PACIFIC STAR DEVELOPMENT LIMITED

ANNUAL REPORT 2016

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PACIFIC STAR DEVELOPMENT LIMITED
Blk 8 #08-05 | 51 Benoi Road | Liang Huat Industrial Complex | Singapore 629908

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www.pacificstar-dev.com

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*This Annual Report has been prepared by the Company and its contents have been reviewed by the Company's Sponsor, SAC Capital Private Limited (the "**Sponsor**"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"). The Sponsor has not independently verified the contents of this Annual Report.*

This Annual Report has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this Annual Report including the correctness of any of the statements or opinions made or reports contained in this Annual Report.

The contact person for the Sponsor is Mr. Sebastian Jones, SAC Capital Private Limited at 1 Robinson Road, #21-02 AIA Tower, Singapore 048542. Telephone number: +65 6532 3829. SAC Capital Private Limited is the parent company of SAC Advisors Private Limited.

CORPORATE **INFORMATION**

BOARD OF DIRECTORS

Mr Yee Kee Shian, Leon, *Independent Non-Executive Chairman*

Mr Glen Chan, *Chief Executive Officer and Managing Director*

Mr Chua Siong Kiat, *Executive Director*

Mr Peh Siong Woon Terence, *Non-Independent Non-Executive Director*

Mr Tan Hai Peng Micheal, *Non-Independent Non-Executive Director*

Mr Low Siew Sie Bob, *Independent Non-Executive Director*

AUDIT COMMITTEE

Mr Low Siew Sie Bob, *Chairman*

Mr Yee Kee Shian, Leon

Mr Peh Siong Woon Terence

NOMINATING COMMITTEE

Mr Yee Kee Shian, Leon, *Chairman*

Mr Low Siew Sie Bob

Mr Peh Siong Woon Terence

REMUNERATION COMMITTEE

Mr Yee Kee Shian, Leon, *Chairman*

Mr Low Siew Sie Bob

Mr Peh Siong Woon Terence

EXECUTIVE COMMITTEE

Mr Glen Chan, *Chairman*

Mr Chua Siong Kiat

Mr Low Siew Sie Bob

REGISTERED OFFICE

Blk 8 #08-05
Liang Huat Industrial Complex
51 Benoi Road

Singapore 629908

Website: www.pacificstar-dev.com

REGISTRAR AND SHARE TRANSFER OFFICE

B.A.C.S Private Limited

8 Robinson Road

#03-00 ASO Building

Singapore 048544

PRINCIPAL BANKERS

United Overseas Bank (Malaysia) Bhd.

Malayan Banking Berhad

Citibank, N.A. Singapore

THE AUDITORS

Moore Stephens LLP

Chartered Accountants of Singapore

10 Anson Road #29-15 International Plaza

Singapore 079903

Partner-in-charge: Lao Mei Leng

(Appointed since financial year ended
31 December 2016)

COMPANY SECRETARY

Ms Liew Meng Ling

CORPORATE PROFILE

PACIFIC STAR DEVELOPMENT LIMITED is a new entity that emerged from the reverse takeover of LH Group Limited on 15 February 2017.

Pacific Star Development Limited (the "**Company**" and together with its subsidiaries, the "**Group**") is a new entity that emerged from the reverse takeover of LH Group Limited on 15 February 2017.

As an ASEAN-focused developer with over a decade in real estate investment management and development experience, the property division of the Company ("**Property Division**") has acquired both an extensive regional network as well as a solid background in development management, counting among its past investments the highly successful mixed-use project Pavilion in Kuala Lumpur. The Property Division has previously invested in and completed two residential projects in key prime locations in Bangkok and two in Kuala Lumpur. Currently, the Group has two projects on hand, Puteri Cove Residences and Quayside in Malaysia, and a joint-venture development in Thailand, The Posh Twelve.

The Group's non-property division ("**Non-Property Division**") includes the provision of aluminium works ("**Aluminium Division**") and the manufacturing of traction devices and vehicle parts ("**Vehicle Division**").

For more information, please visit www.pacificstar-dev.com

CHAIRMAN'S **STATEMENT**

As a leading ASEAN developer, PSD is poised to capitalise on the rapid urbanisation occurring in all ASEAN cities and the growing demand for property that this brings.

