 | 1,475 |

## 6. Finance costs

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Interest expense on: | | |
| Bank overdrafts and loans | 660 | 540 |
| Finance leases | 25 | 20 |
| | 685 | 560 |

## 7. Profit before tax

Profit before tax is stated after charging/(crediting):-

| | | Group | |
|---|---|---|---|
| | | 2014 | 2013 |
| | Note | $'000 | $'000 |
| Amortisation of prepaid land rental | 11 | 7 | 16 |
| Amortisation of intangible assets | 13 | 474 | 410 |
| Amortisation of government grant | | (74) | (64) |
| Allowance for doubtful debts (net) | 20 | (13) | 54 |
| Bad debts written off | | – | 45 |
| Depreciation of property, plant and equipment | 10 | 1,065 | 1,339 |
| Directors' fees paid to the directors of the Company | | 186 | 186 |
| Employee benefits expense | A | 6,156 | 5,555 |
| Impairment of available-for-sale financial assets | 24 | 400 | 553 |
| Legal and professional fee | | 222 | 331 |
| Loss on deregistration of a subsidiary | | – | 31 |
| Loss/(gain) on disposal of plant and equipment | | 7 | (40) |
| Net foreign exchange loss | | – | 274 |
| Plant and equipment written off | | – | 5 |
| Rental expenses | | 721 | 580 |
| Repair and maintenance | | 244 | 380 |
| (Reversal of allowance)/allowance for claim on contract work | | (398) | 727 |
| Reversal of allowance for slow moving inventories | | (20) | (1,138) |
| Write down of inventories | | 150 | – |
| Audit fees | | | |
| - paid to auditors of the Company | | 141 | 120 |
| - paid to other auditors | | 74 | 104 |
| Non-audit fees | | | |
| - paid to auditors of the Company | | 14 | 13 |
| - paid to other auditors | | 8 | 6 |

Note A Employee benefits expense

| | | |
|---|---|---|
| Employee benefit expense (including directors): | | |
| Salaries, bonuses and other benefits | 5,398 | 5,028 |
| Defined contribution plans | 581 | 503 |
| Share-based payments | 177 | 24 |
| | 6,156 | 5,555 |

## 8. Taxation

Major component of income tax expense

The major components of income tax expense for the years ended 31 December 2014 and 2013 are:

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| **Consolidated income statement** | | |
| *Current taxation:* | | |
| Provision for the year | 390 | 430 |
| Under-provision in respect of prior years | 263 | 194 |
| | 653 | 624 |
| *Deferred taxation:* | | |
| Origination and reversal of temporary differences | 350 | (183) |
| Over-provision in respect of prior years | (288) | – |
| Income tax expense recognised in the profit or loss | 715 | 441 |

Reconciliation between tax expense and accounting profit

A reconciliation between the tax expenses and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2014 and 2013 is as follows:

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Profit before income tax | 1,508 | 931 |
| Income tax calculated at 17% | 256 | 158 |
| Tax adjustments: | | |
| Effect of different tax rates of subsidiaries operating in other tax jurisdictions | 45 | 109 |
| Non-deductible expenses | 422 | 358 |
| Income not subject to taxation | (341) | (591) |
| Effect of partial tax exemption | (46) | (26) |
| Tax effect of share of results of an associate | (27) | 11 |
| Effect of unused tax losses not recognised as deferred tax assets | 387 | 243 |
| (Over)/under-provision in respect of prior years | (25) | 194 |
| Others | 44 | (15) |
| Income tax expense recognised in the profit or loss | 715 | 441 |

The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

## 8. Taxation (cont'd)

(a) Entities incorporated in PRC

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and the Implementation Regulation of the EIT Law, the income tax rate applicable to all enterprises incorporated in PRC is 25% with effect from 1 January 2008 onwards.

With the introduction of the EIT Law, the "five-year tax holiday" incentive, comprising exemptions from income tax in the first two profit-making years and 50% relief from income tax liability in the next three years (the "Tax Exemption"), will not be offered to all new production-oriented Foreign Investment Enterprises ("FIEs"). However, for FIEs which were granted the five-year tax holiday incentive and established before the introduction of the EIT Law, they will continue to receive the benefits of the tax holiday during the five-year transition period. For those FIEs which have yet to commence and claim their benefits under the tax holiday incentive, they have to start claiming their entitlements for the tax incentives from the effective date of the EIT Law (i.e. 1 January 2008).

The applicable income tax rate for the PRC entities is 25%.

(b) Entities incorporated in Singapore and Malaysia

The applicable income tax rate for Singapore and Malaysia incorporated companies is 17% and 25% respectively.

(c) Group relief

Under the present income tax legislations in Singapore in respect of group relief claim, tax losses suffered by a Singapore-incorporated subsidiary in the year can be transferred to another Singapore-incorporated company within the same group for offset against the profit of the second company in the same year, subject to the agreement of the tax authorities in Singapore.

During the financial year ended 31 December 2014, tax losses suffered by a Singapore incorporated subsidiary which amounted to $1,212,000 (2013: $532,000) were transferred without consideration to another subsidiary within the Group under the group relief scheme.

## 9. Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings/(loss) per share is calculated by dividing profit/(loss) attributable to owners of the Company divided by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following table reflect the profit/(loss) and share data used in the computation of basic and diluted earnings/(loss) per share for the years ended 31 December:

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| **Earnings/(loss)** | | |
| Earnings/(loss) for the purpose of basic and diluted earnings per share | 724 | (273) |
| **Number of shares ('000)** | | |
| Weighted average number of ordinary shares for basic earnings/(loss) per share computation | 248,973 | 248,973 |
| Effects of dilution: | | |
| - Share options | 2,204 | 812 |
| Weighted average number of ordinary shares for diluted earnings/(loss) per share computation | 251,177 | 249,785 |
| **Earnings/(loss) per share (cents)** | | |
| Basic earnings per share | 0.29 | (0.11) |
| Diluted earnings per share | 0.29 | (0.11) |

5,820,000 (2013: 6,209,000) share options granted to employees under the existing employee share option plans have not been included in the calculation of diluted earnings per share because they are anti-dilutive.

Since the end of the financial year, there were no share options (2013: Nil) being exercised by the eligible employees to acquire the Company's shares.

## 10. Property, plant and equipment

| | Freehold land $'000 | Freehold and leasehold buildings $'000 | Plant and equipment $'000 | Motor vehicles $'000 | Furniture, renovation, fixtures and equipment $'000 | Construction-in-progress $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| **Cost** | | | | | | | |
| At 1 January 2013 | – | 11,679 | 13,330 | 1,462 | 562 | 2 | 27,035 |
| Additions | 3,228 | 8,407 | 1,687 | 645 | 321 | 27 | 14,315 |
| Disposals | – | – | (13) | (173) | – | – | (186) |
| Write off | – | – | (6) | – | (1) | – | (7) |
| Reclassification | – | – | (384) | – | 384 | – | – |
| Deemed disposal of subsidiaries (Note 14) | – | (5,270) | (12,461) | (103) | (406) | (2) | (18,242) |
| At 31 December 2013 and 1 January 2014 | 3,228 | 14,816 | 2,153 | 1,831 | 860 | 27 | 22,915 |
| Additions | 713 | 608 | 2,821 | 136 | 309 | 5,858 | 10,445 |
| Disposals | – | – | (238) | (103) | (197) | – | (538) |
| Reclassification | 615 | 4,736 | – | – | (5) | (5,346) | – |
| Exchange differences | 193 | 207 | 144 | 25 | 17 | 10 | 596 |
| At 31 December 2014 | 4,749 | 20,367 | 4,880 | 1,889 | 984 | 549 | 33,418 |
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2013 | – | 1,060 | 5,875 | 927 | 408 | – | 8,270 |
| Depreciation | – | 331 | 706 | 237 | 65 | – | 1,339 |
| Disposals | – | – | (7) | (170) | – | – | (177) |
| Write off | – | – | (1) | – | (1) | – | (2) |
| Reclassification | – | – | (384) | – | 384 | – | – |
| Deemed disposal of subsidiaries (Note 14) | – | (1,180) | (5,694) | (28) | (367) | – | (7,269) |
| At 31 December 2013 and 1 January 2014 | – | 211 | 495 | 966 | 489 | – | 2,161 |
| Depreciation | – | 476 | 241 | 266 | 82 | – | 1,065 |
| Disposals | – | – | (230) | (103) | (197) | – | (530) |
| Exchange differences | – | 1 | 2 | 13 | 4 | – | 20 |
| At 31 December 2014 | – | 688 | 508 | 1,142 | 378 | – | 2,716 |
| **Net carrying value** | | | | | | | |
| At 31 December 2013 | 3,228 | 14,605 | 1,658 | 865 | 371 | 27 | 20,754 |
| At 31 December 2014 | 4,749 | 19,679 | 4,372 | 747 | 606 | 549 | 30,702 |

## 10. Property, plant and equipment (cont'd)

Assets held under finance leases

During the financial year, the Group acquired plant and equipment with an aggregate cost of $216,000 (2013: $646,000) by means of finance leases.

At 31 December 2014, the Group had plant and equipment and motor vehicles amounting to $512,000 (2013: $290,000) and $461,000 (2013: $676,000) respectively which were held under finance leases.

Leased assets are pledged as security for the related finance lease liabilities.

The cash outflow on the acquisition of property, plant and equipment during the year, excluding finance lease financing, amounted to $10,229,000 (2013: $13,669,000).

Assets pledged as security

In addition to assets held under finance lease, the Group's freehold land and building and leasehold building with a carrying amount of $24,428,000 (2013: $17,833,000) are mortgaged to secure the Group's bank loan (Note 30).

The Group's plant and equipment with a carrying amount of $2,252,000 (2013: $Nil) are mortgaged to secure the Group's bank loan (Note 30).

Particulars of properties held by the Group as at 31 December 2014 are as follows:

| Location | Description | Tenure (years) | Effect from |
|---|---|---|---|
| 52 Tuas Avenue 9, Singapore 639193 | One 2-storey office building with a single storey warehouse attached and one 2-storey warehouse with mezzanine floor built on land area of 11,633 square metres | Leasehold of 30 years | September 2012 |
| Lot No. 458, No. 459 and No. 460, Mukim 12, Tempat Kampung Gurun, Daerah Sekerang Petai Selatan, Penang | One 1-storey factory building with 2-storey training room, locker room, hostel, canteen, water pump room and 1-storey guardhouse attached, built on land are of 45,397 square metres | Freehold | December 2013 |

## 11. Prepaid land rental

The prepaid land rental relates to land-use-rights and the amortisation charge on a straight-line basis over the lease period of the lands of 50 years and is included in administrative expenses in the consolidated income statement.

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| **Cost** | | |
| At 1 January | 351 | 1,251 |
| Deemed disposal of a subsidiary | – | (882) |
| Exchange differences | 27 | (18) |
| At 31 December | 378 | 351 |
| **Accumulated depreciation** | | |
| At 1 January | 37 | 110 |
| Deemed disposal of a subsidiary | – | (89) |
| Amortisation | 7 | 16 |
| Exchange difference | 3 | – |
| At 31 December | 47 | 37 |
| **Net carrying amount** | 331 | 314 |

The amount to be amortised is as follows:

| | | |
|---|---|---|
| Not later than one year | 7 | 7 |
| Later than one year but not later than five years | 28 | 28 |
| Later than five years | 296 | 279 |
| | 331 | 314 |

## 12. Goodwill

Goodwill acquired in a business combination is allocated to the CGU that is expected to benefit from that business combination for impairment testing purpose. The carrying amount of goodwill had been allocated as follows:

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| AngWei Environmental Ecological & Engineering (Shanghai) Co., Ltd and its subsidiaries ("AngWei Enviro") [(1)] | 497 | 497 |

(1) Comprising the wastewater treatment business of ChangXing Lijiaxiang New Era Wastewater Treatment Co., Ltd ("LJX"), a subsidiary of AngWei Enviro, arising from the service concession rights granted by the PRC government as disclosed in Note 45 to the financial statements.

The recoverable amount of AngWei Enviro has been determined based on value in use calculation using cash flow projection from the financial budgets approved by management covering the remaining concession period of 26 years (2013: 27 years). The discount rate applied to the cash flow is 7% (2013: 10%).