DEAR SHAREHOLDERS,

On behalf of the Board of Pacific Star Development Limited ("**PSD**" or the "**Company**"), it is my honour to present to you PSD's first Annual Report as a listed company for the financial year ended 31 December 2016 ("**FY2016**").

FY2016 was an eventful year for PSD. We began the reverse takeover process of LH Group Limited, which was successfully completed on 15 February 2017. Unique among SGX-listed property developers, PSD has its roots in investment management and development. PSD has previously invested in and completed two residential projects in Bangkok and two in Kuala Lumpur, including the award-winning Pavilion Residences, which were completely sold out upon completion. It also has a well-established Non-Property Division which includes the provision of aluminium works and the manufacturing of traction devices and vehicle parts.

STRONG SHAREHOLDER SUPPORT

During the reverse takeover process, I am pleased to highlight that PSD's pedigreed background in ASEAN-focused investment management gained recognition from several prominent companies that have become new investors in the Group through a placement which saw them collectively invest an approximate S$8.8 million. Among them are Chuan Hup Holdings Limited, Tang Group of Companies, Koh Brothers, Home Fix DIY and Food Empire Holdings.

Such financial commitments show the confidence that these investors have in PSD's future prospects, as well as their faith in the depth of expertise and experience of the management team. Reflecting this, the first day of trading in the Group's shares saw the price close at S$0.30, approximately 12% above the theoretical issue price of S$0.267.

CHAIRMAN'S **STATEMENT**

ASEAN FOCUS TO POWER FUTURE GROWTH

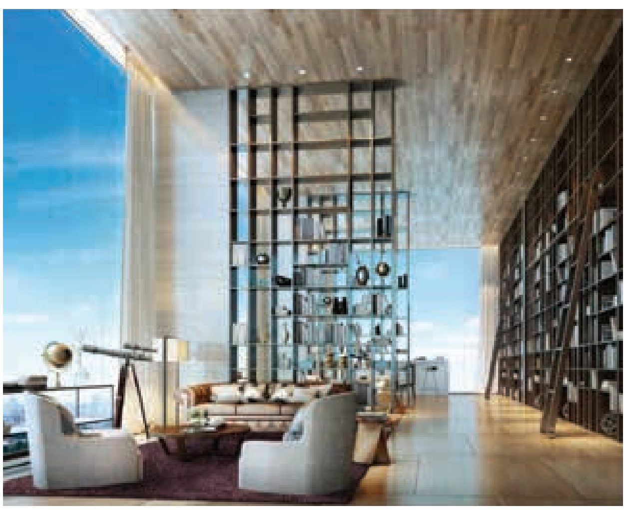
Currently, PSD has two portfolio projects on hand, Puteri Cove Residences and Quayside in Malaysia and a joint-venture development in Thailand, The Posh Twelve.

PSD will continue to search for opportunities in key prime locations in ASEAN, which is one of the fastest growing regions in the world[1]. ASEAN has a combined population of over 630 million in a geographical area blessed with rich natural resources, and a burgeoning middle income population that is literate, employable and highly skilled[2]. As a leading ASEAN developer, PSD is poised to capitalise on the rapid urbanisation occurring in ASEAN cities[3] and the growing demand for property that this brings.

A NOTE OF APPRECIATION

My deepest thanks goes to our existing and new shareholders for their unyielding support through the reverse takeover process. Even as we have crossed a significant milestone with the listing, I firmly believe the future will see PSD achieve new heights, and expand its footprint in ASEAN.

YEE KEE SHIAN, LEON
Independent Non-Executive Chairman
Pacific Star Development Limited



Artist's impression of The Posh Twelve's Sky Library, one of the many amenities offered at the 1,373 unit freehold condominium

Artist's impression of Puteri Cove Residences and Quayside overlooking the private marina, located in award-winning Puteri Harbour, Iskandar Malaysia

1 United Nations Population Division, 2015
2 Nielsen Estimates, DBS Bank/UNESCO Institute of Statistics
3 United Nations, World Urbanization Prospects, 2014 Revision

CEO'S STATEMENT

DEAR SHAREHOLDERS,

On behalf of your Board of Directors, I would like to present an overview of the Group for the financial year ended 31 December 2016 ("**FY2016**").