Key assumptions used in the value in use calculation

The calculation of value in use is most sensitive to the following assumptions:

Growth rate – The growth rate applied to the revenue for first 5 years is projected at 10% per annum, estimated based on the average values achieved in the three years preceding the start of the budget period. No growth is projected for the revenue from $6^{th}$ year until the end of the concession period.

Pre-tax discount rates – The discount rate calculation is based on the specific circumstances of the CGU and derived from its weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the CGU is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Budgeted gross margins – Gross margins are based on results achieved in the year preceding the start of the budget period.

Sensitivity to changes in assumptions:

With regards to the assessment of value in use for AngWei Enviro, management believes that no reasonably possible changes in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

## 13. Intangible assets

| | Concession rights $'000 | Technical know-how $'000 | Total $'000 |
|---|---|---|---|
| **Cost:** | | | |
| At 1 January 2013 | 10,359 | 400 | 10,759 |
| Additions | 1,075 | – | 1,075 |
| Disposals | (34) | – | (34) |
| At 31 December 2013 | 11,400 | 400 | 11,800 |
| Additions | 1,316 | – | 1,316 |
| Disposals | (1) | – | (1) |
| Exchange differences | 947 | 31 | 978 |
| At 31 December 2014 | 13,662 | 431 | 14,093 |
| **Accumulated amortisation:** | | | |
| At 1 January 2013 | 1,124 | 240 | 1,364 |
| Amortisation | 370 | 40 | 410 |
| Disposals | (12) | – | (12) |
| At 31 December 2013 | 1,482 | 280 | 1,762 |
| Amortisation | 433 | 41 | 474 |
| Exchange differences | 135 | 24 | 159 |
| At 31 December 2014 | 2,050 | 345 | 2,395 |
| **Carrying amount:** | | | |
| At 31 December 2013 | 9,918 | 120 | 10,038 |
| At 31 December 2014 | 11,612 | 86 | 11,698 |

### Concession rights

The Group has service concession rights from and obligation to certain governing bodies and agencies in the PRC to construct and operate wastewater treatment plants in Lijiaxiang Town, Zhicheng Town, Lincheng Town and Wushan Town, Zhejiang Province in the PRC for pre-determined periods. These concession rights are for periods of 30 to 50 years.

The cost of the concession rights which is amortised on a straight-line basis over the concession period from the commencement of the operations of each respective plant is charged to cost of sales in the income statement. Concession rights have an estimated remaining useful life of 22 to 45 years (2013: 23 to 46 years) at the end of the financial year.

### Technical know-how

This refers to cost of acquiring the technical know-how for the treatment of industrial wastewater paid by a subsidiary. The cost of the technical know-how is amortised on a straight-line basis over 10 years commencing from the date of completion of the wastewater treatment plant and is charged to administrative expenses in the income statement. Technical know-how has an estimated remaining useful life of 2 years (2013: 3 years) as at the end of the financial year.

## 14. Investment in subsidiaries

| | Company 2014 $'000 | Company 2013 $'000 |
|---|---|---|
| Unquoted equity shares, at cost | 26,540 | 19,177 |
| Less: impairment losses | (1,221) | (1,221) |
| | 25,319 | 17,956 |

(a) Composition of the Group

The Group has the following investment in subsidiaries:

| Name of subsidiary | Country of incorporation | Principal activities | Proportion of ownership interest 2014 % | Proportion of ownership interest 2013 % |
|---|---|---|---|---|
| **Held by the Company** | | | | |
| AnnAik & Partners (S) Pte Ltd ("AA Partners") (3) | Singapore | Investment holding | 65 | 65 |
| Anxon Eco Holdings Pte Ltd ("Anxon Eco") (3) | Singapore | Investment holding | 100 | 100 |
| Anxon Engineering Pte Ltd (1) | Singapore | Designing, contracting and management of engineering projects | 100 | 100 |
| Anxon Environmental Pte Ltd ("Anxon Enviro") (3) | Singapore | Investment holding | 100 | 100 |
| Wesco Steel Pte Ltd (3) | Singapore | Marketing and sale of steel related products | 70 | 70 |
| Anxon Envirotech Pte Ltd (formerly known as Sky Park Pte Ltd) (3) | Singapore | Investment holding | 100 | 100 |
| Ann Aik Pte Ltd (1) | Singapore | Marketing and sale of steel related products | 100 | 100 |
| Pioneer Environmental Technology Pte Ltd (3) | Singapore | Development of environmental technologies and environmental engineering | 51 | 51 |
| Shinsei Holdings Pte Ltd ("SHPL", formerly known as Shinsei Superinox Industry Pte Ltd) (1) | Singapore | Investment holding | 92 | 75 |
| Ichinose Emico Valves (S) Pte Ltd (3) | Singapore | Marketing and sale of steel related products | 50 | 50 |
| Metal Wang Pte Ltd ("MWPL") (2)(3) | Singapore | Wholesale of metals and metal ores | 60 | – |

## 14. Investment in subsidiaries (cont'd)

(a) Composition of the Group (cont'd)

| Name of subsidiary | Country of incorporation | Principal activities | Proportion of ownership interest 2014 % | 2013 % |
|---|---|---|---|---|
| **Held through AA Partners** | | | | |
| AnnAik Pipes & Fittings (Shanghai) Co., Ltd [4] | PRC | Marketing and sale of steel related products and provision of import and export agency services | 65 | 65 |
| **Held through Anxon Enviro** | | | | |
| AngWei Enviro [4] | PRC | Owning and management of wastewater treatment plants | 60 | 60 |
| ChangXing AngWei Environmental & Ecological Engineering Co., Ltd. ("ChangXing AW") [4] | PRC | Owning and management of wastewater treatment plants | 60 | 60 |
| **Held through Anxon Eco** | | | | |
| ChangXing LinSheng Wastewater Treatment Co., Ltd ("CX LinSheng") [4] | PRC | Owning and management of wastewater treatment plant | 88 | 88 |
| **Held through CX LinSheng** | | | | |
| ChangXing Wusheng Wastewater Treatment Co., Ltd [4] | PRC | Owning and management of wastewater treatment plant | 88 | 88 |
| **Held by the SHPL** | | | | |
| Shinsei Industry Sdn. Bhd. ("SISB", formerly known as Shinsei Superinox Industry Sdn. Bhd.) [5] | Malaysia | Production of steel flanges and related products | 92 | 75 |
| **Held by the AngWei Enviro** | | | | |
| ChangXing Lijiaxiang New Era Wastewater Treatment Co., Ltd [4] | PRC | Owning and management of wastewater treatment plant | 60 | 60 |

(1) Audited by Ernst & Young LLP, Singapore.
(2) Newly incorporated during the financial year.
(3) Audited by another firm of auditors, Ecovis Assurance LLP.
(4) Audited by Ecovis Assurance LLP, Singapore, for the purpose of inclusion of the entities' results into the Group's consolidated financial statements.
(5) Audited by Ernst & Young LLP, Penang, Malaysia.

## 14. Investment in subsidiaries (cont'd)

### (b) Increase of paid-up registered share capital of SHPL

On 1 April 2014, the Company increased the paid-up registered capital of SHPL through capital injection of $3,187,500 in cash. As a result, the Company's shareholding in SHPL increased from 75% to 92%, and correspondingly, the shareholding of the non-controlling interest of SHPL was diluted from 25% to 8%. This has resulted in premium on purchase of non-controlling interests of $77,430, which has been recognised in the Group's retained earnings.

Subsequently, the Company and the non-controlling shareholder injected additional investments of $3,875,000 and $337,000 into the subsidiary respectively, in proportion to their ownership interest.

### (c) Interest in subsidiaries with material NCI

The Group has the following subsidiaries that have NCIs that are material to the Group.

| | Principal place of business | Proportion of ownership interest held by NCI | Profit/(loss) allocated to NCI during the reporting period | Accumulated NCI at the end of reporting period |
|---|---|---|---|---|
| | | % | $'000 | $'000 |
| **Name of subsidiary** | | | | |
| **31 December 2014:** | | | | |
| ChangXing AW | PRC | 40 | 43 | 1,680 |
| LJX | PRC | 40 | 199 | 1,143 |
| MWPL | Singapore | 40 | 54 | 268 |
| SISB | Malaysia | 8 | (103) | 621 |
| **31 December 2013:** | | | | |
| ChangXing AW | PRC | 40 | 79 | 1,517 |
| LJX | PRC | 40 | 164 | 867 |

## 14. Investment in subsidiaries (cont'd)

### (c) Interest in subsidiaries with material NCI (cont'd)

Summarised financial information including goodwill on acquisition and consolidation adjustments but before intercompany eliminations of subsidiaries with material non-controlling interests are as follows:

**Summarised balance sheets**

| | ChangXing AW | | LJX | | MWPL | | SISB | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Current** | | | | | | | | |
| Assets | 774 | 698 | 1,028 | 1,115 | 4,586 | – | 7,188 | 1,105 |
| Liabilities | (1,266) | (857) | (1,763) | (1,727) | (3,916) | – | (6,201) | (2,321) |
| | (492) | (159) | (735) | (612) | 670 | – | 987 | (1,216) |
| **Non-current** | | | | | | | | |
| Assets | 5,404 | 4,636 | 4,518 | 3,672 | 1 | – | 13,626 | 4,409 |
| Liabilities | (712) | (685) | (926) | (892) | – | – | (6,844) | (2,044) |
| | 4,692 | 3,951 | 3,592 | 2,780 | 1 | – | 6,782 | 2,365 |
| **Net assets** | 4,200 | 3,792 | 2,857 | 2,168 | 671 | – | 7,769 | 1,149 |

**Summarised statement of comprehensive income**

| | ChangXing AW | | LJX | | MWPL | | SISB | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Revenue | 1,480 | 1,779 | 2,184 | 1,337 | 4,730 | – | 2,190 | – |
| Profit/(loss) before tax | 176 | 291 | 672 | 460 | 142 | – | (985) | (239) |
| Tax expense | (67) | (92) | (175) | (49) | (7) | – | – | – |
| Profit/(loss) after tax, representing total comprehensive income | 109 | 199 | 497 | 411 | 135 | – | (985) | (239) |

**Other summarised information**

| | ChangXing AW | | LJX | | MWPL | | SISB | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Net cash flows from operations | 359 | 257 | 486 | 448 | 3,212 | – | (7,398) | (810) |
| Acquisition of significant fixed assets | 1 | 2 | 7 | 2 | 1 | – | 8,808 | 4,463 |

## 14. Investment in subsidiaries (cont'd)

### (d) Disposal of a subsidiary in the financial year ended 31 December 2013

On 5 September 2013, the Company entered into a Sale and Purchase Agreement whereby the Company sold 9,669,280 ordinary shares in the share capital of Shinsei Company (S) Pte Ltd ("Shinsei Singapore") to various vendors.

The sale consideration of $5,327,000 took into account of:

(a) the net tangible asset value of Shinsei Group (comprising Shinsei Singapore and Shinsei Taizhou Steel Flanges Co., Ltd) as at 30 June 2013; and

(b) an agreed portion of the land valuation surplus relating to the land held by Shinsei Group.

Upon completion, the Company's equity interest in Shinsei Singapore was reduced to 19%, thus it ceased to be a subsidiary of the Company and the investment has been reclassified and included in available-for-sale financial asset.

On 30 November 2014, the Company entered into another Sale and Purchase Agreement to sell the remaining 19% equity interest. The sales have not been completed as at 31 December 2014 as there are still certain conditions in the Sale and Purchase Agreement to be satisfied by the Company but were subsequently completed on 4 March 2015. Accordingly, the investment in Shinsei Singapore has been classified as "Non-current assets held for sale" as at 31 December 2014 (Note 24).