PSD'S UNIQUE BUSINESS MODEL

2016 was a key milestone for PSD, where we began the reverse takeover of LH Group Limited, which was successfully completed on 15 February 2017. After the completion of the reverse takeover, the combined Group now encompasses both property and non-property businesses.

As the takeover was completed on 15 February 2017, FY2016 reported financials will only include the Non-Property Division[1]. On soft operating conditions, the Non-Property Division reported a net loss after income tax of S$7.2 million for FY2016, widening from a loss of S$5.8 million in FY2015, as revenues fell by 34.5% to S$12.6 million in FY2016, from S$19.2 million in FY2015.

However, we are confident about the Group's prospects moving forward, as the combined business has a strong track record and an attractive portfolio of development properties. Unique among SGX-listed companies for its investment management and development track record, PSD's Property Division shall tap on its strong network of relationships with leading real estate players and investors throughout ASEAN. It has historically been able to originate deals and identify prime projects for investment and development, and to secure off-market prime land for future new pipeline projects. As a listed entity, this heritage will serve us well as we strive to expand our business operations in the ASEAN key cities.

BUSINESS OUTLOOK

The Property Division of the Group has performed strongly in FY2016, as revenues and profits continue to be recognised on a percentage of completion basis for Puteri Cove Residences, the Group's property development project in Iskandar Malaysia. The Group's co-developed property in Bangkok, Thailand, which is currently under construction, is scheduled for a regional launch in Q2 2017. Barring unforeseen circumstances, we remain positive of the Property Division's prospects going forward.

For the Non-Property Division, competition for orders within the industry has become keener as the building construction industry slows down. As a result, the Group's revenue experienced a 34.5% drop in FY2016. According to the Singapore Department of Statistics, the number of building permits granted to private residential property developers declined by 35.7% from 8,454 in 2014 to 5,438 in 2015. Also, during the first half of 2016, the number of building permits fell by 19.9%, as compared to the same period in 2015. This demonstrates the impact of weak economic conditions on the building construction industry. Alongside the fewer jobs in the industry, the industry has also been affected by the tighter foreign manpower policies and is faced

Unique among SGX-listed companies for its investment management and development track record, PSD's Property Division shall tap on its strong network of relationships with leading real estate players and investors throughout ASEAN. It has historically been able to originate deals and identify prime projects for investment and development, and to secure off-market prime land for future new pipeline projects. As a listed entity, this heritage will serve us well as we strive to expand our business operations in the ASEAN key cities.

with potential disruption[2]. As such, the outlook for the Non-Property Division continues to remain challenging going forward.

EXCITING CURRENT PROJECTS AND FUTURE GROWTH

With our unwavering commitment to excellence as a property developer in the ASEAN region, we are proud to highlight that our current slate of projects continues our record of excellence.

Puteri Cove Residences and Quayside is a freehold mixed-use development located in master planned Iskandar Puteri, which has become widely regarded as the most prominent development zone in Iskandar Malaysia. Puteri Cove Residences and Quayside comprises 658 luxury apartments in two 32-storey tower blocks, SOHO units, lofts units, and an exciting Lifestyle Retail Centre. In addition, a third 32-storey tower will be managed by Pan Pacific as serviced suites, marking its first foray in Malaysia. Puteri Cove boasts of panoramic views of the Singapore northern coastline and One°15 Marina Club with 300 berths for yachts and catamarans. Puteri Cove is one of the most successful developments in Malaysia, winning 3 industry awards in the South East Asian Property Awards 2016, being "Best Luxury Condo Development (South Malaysia)", "Best Residential Interior Design", and highly commended in the "Best In Residential Architectural Design" category. It has also achieved one of the highest average selling prices in Iskandar Malaysia, appealing to a broad base of buyers from more than 28 different countries. The two residential towers will be completed by end 3Q2017.

Our other project, The Posh Twelve in Bangkok, targets PSD's core audience – ASEAN's young and affluent middle-class home buyers. It is a freehold condominium project with two high rise blocks of 45 and 39 storeys towers respectively and complimented with 7 commercial units. The project is situated at the north western part of the city at Tiwanon Road and is the tallest development in the area. The unique selling point of The Posh Twelve is its close proximity (three minutes' walk) to the Public Health Ministry MRT station and its extensive amenities. Therefore, the project offers maximum value and convenience to a middle income target buyer market. It is slated for construction completion in Q4 2019.