The following summarises the effect of the change in ownership interest in Shinsei Singapore upon dilution of the Company's equity interest from 51% to 19% on 5 September 2013:

| | 2013<br>$'000 |
|---|---|
| Property, plant and equipment | 10,973 |
| Prepaid land rental | 793 |
| Trade and other receivables | 4,092 |
| Inventories | 13,102 |
| Cash and cash equivalents | 3,749 |
| Total assets | 32,709 |
| | |
| Trade and other payables | 11,930 |
| Amount due to holding company | 5,439 |
| Total liabilities | 17,369 |
| | |
| Non-controlling interests | (7,899) |
| Reclassification of foreign currency translation reserve | 436 |
| | |
| Carrying value of net assets | 7,877 |
| Add: Gain on dilution of equity interest in subsidiaries | 611 |
| | 8,488 |
| Less: Remaining 19% shareholding interest | (3,161) |
| | |
| Net cash inflow on disposal | 5,327 |

## 14. Investment in subsidiaries (cont'd)

### (e) Impairment testing of investment in subsidiaries

During the last financial year, management performed an impairment test for the Company's investment in certain subsidiaries. Based on an assessment of the subsidiary's historical and current performance and the estimated value and probability of future cash flows, the Company has made an impairment loss of S$927,000 (2012: $Nil) for the year ended 31 December 2013 to write down the subsidiary to its recoverable amount.

## 15. Investment in an associate

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Unquoted equity, shares, at cost | 1,392 | 1,392 |
| Share of post-acquisition profits | 1,192 | 1,035 |
| | 2,584 | 2,427 |
| Exchange differences | 187 | – |
| Net carrying amount | 2,771 | 2,427 |

The investment in an associate does not have published price quotation.

The details of the investment in an associate are summarised below:

| Name of associate | Country of incorporation | Principal activities | Proportion of ownership | |
|---|---|---|---|---|
| | | | 2014 | 2013 |
| | | | % | % |
| **Held through Anxon Enviro** | | | | |
| Shuanglin (Huzhou) Wastewater Treatment Co., Ltd ("Shuanglin") [1] | PRC | Owning and management of wastewater treatment plant | 42 | 42 |

(1) Audited by Ecovis Assurance LLP, Singapore, for the purpose of inclusion of the entity's results into the Group's consolidated financial statements.

## 15. Investment in an associate (cont'd)

The summarised financial information in respect of Shuanglin based on its FRS financial statements and a reconciliation with the carrying amount of the investment in the consolidated financial statements are as follows:

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| **Summarised balance sheet** | | |
| Current assets | 2,170 | 1,293 |
| Non-current assets | 6,696 | 6,051 |
| Total assets | 8,866 | 7,344 |
| Current liabilities | 2,077 | 1,403 |
| Non-current liabilities | 192 | 163 |
| Total liabilities | 2,269 | 1,566 |
| **Net assets** | 6,597 | 5,778 |
| Proportion of the Group's ownership | 42% | 42% |
| **Group's share of net assets** | 2,771 | 2,427 |

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| **Summarised statement of comprehensive income** | | |
| Revenue | 1,704 | 1,905 |
| Profit after tax | 371 | 309 |
| Other comprehensive income | 445 | – |
| Total comprehensive income | 816 | 309 |

Disposal of an associate in the financial year ended 31 December 2013

On 5 September 2013, the Company entered into a Sale and Purchase Agreement whereby the Company sold 308,000 ordinary shares in the share capital of Both-Well Holdings (S) Pte Ltd ("Both-Well Singapore") to various vendors.

The sale consideration of $1,319,000 took into account (a) the net tangible asset value of Both-Well Group (comprising Both-Well Singapore, Both-Well Taizhou Steel Fittings Co., Ltd and Both-An Taizhou Hardware Co., Ltd) as at 30 June 2013 and (b) an agreed portion of the land valuation surplus relating to the land held by Both-Well Group.

Upon completion, the Company's equity interest in Both-Well Singapore was reduced to 19%, thus it ceased to be an associate of the Company and the investment has been reclassified and included in available-for-sale financial asset as at 31 December 2013.

## 15. Investment in an associate (cont'd)

Disposal of an associate in the financial year ended 31 December 2013 (cont'd)

On 30 November 2014, the Company entered into Sales and Purchase Agreement to sell the remaining 19% equity interest. The sales have not been completed as at 31 December 2014 as there are still certain conditions in the Sale and Purchase Agreement to be satisfied by the Company but were subsequently completed on 4 March 2015. Accordingly, the investment in Both-Well Singapore has been classified as "Non-current assets held for sale" as at 31 December 2014 (Note 24).

The following summarises the effect of the change in ownership interest in Both-Well Singapore:

| | 2013 |
|---|---|
| | $'000 |
| Investment in associate | 3,420 |
| Add: Gain on dilution of equity interest in associates | 177 |
| | 3,597 |
| Less: Remaining 19% shareholding interest | (2,278) |
| Net cash inflow on disposal | 1,319 |

Liquidation of an associate in the financial year ended 31 December 2013

An associate of the Group, Shinsei Japan Industry Co., Ltd, was liquidated in 2013 which resulted in a gain of $3,000 to the Group.

## 16. Available-for-sale financial assets

| | Group and Company | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Unquoted equity securities (1) | – | 4,886 |
| Unquoted equity securities, at cost (2) | 5,667 | 5,667 |
| | 5,667 | 10,553 |

Available-for-sale financial assets consist of:

(1) The Company's 19% equity interest in unquoted investments which are incorporated in Singapore and are engaged in production of forged flanges and high pressure forged fittings in PRC. On 30 November 2014, the Company entered into another Sale and Purchase Agreement to sell the remaining 19% equity interest. The sales have not been completed as at 31 December 2014 as there are still certain conditions in the Sale and Purchase Agreement to be satisfied by the Company but were subsequently completed on 4 March 2015. Accordingly, the investment in Shinsei Singapore and Both-Well Singapore have been classified as "Non-current assets held for sale" as at 31 December 2014 (Note 24).

Immediately before reclassification, management has recognised an impairment loss of $400,000 (2013: $553,000) to write down the carrying amount of the investments to fair value less costs to sell, based on the sales consideration stipulated in the Sale and Purchase Agreement.

(2) The Company's 17.6% equity interest in an unquoted investment which is incorporated in Singapore and is engaged in property development activities in PRC.

## 17. Club membership

| | Group and Company | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Club membership, at cost (indefinite life) | 190 | 190 |

## 18. Refundable deposits

These are funds deposited with the respective town governments in the Changxing County, Zhejiang Province, PRC to secure the rights to use the allocated lands for an agreed period to build and operate wastewater treatment plants under build-operate-transfer ("BOT") contracts over a period of 30 years. These funds deposited are not expected to be refundable to the Group within the next twelve months.

## 19. Inventories

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| **Balance sheet** | | |
| Raw materials | 2,338 | 3,719 |
| Work-in-progress | 2,545 | 5,501 |
| Finished goods | 27,636 | 11,629 |
| | 32,519 | 20,849 |
| **Income statement:** | | |
| Inventories recognised as an expense in cost of sales | 34,856 | 37,130 |
| Inclusive of the following charge/(credit): | | |
| Inventories written-down | 150 | – |
| Reversal of allowance for slow moving inventories | (20) | (1,138) |

The reversal of allowance for slow moving inventories was made when the related inventories were sold above their carrying amounts in 2014.

## 20. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | $'000 | $'000 | $'000 | $'000 |
| **Current:** | | | | |
| Trade | | | | |
| Trade receivables | 13,529 | 8,957 | – | – |
| Less: Allowance for doubtful debts | (117) | (124) | – | – |
| | 13,412 | 8,833 | – | – |
| Non-trade | | | | |
| Other receivables | 4,238 | 2,318 | 1,500 | 798 |
| Amount due from related parties | – | 9,495 | 45 | 9,262 |
| Refundable deposits | 834 | 718 | – | 66 |
| Tax recoverable | – | – | – | 210 |
| | 18,484 | 21,364 | 1,545 | 10,336 |
| **Non-current:** | | | | |
| Non-trade | | | | |
| Refundable deposits (Note 18) | 924 | 668 | – | – |
| Amounts due from related parties | 5,468 | – | 5,468 | – |
| Total trade and other receivables | 24,876 | 22,032 | 7,013 | 10,336 |

Trade receivables

Trade receivables are non-interest bearing and are generally on 30 to 150 days' terms. They are recognised at their original amounts which represent their fair values on initial recognition.

At the end of the reporting period:

- Trade receivables arising from export sales amounting $1,256,000 (2013: $861,000) are arranged to be settled via letters of credit issued by reputable bank in countries where the customers are based; and

- Trade receivables that are insured by trade credit insurance underwritten by a reputable insurer in Singapore amounted to $3,495,000 (2013: $178,000).

Included in trade receivables are amounts due from related parties amounting to $74,844 (2013: $31,723).

Other receivables

Included in other receivables are loans granted to third parties of $1,493,173 (2013: $Nil). These loans are non-trade related, unsecured and need to be settled in cash. Besides, these loans are repayable between 1 to 2 years from the end of the reporting period and bears interests ranging from 2% to 10% (2013: Nil). An amount of $1,200,000 is secured by a charge of shares in an entity.

Related party balances

*Amounts due from related parties*

In the previous financial year, the amounts due from related parties were non-trade related, unsecured, carries interest at 3% per annum, repayable on demand and was to be settled in cash. The balance was partially repaid during the year. Effective from 30 November 2014, the credit and repayment terms for the remaining outstanding amount of $5,468,000 have been revised to lump sum repayment on 30 June 2018 and carries interest at 3% per annum.

## 20. Trade and other receivables (cont'd)

Receivables that are past due but not impaired

The Group has trade receivables amounting to $6,729,000 (2013: $4,492,000) that are past due at the end of the reporting period but not impaired. These receivables are unsecured and the analysis of their aging at the end of the reporting period is as follows:

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Trade receivables past due: | | |
| Lesser than 30 days | 2,442 | 1,946 |
| 30 to 60 days | 2,038 | 1,303 |
| 61 to 90 days | 951 | 522 |
| More than 90 days | 1,298 | 721 |
| | 6,729 | 4,492 |

Trade receivables that are impaired

The Group's trade receivables that are impaired at the end of the reporting period and the movements of the allowance account used to record the impairment are as follows:

| | Group Individually impaired | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Trade receivables-nominal amount | 117 | 124 |
| Allowance for impairment | (117) | (124) |
| | – | – |

Movement in the allowance account:

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| At 1 January | 124 | 70 |
| (Write back)/charge for the year | (13) | 54 |
| Exchange differences | 6 | – |
| At 31 December | 117 | 124 |

Trade receivables that are individually determined to be impaired at the end of the reporting period relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancement.

At the end of the reporting period, the Group has provided an allowance of $100,000 (2013: $54,000) for the impairment of doubtful receivables subsequent to a debt recovery assessment carried out during the year.

There was a write back of allowance of $113,000 (2013: $Nil) previously recognised for a customer upon recovery of the debt during the year.

## 20. Trade and other receivables (cont'd)

Trade receivables that are impaired (cont'd)

Trade receivables and other receivables denominated in foreign currencies at 31 December are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | $'000 | $'000 | $'000 | $'000 |
| United States dollar | | | | |
| Trade receivables | 2,793 | 153 | – | – |
| Other receivables | 670 | 9,474 | – | 9,262 |

## 21. Amount due from contract customer

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Costs incurred | – | 14,107 |
| Losses suffered | – | (6,009) |
| Billings | – | (6,516) |
| | – | 1,582 |

In 2013, amount due from contract customer refers to costs incurred on a construction contract which management considers as recoverable amount but is disputed by the counterparty. Both the Group and the counterparty have attempted to resolve their disputes amicably but were not able to arrive at a resolution that was satisfactory to both parties. On 3 March 2011, pursuant to the dispute resolution provision in the agreement, the Group filed a Notice of Arbitration with the Singapore International Arbitration Centre ("SIAC") through its lawyers.

On 17 January 2014, the Group was awarded by SIAC a sum of $1,352,000 (exclusive GST of $95,000) being the final award of the arbitration. At the end of the previous reporting period, the award was final as to all matters except for cost and interest associated with the final award, which were estimated to be $230,000 based on legal advice. As such, in the financial year ended 31 December 2013, an impairment allowance of $727,000 has been made against the amount due from contract customer to bring down the carrying amount to $1,582,000.

On 1 July 2014, on top of the above final award of $1,352,000, the Group was further compensated with reimbursement of arbitration cost of $454,000 and interests of $174,000, resulting in reversal of allowance for claim on contract work of $398,000. The arbitration proceeding against the counterparty on the disputed claim has been resolved subsequent to the above awards.

## 22. Amount due from subsidiaries and associate

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | $'000 | $'000 | $'000 | $'000 |
| **Current:** | | | | |
| Subsidiaries | – | – | 6,115 | 8,926 |
| Associates | 567 | 404 | – | – |
| | 567 | 404 | 6,115 | 8,926 |
| **Non-current:** | | | | |
| Subsidiaries | – | – | 7,848 | 6,181 |

The current amounts due from subsidiaries and associate are non-trade related, unsecured, interest-free, repayable on demand and are to be settled in cash.

The non-current amounts due from subsidiaries are non-trade related, unsecured, interest-free, to be settled in cash and not expected to be repaid within the next financial year.

Amount due from subsidiaries and associates denominated in foreign currencies are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | $'000 | $'000 | $'000 | $'000 |
| United States dollar | – | – | 6,844 | 5,354 |

## 23. Cash and bank balances

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | $'000 | $'000 | $'000 | $'000 |
| Cash and bank balances | 7,288 | 10,913 | 1,526 | 4,817 |
| Less: Bank overdrafts (Note 28) | (318) | (276) | – | – |
| Cash and cash equivalents in the consolidated cash flow statement | 6,970 | 10,637 | 1,526 | 4,817 |

Cash and bank balances earn interest at floating rates based on daily bank deposit rates.

Cash and cash balances denominated in foreign currencies at 31 December are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | $'000 | $'000 | $'000 | $'000 |
| United States dollar | 1,991 | 1,258 | 329 | 309 |
| Euro | 5 | 5 | – | – |

## 24. Assets classified as held for sale

On 30 November 2014, the Company entered into a Share Sale and Purchase Agreement ("SSPA") to sell its remaining equity interest in its available for sales financial assets, namely Shinsei Company (S) Pte. Ltd. ("Shinsei Singapore") and Both-Well Holdings (S) Pte Ltd ("Both-Well Singapore"), for purchase consideration of $2,294,000 and $2,221,000, respectively. The disposal of Shinsei Singapore and Bothwell Singapore was completed on 4 March 2015, upon satisfaction all the precedent conditions to complete the share sales.

The decision was made so as to enable the Company to make more efficient use of the funds for the operations of the Company's core business, the repayment of outstanding bank loans, and also to undertake new investment opportunities in the Company's profitable businesses that may arise in the future.

Immediately before classification as assets held for sale, management has recognised an impairment loss of $400,000 (2013: $553,000) to write down the carrying amount of the investments to fair value less costs to sell, based on the purchase consideration stipulated in the above mentioned Sale and Purchase Agreements. The amount was included as part of "other operating expenses" in the consolidated income statement.

## 25. Trade payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | $'000 | $'000 | $'000 | $'000 |
| Trade payables – third parties | 2,193 | 1,025 | – | – |
| Amount owing to a related company | 199 | 133 | – | – |
| | 2,392 | 1,158 | – | – |

The credit period for purchases of goods ranges from 2 to 3 months (2013: 2 to 3 months). No interest is payable by the Group and the Company on trade payables.

The amount owing to a related company is trade related, unsecured, non-interest bearing, repayable on demand and is to be settled in cash.

Trade payables denominated in foreign currencies at 31 December are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | $'000 | $'000 | $'000 | $'000 |
| United States dollar | 1,151 | 277 | – | – |

## 26. Other payables and accruals

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | $'000 | $'000 | $'000 | $'000 |
| Amounts due to subsidiaries | – | – | 191 | 261 |
| Amounts due to an associate | – | 168 | – | – |
| Other payables | 2,289 | 2,265 | 60 | 48 |
| Accrued expenses | 1,325 | 1,293 | 151 | 179 |
| Accrued directors' fees | 186 | 186 | 186 | 186 |
| Deposits and advances from customers | 87 | 535 | – | – |
| | 3,887 | 4,447 | 588 | 674 |

The amounts due to subsidiaries and associates are non-trade, unsecured, interest-free, repayable on demand and are to be settled in cash.

## 27. Finance leases

Future minimum lease payments under finance lease together with the present value of the net minimum lease payment are as follows:

| | Group | | | |
|---|---|---|---|---|
| | Minimum lease payments | | Present value of minimum lease payments | |
| | 2014 | 2013 | 2014 | 2013 |
| | $'000 | $'000 | $'000 | $'000 |
| Amounts payable under finance leases: | | | | |
| Within one year | 319 | 291 | 305 | 272 |
| In the second to fifth year inclusive | 260 | 413 | 251 | 397 |
| | 579 | 704 | 556 | 669 |
| Less: future finance charges | (23) | (35) | – | – |
| Present value of lease obligations | 556 | 669 | 556 | 669 |
| Less: Amount due to be paid within 12 months | | | (305) | (272) |
| Amount due to be paid after 12 months | | | 251 | 397 |

The Group leases certain of its plant and equipment under finance leases. The period of these finance leases ranges from 2 to 7 years (2013 : 2 to 7 years). For the year ended 31 December 2014, the average effective interest rate in respect of these finance leases ranges from 1.15% to 4.30% (2013 : 1.15% to 4.30%) per annum. Lease terms do not contain restrictions, concerning dividends, additional debts or further leasing. All leases are on fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligations approximates their carrying amounts.

## 28. Bank overdrafts

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Bank overdrafts | 318 | 276 |

Bank overdrafts are repayable on demand and bear interest at 5.75% (2013: 5.75%) per annum.

The Company provides corporate guarantees to banks in respect of bank overdrafts amounting to $318,000 (2013: $276,000) drawn down by a subsidiary.

## 29. Bills payables

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Bills payables | 19,237 | 8,884 |

Bills payables are repayable between 3 to 6 months from the date the bills are first issued. The carrying amounts of the bills payables approximate their fair value due to the short-term maturity. During the year ended 31 December 2014, the bills payables carry interest at rates ranging from 1.51% to 3.13% (2013: 1.55% to 3.30%) per annum.

The Company provides corporate guarantee to banks in respect of bills payables amounting to $19,237,000 (2013: $8,884,000) owing by subsidiaries.

Bills payables denominated in foreign currencies are as follows:

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| United States dollar | 4,260 | – |

## 30. Bank loans

| | Note | Group 2014 $'000 | Group 2013 $'000 |
|---|---|---|---|
| **Current:** | | | |
| Unsecured SGD Bank Loans | (a) | 3,639 | 1,600 |
| Secured SGD Term Loans | (b) | 977 | 1,933 |
| RMB Term Loan | (c) | 832 | 1,016 |
| Secured USD Term Loans | (d) | 823 | 118 |
| | | 6,271 | 4,667 |
| **Non-current:** | | | |
| Secured SGD Term Loans | (b) | 10,047 | 9,556 |
| Secured USD Term Loans | (d) | 6,789 | 1,999 |
| | | 16,836 | 11,555 |
| Total bank loans | | 23,107 | 16,222 |

The Group has the following bank loans outstanding:

(a) Revolving SGD bank loans of $3,639,000 (2013: $1,600,000) granted by several banks to a subsidiary. The loans are secured by a corporate guarantee from the holding company. The loans bear interest ranging from 1.70% to 3.15% (2013: 1.56% to 3.35%) per annum.

(b) Secured SGD Term Loans comprising:

A subsidiary's bank loan of $369,000 (2013: $1,842,000) drawn down in March 2012 carries interest at the prevailing 3-month SIBOR plus 1.50% (2013: 3-month SIBOR plus 1.50%) per annum. The loan is repayable over 10 quarterly instalments commencing from the date of draw down.

A subsidiary's bank loan of $10,655,000 (2013: $9,647,000) obtained in 2012 and 2013 to finance the expansion of a 2-storey industrial warehouse cum office at 52 Tuas Avenue 9, Singapore 639193, bears interest at 1.5% (2013: 1.5%) per annum above bank swap. The loan is repayable in 240 equal instalments over its tenure of 20 years commencing from the date of draw down.

(c) A subsidiary's bank loan of RMB3,861,000 or $832,000 equivalent (2013: RMB5,080,000 or $1,016,000 equivalent) drawn down in December 2013, bears fixed interest rate at 7.55% (2013: 7.55%) per annum. The loan is repayable in 13 quarterly principal instalments of RMB300,000 and 1 final instalment of RMB1,100,000 over its tenure of 4 years commencing from January 2014. It is callable at the option of the lenders and as such, has been classified as current liabilities in the balance sheet.

(d) Secured USD Term Loans comprising:

A subsidiary's bank loan of USD4,523,000 or $5,984,000 equivalent (2013: USD1,669,000 or $2,117,000 equivalent) draw down in 2013 and 2014 to finance the purchase of a piece of vacant land at Lot no. 458, No. 459 and No.460 Mukim 12, Daerah Seberang Perai Selatan, Pulau Pinang, Malaysia. The loan bears interest at 1.75% (2013: 1.75%) per annum above bank costs of funds and is repayable in 39 quarterly principal instalments and 1 final balloon instalment over its tenure of 10 years commencing from date of draw down; and

A subsidiary's bank loan of USD1,231,000, or $1,628,000 equivalent (2013: $Nil) drawn down in 2014. The loan bears interest 1.75% (2013: Nil) per annum above bank costs of fund and is repayable in 20 quarterly principal instalments and 1 final instalment over its tenure of 5 years commencing from date of draw down.

## 30. Bank loans (cont'd)

As at 31 December 2014, the Group has available undrawn committed borrowing facilities of $21,411,000 (2013: $12,012,000).

Bank loans denominated in foreign currencies are as follows:

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| United States dollar | 7,612 | 2,117 |

## 31. Government grants

These are grants received from the government of the PRC for the improvements and upgrading of the wastewater treatment plants built and operated by the Group. These grants will be recognised in the income statement on a systematic basis when it has been determined that the conditions relating to the grant have been met.

## 32. Deferred tax assets/(liabilities)

Deferred income tax as at 31 December relates to the following:

| | Group | | | |
|---|---|---|---|---|
| | Balance sheet | | Net change in income statement | |
| | 2014 | 2013 | 2014 | 2013 |
| | $'000 | $'000 | $'000 | $'000 |
| **Deferred tax liabilities:** | | | | |
| Differences in depreciation for tax purposes | – | – | – | (93) |
| Unrealised profits [(1)] | 257 | 252 | 5 | (10) |
| Exchange differences | 20 | – | | |
| | 277 | 252 | | |
| **Deferred tax assets:** | | | | |
| Unutilised tax losses | 23 | 80 | 57 | |
| | 23 | 80 | | |
| **Deferred income tax expense/(credit) (Note 8)** | | | 62 | (103) |

(1) Amount includes construction service income which will only be subjected to tax in future years.

Temporary differences arising in connection with interest in an associate are insignificant.

Unrecognised temporary differences relating to investments in subsidiaries

At the end of the reporting period, no deferred tax liability (2013: Nil) has been recognised for taxes that would be payable on the undistributed earnings of certain of the Group's subsidiaries as the Group has determined that undistributed earnings of its subsidiaries will not be distributed in the foreseeable future.

Such temporary differences for which no deferred tax liability has been recognised aggregate to $3,190,000 (2013: $2,626,000). The deferred tax liability is estimated to be approximately $160,000 (2013: $131,000).

## 33. Share capital

| | Group and Company | | | |
|---|---|---|---|---|
| | No. of ordinary shares | | | |
| | 2014 | 2013 | 2014 | 2013 |
| | '000 | '000 | $'000 | $'000 |
| Issued and paid-up: | | | | |
| At 1 January and at 31 December | 248,973 | 248,973 | 36,131 | 36,131 |

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The ordinary shares have no par value.

## 34. Reserves

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | $'000 | $'000 | $'000 | $'000 |
| Currency translation reserve | 608 | (291) | – | – |
| Reserve fund (Note 35) | 44 | 44 | – | – |
| Share option reserve (Note 36) | 1,216 | 900 | 1,216 | 900 |
| Retained earnings | 26,537 | 26,095 | 20,237 | 21,260 |
| | 28,405 | 26,748 | 21,453 | 22,160 |

## 35. Reserve fund

Under the present laws and regulations in the PRC, every company incorporated in PRC is required to make appropriations calculated at 10% of its profit after income tax from the retained earnings to the reserve fund every year until the accumulated balance in the reserve fund reaches 50% of the registered capital of that company. Further, every company in PRC is also required to make appropriations at the rates determined by its board of directors from its retained earnings to the enterprise expansion fund every year.