As part of our goal to grow our development footprint and track record in ASEAN, we have targeted four main areas for future growth: prime luxury mixed-use projects in unique city centres and waterfront locations, branded residences, resort hotels and villas in vacation destinations, and resort retirement communities.

THANK YOU

I would like to thank all our business associates, partners, and suppliers for their unwavering support, and all working parties who have contributed to the success of the reverse takeover for their dedication. I would also like to thank my fellow colleagues, management team, and staff for their trust in PSD. Lastly, I sincerely appreciate the support of our fellow new shareholders in PSD as we embark upon this new journey together as a listed company. Without all of your support and encouragement, it would not have been possible for Pacific Star Development Limited to take this great leap forward.

This successful listing has strengthened our motivation, perseverance and resolve to excel in property developments through innovation and entrepreneurship. We will seize this opportunity and endeavour to grow Pacific Star Development Limited's presence in ASEAN.

GLEN CHAN
CEO & Managing Director
Pacific Star Development Limited

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1 Please refer to the Circular dated 30 December 2016 for pro forma financial statements of the combined business.

BOARD OF **DIRECTORS**

The Board of Directors of Pacific Star Development Limited effective 15 February 2017.

YEE KEE SHIAN, LEON
Independent Non-Executive Chairman

MR YEE is the Independent Non-Executive Chairman of Pacific Star Development Limited. He serves as the Chairman of the Nominating Committee and Remuneration Committee and member of the Audit Committee. He is the Chairman and the Managing Director of Duane Morris & Selvam LLP, a leading international law firm, and serves as its Global Head of Corporate as well as the Head of the firm's China Practice Group. He has over 15 years of corporate law experience and regularly advises ultra-high net worth individuals, private equity funds, investment banks, listed and private companies on banking & finance, corporate finance, venture capital, capital markets, takeovers, cross-border mergers and acquisitions, corporate restructurings and joint ventures. He serves as an independent director on the board of Federal International (2000) Ltd, a company listed on the Main Board of the SGX-ST. Mr Yee graduated with a Bachelor of Arts (Law) and a Master of Arts from the University of Cambridge. He is an Advocate & Solicitor of the Supreme Court of Singapore and a Solicitor of the Supreme Court of England and Wales. He is a member of the Tan Kah Kee International Society and serves as a visiting Professor of Law at Jimei University, China and as Distinguished Fellow of the Singapore Scout Foundation.

GLEN CHAN
CEO and Managing Director

MR CHAN is the CEO and Managing Director of Pacific Star Development Limited. Mr Chan oversees and manages the Company's investments in real estate development projects in ASEAN and is also involved in all key aspects of the operations, business and strategic planning of Pacific Star Development Limited. Mr Chan has over 29 years of comprehensive experience in all aspects of real estate development and investments with in depth expertise in development management, deal structuring, transaction management and investment management in both development projects and existing properties. Prior to joining the Company's Property Division, Mr Chan was an Executive Director in CBRE Singapore, a member of the CBRE Asia Board of Directors, Country Head and Managing Director of CBRE Indonesia. He obtained his Bachelor of Science in Estate Management (2nd lower honours) from National University of Singapore in 1988.

CHUA SIONG KIAT
Executive Director

MR CHUA is the Executive Director of Pacific Star Development Limited and currently oversees the Non-Property Division. He has over 23 years of international broad-based financial and management experiences with various large local and global multinational companies that are involved in real estate development, building materials and construction, healthcare and medical assurance, renewable energy and power generation, marine services businesses, having been based in London, Beijing, Ho Chi Minh City and Singapore with regional travelling. Mr Chua is active in charity foundations as an Executive Committee Member of National Arthritis Foundation (NAF), Singapore. Mr Chua is a Fellow of Chartered Certified Accountant (FCCA, UK), Certified Internal Auditor (CIA, USA), Chartered Accountant of Singapore (CA Singapore) and a member of the Singapore Institute of Directors (SID). He holds a Master of Business Administration (MBA, DIC) from London Imperial College Business School.