The reserve fund may be used to cover losses incurred by the PRC company and to increase its capital for the expansion of its production capacity. The enterprise expansion fund may be used to increase the capital of the company subject to approval from the relevant government authorities.

In 2014, an amount of $Nil (2013: $12,000) was made by the Company's subsidiaries in PRC from their retained earnings to the reserve fund and enterprise expansion fund.

## 36. Share option reserve

**Equity-settled share option scheme**

The Company has two share options schemes for its non-executive directors and qualifying employees including directors. The schemes are administered by the Remuneration Committee which has the discretion to fix the exercise price for the options at a discount not exceeding 20% to the average of the closing price of the Company's shares for the last three trading days prior to the date of the grant ("average market price").

(a) Market price options

Options with subscription prices which are equal to the market price (the "Market price options") granted to employees may be exercised one year after the date of grant and would expire (i) ten years after such date of grant if granted to an executive director or employee, and (ii) five years after such date of grant if granted to a non-executive director.

(b) Discounted options

Options with subscription prices which represent a discount to the market price (the "Discounted options") may be exercised two years after the date of grant and would expire (i) ten years after such date of grant if granted to an executive director or employee, and (ii) five years after such date of grant if granted to a non-executive director.

There have been no cancellation or modification to the share option plan during both 2014 and 2013.

Movement of share options during the financial year

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the financial year:

| | Group and Company | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| | No. of share options | WAEP | No. of share options | WAEP |
| | | $ | | $ |
| Outstanding at 1 January | 21,057,000 | 0.128 | 8,069,000 | 0.204 |
| - Granted | – | – | 13,339,000 | 0.083 |
| - Forfeited | (605,000) | 0.109 | (351,000) | 0.184 |
| Outstanding at 31 December | 20,452,000 | 0.128 | 21,057,000 | 0.128 |
| Exercisable at 31 December | 7,584,000 | 0.209 | 7,718,000 | 0.205 |

- No share options were exercised during the year.
- There are no options (2013: 13,339,000) granted during the financial year ended 31 December 2014.
- The options outstanding at the end of the year have a weighted average remaining contractual life of 3.71 years (2013: 4.11 years).
- The range of exercise prices for options outstanding at the end of the year was $0.083 to $0.280 (2013: $0.083 to $0.280).
- Share-based payment expense amounting to $360,000 (2013: $49,000) was recognised during the financial year ended 31 December 2014.

## 36. Share option reserve (cont'd)

(b) Discounted options (cont'd)

Fair value of share options granted

The fair value of the share options granted under the share options scheme is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the option pricing model for the financial year ended 31 December 2013:

| | Tranche 1 | Tranche 2 |
|---|---|---|
| Dividend yield (%) | 3.00 | 3.00 |
| Expected volatility (%) | 63.01 | 55.53 |
| Risk-free interest rate (%) | 1.26 | 0.54 |
| Expected life of option (years) | 6.00 | 3.50 |

The expected life of the share options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

## 37. Dividends

| | Group and Company | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| **Declared and paid during the year:** | | |
| Dividends on ordinary shares: | | |
| Final exempt (one-tier) dividend for 2013: 0.1 cent (2012: 0.3 cents) per share | 249 | 747 |
| **Proposed but not recognised as liability as at 31 December:** | | |
| Dividends on ordinary shares, subject to shareholders' approval at AGM: | | |
| Final exempt (one-tier) dividend for 2014: 0.2 cent (2013: 0.1 cent) per share | 498 | 249 |

## 38. Related parties transactions

**Sales and purchases of goods and services**

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties took place at terms agreed between the parties during the financial year:

| | 2014 | 2013 |
|---|---|---|
| | $'000 | $'000 |
| Sale of goods to a related party | – | 1,605 |
| Purchase of goods from a related party | – | 704 |
| Engage of legal services from a firm related to a director | 171 | – |

Sales of goods to related parties were made at the Group's usual list prices. Purchases were made at market price discounted to reflect the quantity of goods purchased.

## 38. Related parties transactions (cont'd)

A subsidiary of the Group has entered into a contract with Lee Bon Leong & Co., a firm of which one of the independent director is the Senior Partner of the firm, for the provision of legal services for the arbitration proceedings (Note 21). The amounts outstanding are unsecured and will be settled in cash.

**Compensation of directors and key management personnel**

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

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Short-term employee benefits | 1,940 | 1,818 |
| Central Provident Fund contributions | 121 | 122 |
| Directors' fees | 186 | 186 |
| Share-based payments | 212 | 24 |
| | 2,459 | 2,150 |
| Comprise amounts paid to: | | |
| Directors of the Company | 1,688 | 1,479 |
| Other key management personnel | 771 | 671 |
| | 2,459 | 2,150 |

The remuneration of directors and key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

<u>Directors' interests in employee share option</u>

At the end of the reporting period, the total number of outstanding share options granted by the Company to the above mentioned directors under the share options plan amount to 12,573,000 (2013: 12,573,000).

## 39. Operating lease commitment

The Group has entered into commercial property leases on certain properties and land rental. The lease has an average tenure of between 1 and 28 years (2013: 1 and 29 years) with no renewal option or contingent rent provision included in the contracts. The Group is restricted from subleasing the leased properties and leasehold lands to third parties.

Minimum lease payments recognised as an expense in profit or loss for the financial year ended 31 December 2014 amounted to $475,000 (2013: $580,000).

Future minimum rental payable under non-cancellable operating leases at the end of the reporting period are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | $'000 | $'000 | $'000 | $'000 |
| Not later than one year | 550 | 579 | – | 22 |
| Later than one year but not later than five years | 960 | 1,010 | – | – |
| Later than five years | 5,737 | 6,040 | – | – |
| | 7,247 | 7,629 | – | 22 |

## 40. Capital commitments

Capital expenditure contracted for as at the end of the reporting period but not recognised in the financial statements are as follows:

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Capital commitments in respect of new warehouse and office premises | 2,030 | 10,946 |

## 41. Segment information

The following segment information is prepared based on the nature of the principal activities of the Company and its subsidiaries. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. They are segregated primarily into four reporting segments; i.e. distribution of stainless steel piping products; manufacturing of steel flanges; engineering construction of piping process system and environmental business. Except as indicated above, no operating segments have been aggregated to form the above reportable segments.

Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments. Transfer pricing between operating segments are on an arms' length basis in the manner similar to transactions with third parties.

Segment revenue and results are the operating revenue and results as reported in the Group's income statement that are directly attributable to a segment and can be allocated on a reasonable basis to that segment.

Segment assets include all operating assets used by a segment and consist principally of trade receivables, inventories and property, plant and equipment. Capital expenditure include the total cost incurred to acquire property, plant and equipment and intangible asset which are directly attributable to the segment. Segment liabilities include all operating liabilities and consist principally of trade payables and accruals.

Income from an associate is allocated to each segment on the basis they are specifically attributable to that segment, and correspondingly the investments in an associate are included as segment assets of the Group.

## 41. Segment information (cont'd)

(a) Business segments

| | Distribution | | Manufacturing of steel flanges | | Engineering construction | | Environmental business | | Elimination | | | Consolidation | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | | 2014 | 2013 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | Note | $'000 | $'000 |
| **Revenue** | | | | | | | | | | | | | |
| External revenue | 40,338 | 34,925 | 886 | 9,600 | 3,004 | 186 | 4,814 | 7,699 | – | – | | 49,042 | 52,410 |
| Inter-segment revenue | 2,275 | 1,013 | 1,432 | 1,556 | – | – | – | – | (3,707) | (2,569) | A | – | – |
| Total revenue | 42,613 | 35,938 | 2,318 | 11,156 | 3,004 | 186 | 4,814 | 7,699 | (3,707) | (2,569) | | 49,042 | 52,410 |
| **Result** | | | | | | | | | | | | | |
| Segment result | 1,513 | 1,047 | (1,134) | (1) | 2,787 | (972) | 959 | 1,983 | (2,193) | (1,293) | B | 1,932 | 764 |
| Gain on dilution of equity interest in subsidiaries and an associate | – | 788 | – | – | – | – | – | – | – | – | | – | 788 |
| Gain on liquidation of an associate | – | 3 | – | – | – | – | – | – | – | – | | – | 3 |
| Loss on deregistration of a subsidiary | – | – | – | – | – | – | – | (31) | – | – | | – | (31) |
| Share of results of an associate | – | – | – | (205) | – | – | 156 | 139 | – | – | | 156 | (66) |
| Interest income | | | | | | | | | | | | 105 | 33 |
| Finance costs | | | | | | | | | | | | (685) | (560) |
| Profit before tax | | | | | | | | | | | | 1,508 | 931 |
| Income tax | | | | | | | | | | | | (715) | (441) |
| Profit for the year | | | | | | | | | | | | 793 | 490 |

## 41. Segment information (cont'd)

(a) Business segments (cont'd)

| | Distribution | | Manufacturing of steel flanges | | Engineering construction | | Environmental business | | Elimination | | | Consolidation | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | | 2014 | 2013 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | Note | $'000 | $'000 |
| **Assets** | | | | | | | | | | | | | |
| Segment assets | 79,381 | 75,102 | 20,632 | 4,909 | 1,033 | 2,131 | 18,250 | 16,621 | – | – | | 119,296 | 98,763 |
| Investment in an associate | – | – | – | – | – | – | 2,771 | 2,427 | – | – | | 2,771 | 2,427 |
| Consolidated total assets | | | | | | | | | | | | 122,067 | 101,190 |
| **Liabilities** | | | | | | | | | | | | | |
| Segment liabilities | 19,049 | 12,374 | 4,999 | 169 | 504 | 628 | 4,703 | 4,736 | – | – | | 29,255 | 17,907 |
| Bank loans | 14,663 | 13,089 | 7,612 | 2,117 | – | – | 832 | 1,016 | – | – | | 23,107 | 16,222 |
| Consolidated total liabilities | | | | | | | | | | | | 52,362 | 34,129 |
| **Other information** | | | | | | | | | | | | | |
| Depreciation and amortisation | 838 | 572 | 159 | 715 | 30 | 30 | 519 | 448 | – | – | | 1,546 | 1,765 |
| Capital expenditure | 1,198 | 9,862 | 8,808 | 4,437 | – | – | 1,755 | 1,090 | – | – | | 11,761 | 15,389 |
| Other non-cash expenses | 355 | (26) | (118) | (1,076) | (25) | – | 124 | 63 | – | – | | 336 | (1,039) |

## 41. Segment information (cont'd)

### (a) Business segments (cont'd)

| | |
|---|---|
| Notes | Nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements. |
| A | Inter-segment revenues are eliminated on consolidation. |
| B | The following items are deducted from segment profits to arrive at "profit before tax" presented in the consolidated income statement: |

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Profit from inter-segment sales | (71) | – |
| Unallocated corporate expenses | (2,122) | (1,293) |
| | (2,193) | (1,293) |

### (b) Geographical information

The Group's operations are located in Singapore, Malaysia and the PRC. The Group's engineering construction and the distribution of steel products divisions are in Singapore while the Group's manufacturing of steel flanges is in the PRC and Malaysia and environmental business divisions are based in Singapore and the PRC.

The following table provides an analysis of the Group's revenue by geographical markets, irrespective of the origin of the goods or services:

| | Group | |
|---|---|---|
| | 2014<br>$'000 | 2013<br>$'000 |
| **By geographical markets:** | | |
| Singapore | 26,921 | 29,345 |
| Malaysia | 8,101 | 6,841 |
| PRC | 4,592 | 7,204 |
| Russia | 2,653 | – |
| Indonesia | 2,255 | 1,989 |
| Vietnam | 1,149 | 105 |
| Others [1] | 3,371 | 6,926 |
| | 49,042 | 52,410 |

[1] Others mainly comprise USA, Australia, Netherlands, India, Japan, Thailand and Taiwan, which individually do not contribute more than 10% of the Group's revenue.