MR PEH is a Non-Independent Non-Executive Director of Pacific Star Development Limited. He is a member of the Audit Committee, Nominating Committee and Remuneration Committee. Mr Peh is the CEO and Executive Director of Chuan Hup Holdings Limited. He is also the Executive Vice Chairman and Executive Director of PCI Limited. He oversees the strategic direction, investments and management of these 2 listed entities. Overall, Mr Peh has over 18 years of experience in property development investment and project management in Asia Pacific, and management experience in finance in the marine and electronics manufacturing services industries. Mr Peh holds a Master of Commerce in Finance from the University of New South Wales, Australia and a Bachelor of Commerce in Marketing from Curtin University of Technology, Australia.

PEH SIONG WOON TERENCE
Non-Independent
Non-Executive Director

MR TAN is a Non-Independent Non-Executive Director of Pacific Star Development Limited. He is also a Non-Executive Director of Viva Industrial Trust Management Pte. Ltd. and Viva Asset Management Pte. Ltd., which are both trustee managers of Viva Industrial Trust which is listed on the Main Board of the SGX-ST. Mr Tan is an Executive Director of Ho Lee Group Pte. Ltd.. Since February 1996 (in respect of Ho Lee Group Pte. Ltd.) and September 2007 (in respect of the Company) up till the present, Mr Tan has been active in his roles as a key member of the executive team in these two (2) companies. Mr Tan graduated with a Master of Business Administration (Senior Executive) degree from the National University of Singapore in December 2004 and a Bachelor of Science in Computer Engineering with Highest Honour from the Florida Institute of Technology, USA in August 1990. Mr Tan was conferred the Public Service Medal in 2011 for his contributions to public services in Singapore.

TAN HAI PENG MICHEAL
Non-Independent
Non-Executive Director

MR LOW is an Independent Non-Executive Director of Pacific Star Development Limited. He serves as the Audit Committee Chairman and member of the Nominating Committee and Remuneration Committee. Currently, he is the Principal Consultant of Bob Low & Co., Public Accountants/Chartered Accountants Singapore, engaged principally in corporate assurance, tax compliance, corporate restructuring and recovery, acting as Judicial Manager, Receiver & Manager, Scheme Manager, and business succession advisory. He is also a Lead Independent Director of Interra Resources Limited. A fellow member of Chartered Certified Accountant, UK, Certified Public Accountants of Australia, Insolvency Practitioners Association of Singapore, member of the Chartered Institute of Arbitrators of UK, Singapore Institute of Arbitrators, Singapore Academy of Law and Singapore Institute of Directors and an Accredited Tax Advisor of the Singapore Institute of Accredited Tax Professionals. Mr Low obtained his Bachelor of Laws, Second Lower Hons. London University in 1985.

LOW SIEW SIE BOB
Independent
Non-Executive Director

KEY **MANAGEMENT**

GLEN CHAN CEO and Managing Director

MR CHAN is the CEO and Managing Director of Pacific Star Development Limited. Mr Chan oversees and manages the Company's investments in real estate development projects in ASEAN and is also involved in all key aspects of the operations, business and strategic planning of Pacific Star Development Limited. Mr Chan has over 29 years of comprehensive experience in all aspects of real estate development and investments with in depth expertise in development management, deal structuring, transaction management and investment management in both development projects and existing properties. Prior to joining the Company's Property Division, Mr Chan was an Executive Director in CBRE Singapore, a member of the CBRE Asia Board of Directors, Country Head and Managing Director of CBRE Indonesia. He obtained his Bachelor of Science in Estate Management (2nd lower honours) from National University of Singapore in 1988.

CHUA SIONG KIAT Head of Non-Property Division

MR CHUA is the Executive Director of Pacific Star Development Limited and currently oversees the Non-Property Division. He has over 23 years of international broad-based financial and management experiences with various large local and global multinational companies that are involved in real estate development, building materials and construction, healthcare and medical assurance, renewable energy and power generation, marine services businesses, having been based in London, Beijing, Ho Chi Minh City and Singapore with regional travelling. Mr Chua is active in charity foundations as an Executive Committee Member of National Arthritis Foundation (NAF), Singapore. Mr Chua is a Fellow of Chartered Certified Accountant (FCCA, UK), Certified Internal Auditor (CIA, USA), Chartered Accountant of Singapore (CA Singapore) and a member of the Singapore Institute of Directors (SID). He holds a Master of Business Administration (MBA, DIC) from London Imperial College Business School.