## 41. Segment information (cont'd)

### (b) Geographical information (cont'd)

The following is an analysis of the non-current assets by geographical area in which the assets are located:

| | Non-current assets | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Singapore | 31,102 | 29,531 |
| Malaysia | 13,535 | 4,408 |
| PRC | 13,634 | 11,582 |
| | 58,271 | 45,521 |

Non-current assets information presented above consists of property, plant and equipment, prepaid land rental, goodwill, intangible assets, investment in an associate and club membership as presented in the consolidated balance sheet.

## 42. Financial risk management objectives and policies

The Group and the Company is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, foreign currency risk and interest rate risk. The Board of directors reviews and agrees policies and procedures for the management of these risks, which are executed by the Chief Executive Officer and Finance Director. The Audit Committee provides independent oversight to the effectiveness of the risk management process. It is, and has been throughout the current and previous financial year the Group's policy that no derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient. The Group and the Company do not apply hedge accounting.

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks. There have been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks.

### (a) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations.

The Group's credit risk is primarily attributable to its trade and other receivables. Before accepting any new customer, credit evaluation is performed by the Company's credit review committee on a regular basis and generally do not require any collateral. The credit limit and credit amount granted to customers are reviewed once a year based on current creditworthiness and the past collection history of each customer. Where appropriate, the Group enters into a credit protection scheme with a financial institution.

For other financial assets (including cash and bank balances), the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

<u>Concentration risk</u>

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk is limited due to the customer base being large and unrelated. The credit risk on liquid funds is limited because the Group places its cash with reputable financial institutions.

## 42. Financial risk management objectives and policies (cont'd)

(a) Credit risk (cont'd)

Exposure to credit risk

The extent of the Group's credit exposure is represented by the aggregate carrying amount of cash and cash equivalents, trade and other receivables and amount due from associate and amount due from related parties.

The maximum amount the company could be forced to settle under corporate guarantee contracts to the banks in respect of facilities extended to its subsidiaries is $42,661,000 (2013: $25,382,000).

Information regarding credit enhancements for trade and other receivables is disclosed in Note 20.

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country profile of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's trade receivables at the balance sheet date is as follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | $'000 | % of total | $'000 | % of total |
| **By country:** | | | | |
| Singapore | 6,226 | 46% | 5,187 | 59% |
| Malaysia | 1,949 | 15% | 1,768 | 20% |
| PRC | 1,307 | 10% | 1,012 | 11% |
| Others | 3,930 | 29% | 866 | 10% |
| | 13,412 | 100% | 8,833 | 100% |

At the balance sheet date, approximately 0.64% (2013: 0.4%) of the Group's trade receivables were due from related parties. There were no customers who represented more than 5% of the total balance of trade receivables.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 20.

## 42. Financial risk management objectives and policies (cont'd)

### (b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group aims to maintain committed bank facilities prudently in excess of its estimated gross borrowing requirements.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's financial assets and liabilities at the balance sheet date based on contractual undiscounted repayment obligations.

| | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | 1 year or less $'000 | 1 to 5 years $'000 | After 5 years $'000 | Total $'000 | 1 year or less $'000 | 1 to 5 years $'000 | After 5 years $'000 | Total $'000 |
| **Group** | | | | | | | | |
| **Financial assets:** | | | | | | | | |
| Trade and other receivables [(1)] | 18,066 | – | – | 18,066 | 21,364 | – | – | 21,364 |
| Amount due from related parties | – | 5,468 | – | 5,468 | – | – | – | – |
| Amount due from contract customers | – | – | – | – | 1,582 | – | – | 1,582 |
| Refundable deposits | – | – | 924 | 924 | – | – | 668 | 668 |
| Amount due from subsidiaries and associate | 567 | – | – | 567 | 404 | – | – | 404 |
| Cash and bank balances | 7,288 | – | – | 7,288 | 10,913 | – | – | 10,913 |
| Total undiscounted financial assets | 25,921 | 5,468 | 924 | 32,313 | 34,263 | – | 668 | 34,931 |
| **Financial liabilities:** | | | | | | | | |
| Trade and other payables | 6,279 | – | – | 6,279 | 5,605 | – | – | 5,605 |
| Finance leases | 319 | 260 | – | 579 | 291 | 413 | – | 704 |
| Loans and borrowings | 25,817 | 5,305 | 14,306 | 45,428 | 14,039 | 2,616 | 9,281 | 25,936 |
| Bank overdrafts | 318 | – | – | 318 | 276 | – | – | 276 |
| Total undiscounted financial liabilities | 32,733 | 5,565 | 14,306 | 52,604 | 20,211 | 3,029 | 9,281 | 32,521 |
| Total net undiscounted financial assets/ (liabilities) | (6,812) | (97) | (13,382) | (20,291) | 14,052 | (3,029) | (8,613) | 2,410 |

[(1)] Exclude GST receivables

## 42. Financial risk management objectives and policies (cont'd)

(b) Liquidity risk (cont'd)

| | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | 1 year or less $'000 | 1 to 5 years $'000 | After 5 years $'000 | Total $'000 | 1 year or less $'000 | 1 to 5 years $'000 | After 5 years $'000 | Total $'000 |
| **Company** | | | | | | | | |
| **Financial assets:** | | | | | | | | |
| Trade and other receivables | 1,545 | – | – | 1,545 | 10,336 | – | – | 10,336 |
| Amount due from related companies | – | 5,468 | – | 5,468 | | | | |
| Amount due from subsidiaries and associate | 6,115 | 7,848 | – | 13,963 | 8,926 | 6,181 | – | 15,107 |
| Cash and bank balances | 1,526 | – | – | 1,526 | 4,817 | – | – | 4,817 |
| Total undiscounted financial assets | 9,186 | 13,316 | – | 22,502 | 24,079 | 6,181 | – | 30,260 |
| **Financial liabilities:** | | | | | | | | |
| Trade and other payables | 588 | – | – | 588 | 674 | – | – | 674 |
| Total undiscounted financial liabilities | 588 | – | – | 588 | 674 | – | – | 674 |
| Total net undiscounted financial assets | 8,598 | 13,316 | – | 21,914 | 23,405 | 6,181 | – | 29,586 |

The table below shows the contractual expiry by maturity of the Company's contingent liabilities and commitments. The maximum amount of the financial guarantee contracts are allocated to the earliest period in which the guarantee could be called.

| | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | 1 year or less $'000 | 1 to 5 years $'000 | After 5 years $'000 | Total $'000 | 1 year or less $'000 | 1 to 5 years $'000 | After 5 years $'000 | Total $'000 |
| **Company** | | | | | | | | |
| Financial guarantees | 25,825 | 4,915 | 11,921 | 42,661 | 13,827 | 2,717 | 8,838 | 25,382 |

## 42. Financial risk management objectives and policies (cont'd)

### (c) Foreign currency risk

The Group transacts business in various foreign currencies, including the United States dollar and Japanese Yen and therefore is exposed to foreign exchange risk.

The Group's foreign currency exposures arise mainly from the exchange rate movements of the United States dollar against the Singapore dollar. To the extent possible, sales and purchases which are denominated in United States dollar provide natural hedges. The remaining foreign currency exposure is considered limited.

It is the Group's policy not to enter into forward contracts until a firm commitment is in place. It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise the economic hedge.

<u>Sensitivity analysis for foreign currency risk</u>

The following table demonstrates the sensitivity to a reasonably possible change in the USD (against SGD), with all other variables held constant, of the Group's profit net of tax.

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | Profit net of tax | Profit net of tax |
| | $'000 | $'000 |
| USD/SGD | | |
| – strengthened 10% (2013:10%) | 821 | (849) |
| – weakened 10% (2013:10%) | (821) | 849 |

| | Company | |
|---|---|---|
| | 2014 | 2013 |
| | Profit net of tax | Profit net of tax |
| | $'000 | $'000 |
| USD/SGD | | |
| – strengthened 10% (2013:10%) | 717 | (1,492) |
| – weakened 10% (2013:10%) | (717) | 1,492 |

## 42. Financial risk management objectives and policies (cont'd)

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from their loans and borrowings. All of the Group's financial liabilities at floating rates are contractually re-priced at intervals of less than 6 months (2013: less than 6 months) from the end of the reporting period. The Group's policy is to manage interest cost using a mix of fixed and floating rate debts. The Group's policy is to keep 40% to 70% (2013: 40% to 70%) of its loans and borrowings at fixed rates of interest.

Sensitivity analysis for interest rate risk

At the end of the reporting period, if SGD interest rates had been 20 (2013: 10) basis points lower/higher with all other variables held constant, the Group's profit before tax would have been $46,000 (2013: $16,000) higher/lower, arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility as in prior years.

## 43. Fair values of assets and liabilities

(a) Fair value hierarchy

The Group categories fair value measurements using a fair value hierarchy that is dependent on the valuation input used as follows:

- Level 1 – Quoted prices (unadjusted) in active market for identical assets or liabilities that the Group can access at the measurement date,

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

- Level 3 – Unobservable inputs for the asset or liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

There have been no transfers from Level 1 and Level 2 to Level 3 during the financial year ended 31 December 2014 and 2013.

## 43. Fair values of assets and liabilities (cont'd)

(b) Assets and liabilities measured at fair value

The following table shows an analysis of each class of assets and liabilities measured at fair value at the end of the reporting period:

| | Group and Company 2014 $'000 | | | |
|---|---|---|---|---|
| | Quoted prices in active markets for identical instruments (Level 1) | Significant observable inputs other than quoted prices (Level 2) | Significant unobservable inputs (Level 3) | Total |
| **Non-recurring fair value measurement** | | | | |
| Assets classified as held for sale* | – | – | 4,486 | 4,486 |

* Assets classified as held for sale with a carrying amount of $4,886,000 were written down to their fair value less cost to sell amounting to $4,486,000, resulting in an impairment loss of $400,000, which was included as part of "other operating expenses" in the consolidated income statement (Note 24). The fair value is determined based on the purchase consideration of the shares as stipulated in the Sales and Purchase Agreements mentioned in Note 24.

| | Group and Company 2013 $'000 | | | |
|---|---|---|---|---|
| | Quoted prices in active markets for identical instruments (Level 1) | Significant observable inputs other than quoted prices (Level 2) | Significant unobservable inputs (Level 3) | Total |
| **Recurring fair value measurements** | | | | |
| **Financial assets:** | | | | |
| Available-for-sale financial assets | | | | |
| - Unquoted equity investments, at fair value** | – | – | 4,886 | 4,886 |

** As at 31 December 2013, available-for-sale financial assets, arising from the Company's partial disposal of equity interest in Shinsei Singapore and Both-Well Singapore, are stated at fair value, determined based on transaction values stipulated in the Sale and Purchase Agreement for the partial disposal of shares.

## 43. Fair values of assets and liabilities (cont'd)

(c) Level 3 fair value measurements

**Valuation policies and procedures**

The Group's Finance Director, who is assisted by the finance manager (collectively referred to as the "CFO office") oversees the Group's financial reporting valuation process and is responsible for setting and documenting the Group's valuation policies and procedures. In this regard, the CFO office reports to the Group's Audit Committee.

For all significant financial reporting valuations using valuation models and significant unobservable inputs, it is the Group's policy to engage external valuation experts to perform the valuation. The CFO office is responsible for selecting and engaging valuation experts who possess the relevant credentials and knowledge on the subject of valuation, valuation methodologies, and FRS 113 fair value measurement guidance.

For valuations performed by external valuation experts, the appropriateness of the valuation methodologies and assumptions adopted are reviewed along with the appropriateness and reliability of the inputs used in the valuations.

(d) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

The fair values of the financial assets and liabilities by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value are as follows:

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| | Carrying value | Fair value | Carrying value | Fair value | Carrying value | Fair value | Carrying value | Fair value |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Financial assets:** | | | | | | | | |
| Unquoted equity, at cost (Note 16) | 5,667 | * | 5,667 | * | 5,667 | * | 5,667 | * |
| Amounts due from related parties (Note 20) | 5,468 | # | – | – | 5,468 | # | – | – |
| Amounts due from subsidiaries (Note 22) | – | – | – | – | 7,848 | # | 6,181 | # |

* Unquoted equity, at cost
Fair value information has not been disclosed for the Group's investments in unquoted equity securities carried at cost because fair value cannot be measured reliably. These investments are not quoted in any market and do not have any comparable industry peers that are listed.