TAN PECK LUAN Financial Controller

MS TAN is Vice President and Financial Controller of Pacific Star Development Limited. Her current responsibilities include overseeing financial reporting, providing financial analyses, developing policies and procedures to improve financial and operational processes, and managing the accounting activities. Tan Peck Luan started her career as an assistant tax officer with the Inland Revenue Authority of Singapore from June 1993 to July 1994. From July 1994 to August 1996, she was an accounts executive with the Lingco Marine Pte. Ltd. group of companies. From November 1996 to May 2004, Tan Peck Luan was an audit manager at Deloitte & Touche, Singapore. From January 2005 to March 2008, she was a financial controller at April Management Pte Ltd. From April 2008 to December 2013, Tan Peck Luan worked as a freelance accountant. She also took on the role of accounting and administrative manager at Talent Navigators Pte. Ltd. from August 2013 to April 2015. She has been with PSD Singapore Pte. Ltd. since April 2015. Ms Tan graduated with a Diploma in Accountancy from Ngee Ann Polytechnic in August 1993. She is a Graduate of the Association of Chartered Certified Accountants since June 1996, and is a member of the Institute of Singapore Chartered Accountants.

OPERATIONS & FINANCIAL **REVIEW**

FY2016 reported financials will only include the Group's Non-Property Division, as the reverse takeover of LH Group Limited was completed on 15 February 2017.

The Group's revenue for FY2016 decreased to S$12.6 million from S$19.2 million in FY2015. The lower revenue was due mainly to a decrease in revenue from both the Aluminium Division and Vehicle Division. Revenue from the Aluminium Division decreased to S$12.2 million in FY2016 from S$18.7 million in FY2015 due mainly to a drop in the order book. Revenue from the Vehicle Division decreased to S$0.3 million in FY2016 from S$0.5 million in FY2015.

The Group recognised a gross profit of S$1.4 million in FY2016 compared to a gross loss of S$1.4 million in FY2015. The Aluminium Division recognised a gross loss of S$1.3 million in FY2015 due mainly to costs overrun for several key materials and higher manpower as a result of labour shortage and higher foreign workers levy. The gross profit of S$1.4 million in FY2016 is mainly attributed to the execution of low margin projects and with no significant costs overrun on these projects required for provision for foreseeable loss as at 31 December 2016. The Vehicle Division recognised a gross loss of S$1,000 in FY2016 compared to a gross loss of S$63,000 in FY2015.

Other operating income decreased to S$0.5 million in FY2016 from S$0.8 million in FY2015 due mainly to a decrease in foreign exchange gain.

Administrative expenses decreased marginally by S$0.3 million from S$2.8 million in FY2015 to S$2.5 million in FY2016 mainly due to a decrease in depreciation charge on property, plant and equipment.

Other operating expenses increased to S$6.4 million in FY2016 from S$2.0 million in FY2015 due mainly to increases in: (i) legal and professional fees of S$2.7 million and provision for restructuring expenses of S$0.5 million in FY2016 for the purposes of the reverse takeover; and (ii) allowance for slow-moving inventories of S$2.0 million for the Vehicle Division; offset by a decrease in impairment loss on intangible assets by S$0.7 million.