# Amounts due from subsidiaries and related parties (non-current)
It is not practical to estimate the fair value of the non-current amounts due from related parties as the amounts are not repayable within a year and there are no fixed repayment terms. Hence, the timing of future cash flows cannot be estimated reliably.

## 44. Financial instruments by category

The carrying amounts of the categories of financial instruments as at the end of the reporting period are as follows:

| | Note | Available-for-sale $'000 | Loans and receivables $'000 | Liabilities at amortised cost $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2014** | | | | | |
| **Assets:** | | | | | |
| Available-for-sale financial assets | 16 | 5,667 | – | – | 5,667 |
| Refundable deposits | 18 | – | 924 | – | 924 |
| Amounts due from related parties (non- current) | 20 | – | 5,468 | – | 5,468 |
| Trade and other receivables (excluding GST receivables) | 20 | – | 18,066 | – | 18,066 |
| Amounts due from subsidiaries and associate | 22 | – | 567 | – | 567 |
| Cash and bank balances | 23 | – | 7,288 | – | 7,288 |
| **Total** | | 5,667 | 32,313 | – | 37,980 |
| **Liabilities:** | | | | | |
| Trade payables | 25 | – | – | 2,392 | 2,392 |
| Other payables and accruals | 26 | – | – | 3,887 | 3,887 |
| Finance leases | 27 | – | – | 556 | 556 |
| Bank overdraft | 28 | – | – | 318 | 318 |
| Bills payables | 29 | – | – | 19,237 | 19,237 |
| Bank loans | 30 | – | – | 23,107 | 23,107 |
| | | – | – | 49,497 | 49,497 |

## 44. Financial instruments by category (cont'd)

| | Note | Available-for-sale $'000 | Loans and receivables $'000 | Liabilities at amortised cost $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2013** | | | | | |
| **Assets:** | | | | | |
| Available-for-sale financial assets | 16 | 10,553 | – | – | 10,553 |
| Refundable deposits | 18 | – | 668 | – | 668 |
| Trade and other receivables | 20 | – | 21,364 | – | 21,364 |
| Amounts due from contract customer | 21 | – | 1,582 | – | 1,582 |
| Amounts due from subsidiaries and associate | 22 | – | 404 | – | 404 |
| Cash and bank balances | 23 | – | 10,913 | – | 10,913 |
| **Total** | | 10,553 | 34,931 | – | 45,484 |
| **Liabilities:** | | | | | |
| Trade payables | 25 | – | – | 1,158 | 1,158 |
| Other payables and accruals | 26 | – | – | 4,447 | 4,447 |
| Finance leases | 27 | – | – | 669 | 669 |
| Bank overdraft | 28 | – | – | 276 | 276 |
| Bills payables | 29 | – | – | 8,884 | 8,884 |
| Bank loans | 30 | – | – | 16,222 | 16,222 |
| | | – | – | 31,656 | 31,656 |

| | Note | Available-for-sale $'000 | Loans and receivables $'000 | Liabilities at amortised cost $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Company** | | | | | |
| **2014** | | | | | |
| **Assets:** | | | | | |
| Available-for-sale financial assets | 16 | 5,667 | – | – | 5,667 |
| Amounts due from related parties (non- current) | 20 | – | 5,468 | – | 5,468 |
| Trade and other receivables | 20 | – | 1,545 | – | 1,545 |
| Amounts due from subsidiaries and associate | 22 | – | 13,963 | – | 13,963 |
| Cash and bank balances | 23 | – | 1,526 | – | 1,526 |
| **Total** | | 5,667 | 22,502 | – | 28,169 |
| **Liabilities:** | | | | | |
| Other payables and accruals | 26 | – | – | 588 | 588 |

## 44. Financial instruments by category (cont'd)

| | Note | Available-for-sale $'000 | Loans and receivables $'000 | Liabilities at amortised cost $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Company** | | | | | |
| **2013** | | | | | |
| **Assets:** | | | | | |
| Available-for-sale financial assets | 16 | 10,553 | – | – | 10,553 |
| Trade and other receivables | 20 | – | 10,336 | – | 10,336 |
| Amounts due from subsidiaries and associate | 22 | – | 15,107 | – | 15,107 |
| Cash and bank balances | 23 | – | 4,817 | – | 4,817 |
| **Total** | | 10,553 | 30,260 | – | 40,813 |
| **Liabilities:** | | | | | |
| Other payables and accruals | 26 | – | – | 674 | 674 |

## 45. Service concession arrangements

The Group has entered into several service concession arrangements within certain governing bodies and agencies of the PRC government to construct and operate wastewater treatment plants.

| | Construction revenue $'000 | Operating income of water/ wastewater treatment plants $'000 | Total service concession revenue $'000 |
|---|---|---|---|
| **Group** | | | |
| For financial year ended 31 December 2014 | 1,316 | 3,276 | 4,592 |
| For financial year ended 31 December 2013 | 1,075 | 2,615 | 3,690 |

The revenue recognised in relation to construction represents the fair value of the construction services provided in constructing the wastewater treatment plants.

## 45. Service concession arrangements (cont'd)

The details of service concession arrangements are as follows:

| Name of subsidiary | Plant type | Type and period of concession |
|---|---|---|
| ChangXing AW | Wastewater treatment plant | Build-Operate-Transfer ("BOT"), 30 years |
| LJX | Wastewater treatment plant | BOT, 30 years |
| CX LinSheng | Wastewater treatment plant | BOT, 50 years |
| CX WuSheng | Wastewater treatment plant | BOT, 50 years |

The subsidiaries are required to hand back these respective plants and other related facilities under the BOT arrangements to the respective local municipal government body/agency at the end of the respective concession periods without any consideration.

Subject to the approval of the local municipal government, the various concession arrangements allow for tariff adjustment based on the increases in key operating costs, overall adjustment of water tariff rates in the region where the plants operate, and the government policies regarding the management of water resources.

## 46. Capital management

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 stockholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt which includes borrowings as disclosed in Notes 27 to 30 and equity attributable to equity holders of the Company, comprising issued capital and reserves as disclosed in Notes 33 to 34.

Management reviews the capital structure of the Company on a yearly basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The management also ensures that the Group maintains the capital requirements and complies with the financial covenants within the range imposed by various banks for the borrowings extended to the Group.

The Group's overall strategy for 2014 has remained unchanged from 2013.

The Group monitors capital based on gearing ratio which is total liabilities divided by total equity. At 31 December 2014, total liabilities and total equity are $52,362,000 and $69,705,000 respectively. The Group seeks to maintain a balance between higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. At 31 December 2014, the Group's gearing ratio was 0.75 (2013: 0.51).

## 47. Authorisation of financial statements

The financial statements for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the directors on 30 March 2015.

# STATISTICS OF SHAREHOLDINGS

As at 19 March 2015

## Shareholders' Information as at 19 March 2015

| | | |
|---|---|---|
| Number of Equity Securities | : | 248,973,000 |
| Class of Equity Securities | : | Ordinary Shares |
| Voting Rights | : | One vote per share |

There is no treasury share held in the Company.

## Distribution of Shareholdings

| Size of Shareholding | Number of Shareholders | % | Number of Shares | % |
|---|---|---|---|---|
| 1 - 99 | 7 | 0.46 | 198 | 0.00 |
| 100 - 1,000 | 37 | 2.47 | 23,600 | 0.01 |
| 1,001 - 10,000 | 427 | 28.47 | 2,954,919 | 1.19 |
| 10,001 - 1,000,000 | 1,000 | 66.67 | 77,551,529 | 31.15 |
| 1,000,001 and above | 29 | 1.93 | 168,442,754 | 67.65 |
| Total | 1,500 | 100.00 | 248,973,000 | 100.00 |

## Distribution of Shareholdings

(As recorded in the Register of Substantial Shareholders)

| | Direct Interest | % | Deemed Interest | % |
|---|---|---|---|---|
| Ow Chin Seng* | 67,536,758 | 27.13 | 8,274,924 | 3.32 |
| Low Kheng* | 8,274,924 | 3.32 | 67,536,758 | 27.13 |

* Ow Chin Seng and Low Kheng are husband and wife.

# STATISTICS OF SHAREHOLDINGS

As at 19 March 2015

## Twenty Largest Shareholders

| No. | Name of Shareholders | Number of Shares | % |
|---|---|---|---|
| 1. | Ow Chin Seng | 67,536,758 | 27.13 |
| 2. | Maybank Kim Eng Securities Pte. Ltd. | 14,786,200 | 5.94 |
| 3. | Hong Leong Finance Nominees Pte Ltd | 9,807,000 | 3.94 |
| 4. | Bank Of Singapore Nominees Pte. Ltd. | 9,792,000 | 3.93 |
| 5. | Low Kheng | 8,274,924 | 3.32 |
| 6. | Lee Teck Leong | 7,376,000 | 2.96 |
| 7. | United Overseas Bank Nominees (Private) Limited | 4,311,400 | 1.73 |
| 8. | Seow Zi-Hua | 3,562,000 | 1.43 |
| 9. | Phillip Securities Pte Ltd | 3,462,400 | 1.39 |
| 10. | DBS Nominees (Private) Limited | 3,359,400 | 1.35 |
| 11. | Chew Kit Leng | 3,330,646 | 1.34 |
| 12. | Kuah Poh Beng | 2,958,000 | 1.19 |
| 13. | Tan Ong Huat | 2,702,400 | 1.09 |
| 14. | Kwek Geok Yong | 2,516,072 | 1.01 |
| 15. | Phua Sin Yee | 2,448,000 | 0.98 |
| 16. | Ee Kim Chuan @ Yee Kim Chuan | 2,229,200 | 0.90 |
| 17. | Kwa Ching Tze | 2,060,000 | 0.83 |
| 18. | HSBC (Singapore) Nominees Pte Ltd | 2,028,400 | 0.81 |
| 19. | Peh Choon Chieh | 1,966,409 | 0.79 |
| 20. | Ng Theng Lock | 1,962,309 | 0.79 |
| | Total | 156,469,518 | 62.85 |

## Percentage of Shareholding in Public's Hands

Approximately 64% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listng Manual of the SGX-ST.

# NOTICE OF ANNUAL GENERAL MEETING

ANNAIK LIMITED
(Company Registration Number: 197702066M) / (Incorporated in Singapore with limited liability)

NOTICE IS HEREBY GIVEN that the Annual General Meeting of AnnAik Limited ("the Company") will be held at 52 Tuas Avenue 9, Singapore 639193 on Monday, 27 April 2015 at 10.00 a.m. for the following purposes:

## As Ordinary Business

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company for the year ended 31 December 2014 together with the Auditors' Report thereon.

   **(Resolution 1)**

2. To declare a first and final dividend of 0.20 Singapore cent per ordinary share one-tier tax exempt for the year ended 31 December 2014 (FY2013: 0.10 Singapore cent per ordinary share).

   **(Resolution 2)**

3. To re-elect the following Directors of the Company retiring pursuant to Articles 115 and 119 of the Articles of Association of the Company:-

| | | |
|---|---|---|
| Mr Ow Chin Seng | (Retiring pursuant to Article 115) | **(Resolution 3)** |
| Mr Ng Kim Keang | (Retiring pursuant to Article 115) | **(Resolution 4)** |
| Mr Ang Mong Seng | (Retiring pursuant to Article 115) | **(Resolution 5)** |
| Mr Ow Eei Meng Benjamin | (Retiring pursuant to Article 119) | **(Resolution 6)** |

   Mr Ow Chin Seng will, upon re-election as a Director of the Company, remain as a member of the Nominating Committee and will be considered non-independent.

   Mr Ang Mong Seng will, upon re-election as a Director of the Company, remain as Chairman of the Remuneration Committee and a member of the Audit Committee and Nominating Committee and will be considered independent.

4. To approve the payment of Directors' Fees of S$186,000 for the year ended 31 December 2014 (FY2013: S$186,000).

   **(Resolution 7)**

5. To re-appoint Messrs Ernst & Young LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration.

   **(Resolution 8)**

6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

## As Special Business

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

7. Authority to issue shares

That pursuant to Section 161 of the Companies Act, Chapter 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors of the Company be authorised and empowered to:

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

(ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, 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 of the Company may in their absolute discretion deem fit; and

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instruments made or granted by the Directors of the Company while this Resolution was in force,

provided that:

(1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a pro rata basis to shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such calculation as may be prescribed by the Singapore Exchange Securities Trading Limited) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the total number of issued shares shall be based on the total number of issued shares in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

(a) new shares arising from the conversion or exercise of any convertible securities;

(b) new shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution; and

(c) any subsequent bonus issue, consolidation or subdivision of shares;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the Singapore Exchange Securities Trading Limited for the time being in force (unless such compliance has been waived by the Singapore Exchange Securities Trading Limited) and the Articles of Association of the Company; and

(4) unless revoked or varied by the Company in a general meeting, such authority 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 earlier. [See Explanatory Note (i)]

**(Resolution 9)**

8. Authority to grant options and issue shares under the AnnAik Employee Share Option Scheme 2013

That pursuant to Section 161 of the Companies Act, Chapter 50, the Directors be authorised and empowered to offer and grant options under the prevailing AnnAik Employee Share Option Scheme 2013 ("the Scheme") and to allot and issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of options granted by the Company under the Scheme, whether granted during the subsistence of this authority or otherwise, provided always that the aggregate number of additional ordinary shares to be allotted and issued pursuant to the Scheme shall not exceed fifteen per centum (15%) of the total number of issued shares in the capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, 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 earlier. [See Explanatory Note (ii)]

**(Resolution 10)**

9. Proposed adoption of the Share Buy Back Mandate

That approval be and is hereby given:-

(a) for the purposes of Sections 76C and 76E of the Companies Act, Chapter 50 and the Listing Manual of the Singapore Exchange Securities Trading Limited, the exercise by the Directors of the Company of all the powers of the Company to purchase or otherwise acquire issued ordinary shares in the share capital of the Company (the "Shares") not exceeding in aggregate the Maximum Limit (as hereafter defined), at such price or prices as may be determined by the Directors of the Company from time to time up to the Maximum Price (as hereafter defined), whether by way of:-

(i) on-market purchases ("Market Purchases") transacted on the Singapore Exchange Securities Trading Limited through the ready market, and which may be transacted through one or more duly licensed stockbrokers appointed by the Company for such purpose; and/or

(ii) off-market purchases ("Off-Market Purchases") effected pursuant to any equal access scheme(s) as may be determined or formulated by the Directors in their discretion, which scheme(s) shall satisfy all the conditions prescribed by the Companies Act, Chapter 50, and otherwise be in accordance with all other laws, the Listing Manual of the Singapore Exchange Securities Trading Limited and other regulations and rules of the Singapore Exchange Securities Trading Limited,

(the "Share Buy Back Mandate");

(b) unless varied or revoked by the Company in a general meeting, the authority conferred on the Directors of the Company pursuant to the Share Buy Back Mandate may be exercised by the Directors of the Company at any time and from time to time during the period commencing from the date of the passing of this Resolution and expiring on the earliest of:-

(i) the date on which the next Annual General Meeting of the Company is held or required by law to be held; or

(ii) the date on which the authority conferred by the Share Buy Back Mandate is revoked or varied by the Company in a general meeting, or

(iii) the date on which the purchases or acquisitions of Shares pursuant to the Share Buy Back Mandate are carried out to the full extent mandated; and

(c) the Directors of the Company and/or any of them be and is hereby authorised to do such acts and things (including, without limitation, enter into all transactions, arrangements and agreements and executing such documents) as they and/or he may consider necessary or expedient to give effect to this Resolution.

In this Resolution:-

**"Maximum Limit"** means that number of Shares representing 10% of the total number of issued Shares (excluding treasury shares) as at the date of the passing of this Resolution, unless the Company has, at any time during the Relevant Period (as defined below), effected a reduction of its share capital in accordance with the applicable provisions under the Companies Act, Chapter 50, in which event the total number of Shares shall be taken to be the total number of Shares as altered by the capital reduction. Any of the Shares held by the Company as treasury shares shall be disregarded for purposes of computing the 10% limit;

**"Maximum Price"** in relation to a Share to be purchased or acquired, means the price paid per Share which does not exceed 105% of the average of the closing market prices of the Shares over the last 5 Market Days, on which transactions in the Shares were recorded, before the day on which the purchases are made and deemed to be adjusted for any corporate action which occurs after the relevant 5-day period.

The Maximum Price shall apply to both Market Purchases and Off-Market Purchases and shall exclude brokerage fees, commission, stamp duties payable, applicable goods and services tax, clearance fees and other related expenses; and

**"Relevant Period"** means the period commencing from the date on which the Annual General Meeting of the Company at which this Resolution is passed is held and expiring on the date the next Annual General Meeting of the Company is held or is required by law to be held, whichever is earlier, after the date of the passing of this Resolution. [See Explanatory Note (iii)]

**(Resolution 11)**

By Order of the Board

Wong Yoen Har
Company Secretary

Singapore, 10 April 2015

## Explanatory Notes:

(i) The Ordinary Resolution 9 in item 7 above, if passed, will empower the Directors of the Company, effective 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 or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant Instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding, in total, 50% of the total number of issued shares in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to shareholders.

For determining the aggregate number of shares that may be issued, the total number of issued shares will be calculated based on the total number of issued shares in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.

(ii) The Ordinary Resolution 10 in item 8 above, if passed, will empower the Directors of the Company from the date of this Annual General Meeting until 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 or the date which such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to offer and grant options under the Scheme and to allot and issue shares in the Company pursuant to the exercise of options granted or to be granted under the Scheme up to a number not exceeding in aggregate (for the entire duration of the Scheme) fifteen per centum (15%) of the total number of issued shares in the capital of the Company from time to time.

(iii) The Ordinary Resolution 11 in item 9 above, if passed, will empower the Directors of the Company from the date of this Annual General Meeting until 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 or the date which such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to repurchase Shares by way of Market Purchases and/or Off-Market Purchases of up to 10% of the total number of Shares (excluding treasury shares) at the Maximum Price (as defined in Resolution 11). Information relating to this proposed Resolution is set out in the Appendix dated 10 April 2015 (in relation to the proposed adoption of the Share Buy Back Mandate) attached.

## Notes:

1. A Member entitled to attend and vote at the Annual General Meeting of the Company is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 52 Tuas Avenue 9, Singapore 639193 not less than forty-eight (48) hours before the time appointed for holding the 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 of the Company 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 processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting of the Company (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting of the Company (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 such 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.

## ANNAIK LIMITED

Company Registration No. 197702066M
(Incorporated In The Republic of Singapore)

## PROXY FORM

(Please see notes overleaf before completing this Form)

IMPORTANT:

1. For investors who have used their CPF monies to buy AnnAik Limited's shares, this Report is forwarded to them at the request of the 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 attend the Meeting as an observer must submit their requests through their CPF Approved Nominees within the time frame specified. If they also wish to vote, they must submit their voting instructions to the CPF Approved Nominees within the time frame specified to enable them to vote on their behalf.

I/We, ______________________________

of ______________________________

being a member/members of AnnAik Limited (the "Company"), hereby appoint:

| Name | NRIC/Passport No. | Proportion of Shareholdings | |
|---|---|---|---|
| | | No. of Shares | % |
| Address | | | |

and/or (delete as appropriate)

| Name | NRIC/Passport No. | Proportion of Shareholdings | |
|---|---|---|---|
| | | No. of Shares | % |
| Address | | | |

or failing the person, or either or both of the persons, referred to above , the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held on Monday, 27 April 2015 at 10.00 a.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

(Please indicate your vote "For" or "Against" with a tick [√] within the box provided.)

| No. | Resolutions relating to: | For | Against |
|---|---|---|---|
| 1 | Directors' Report and Audited Accounts for the year ended 31 December 2014 | | |
| 2 | Payment of proposed first and final dividend | | |
| 3 | Re-election of Mr Ow Chin Seng as a Director | | |
| 4 | Re-election of Mr Ng Kim Keang as a Director | | |
| 5 | Re-election of Mr Ang Mong Seng as a Director | | |
| 6 | Re-election of Ow Eei Meng Benjamin as a Director | | |
| 7 | Approval of Directors' Fees amounting to S$186,000 | | |
| 8 | Re-appointment of Messrs Ernst & Young LLP as Auditors | | |
| 9 | Authority to issue shares | | |
| 10 | Authority to grant options and issue shares under the AnnAik Employee Share Option Scheme 2013 | | |
| 11 | Proposed adoption of the Share Buy Back Mandate | | |

Dated this ________ day of ____________________ 2015

| Total number of Shares in: | No. of Shares |
|---|---|
| (a) CDP Register | |
| (b) Register of Members | |

______________________________
Signature of Shareholder(s)
or, Common Seal of Corporate Shareholder

**Notes :**

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.

4. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.

5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 52 Tuas Avenue 9, Singapore 639193 not less than 48 hours before the time appointed for the Meeting.

6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

**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 dated 10 April 2015.

**General:**

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

# CORPORATE DIRECTORY

## Board of Directors
Mr. Ow Chin Seng, PBM
*Executive Chairman cum CEO*

Mr. Ng Kim Keang
Mr. Koh Beng Leong
Dr. Yang Guo Ying
Mr. Ow Eei Meng Benjamin
*Executive Directors*

Mr. Daniel Lin Wei
*Non-Executive Director*

Mr. Ang Mong Seng, BBM
Mr. Lee Bon Leong, PBM, BBM, JP
Dr. Choong Chow Siong
*Independent Directors*

## Corporate Information
Audit Committee
Dr. Choong Chow Siong Chairman

Mr. Lee Bon Leong, PBM, BBM, JP
Mr. Ang Mong Seng, BBM

Nominating Committee
Mr. Lee Bon Leong, PBM, BBM, JP
Chairman

Dr. Choong Chow Siong
Mr. Ang Mong Seng, BBM
Mr. Ow Chin Seng, PBM

Remuneration Committee
Mr. Ang Mong Seng, BBM *Chairman*

Mr. Lee Bon Leong, PBM, BBM, JP
Dr. Choong Chow Siong

## Management Team
Distribution Division
Mdm. Low Kheng
*Head of Distribution (Operations)*
*– Singapore*

Mr. Peh Choon Chieh
*Acting General Manager (Operations)*
*– Singapore*

Mr. Loke Siew Meng
*Senior Sales Manager – Singapore*

Mr. Alex Kuah
*General Manager of a subsidiary*
*– Singapore*

Mr. Terence Sim
*General Manager of a subsidiary*
*– Singapore*

Mr. Steve Cheong
*General Manager of a subsidiary*
*– Singapore*

Manufacturing Division
Mr. Lim Khan Choon
*Deputy General Manager*
*– Penang, Malaysia*

Environmental Technology
& Engineering Division
Dr. Qiu Jiangping
*General Manager – PRC*

Dr. Raymond Yang Guo Ying
*Deputy GM – PRC*
*Director – Singapore*

## Company Secretary
Ms. Wong Yoen Har

## Registered Office
52 Tuas Avenue 9
Singapore 639193
Tel: 65 6210 2727, 6210 2726
Fax: 65 6861 5705, 6861 6919
Email: sales_mktg@annaik.com

## Share Registrar
Boardroom Corporate &
Advisory Services Pte. Ltd.
50 Raffles Place
#32-01, Singapore Land Tower
Singapore 048623
Tel: 65 6536 5355
Fax: 65 6536 1360

## Principal Bankers
United Overseas Bank Limited
80 Raffles Place
UOB Plaza 1
Singapore 048624

DBS Bank Ltd
12 Marina Boulevard #43-03
Marina Bay Financial Tower 3
Singapore 018982

Oversea-Chinese Banking
Corporation Limited
65 Chulia Street
#06-00, OCBC Centre East
Singapore 049514

## Auditors
Ernst & Young LLP
Certified Public Accountants
(Partner: Michael Sim Juat Quee)
Date of appointment: Appointed
with effect from 27 April 2012
One Raffles Quay
North Tower, Level 18
Singapore 048583


# GAINING MOMENTUM

# ADVANCING ONWARDS

ANNAIK LIMITED

52 Tuas Avenue 9, Singapore 639193
Tel: +65 6210 2727 / 6210 2726
Fax: +65 6861 5705 / 6861 6919
Website: www.annaik.com
Email: sales_mktg@annaik.com
(Company Registration No. 197702066M)