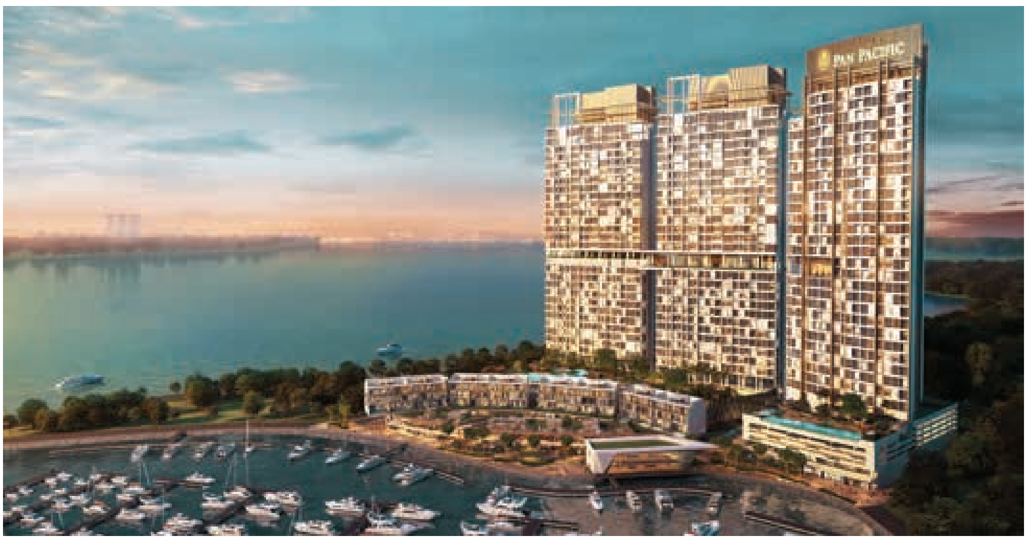
The Group reported net loss after income tax of S$7.2 million for FY2016 compared to net loss after income tax of S$5.8 million in FY2015.

PROPERTY DIVISION

PROPERTY DIVISION

Currently, the Group has two projects on hand, ***Puteri Cove Residences and Quayside*** in Malaysia and a joint-venture development in Thailand, ***The Posh Twelve***.

Puteri Cove Residences and Quayside *is a freehold mixed-use development located in Iskandar Puteri, comprising 658 luxury apartments in two 32-storey tower blocks, including a separate tower of luxury serviced suites managed by Pan Pacific Hotels Group, as well as 56 SOHO/Loft units integrated with a 2-storey lifestyle retail centre with 79 retail units, all overlooking Singapore's One°15 managed private marina. It is one of the most successful projects in Iskandar Puteri with buyers from more than 28 different countries.*

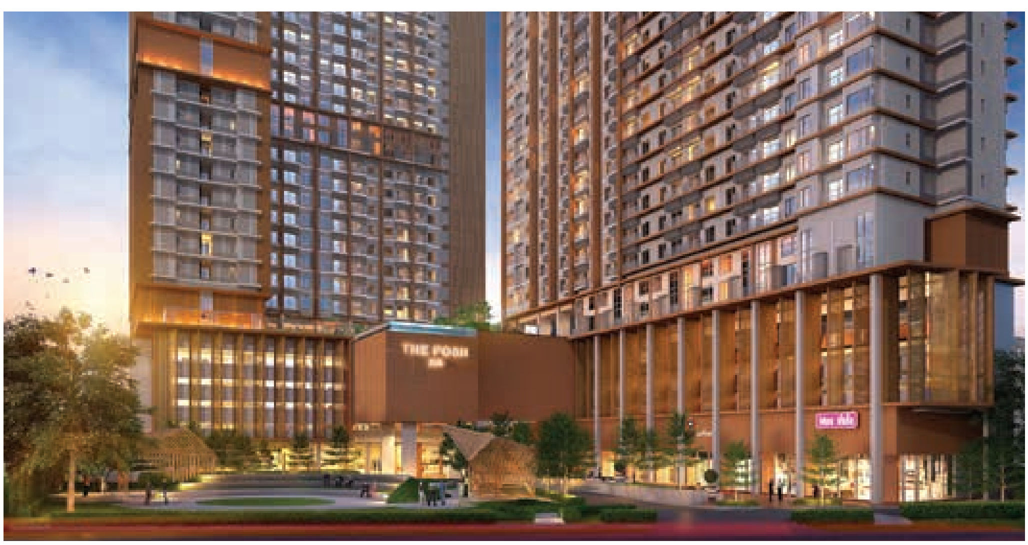


Puteri Cove Residences and Quayside *is situated on a 339,817 square feet waterfront land parcel in Puteri Harbour, an international master planned community that is commonly regarded as the most prestigious location in Iskandar Puteri, Malaysia.*

Puteri Cove Quayside *will provide a comprehensive suite of F&B, amenities and services for the complete convenience of residents and its surrounding catchment, along a breezy promenade.*

The Posh Twelve is a freehold condominium with 1,373 high-rise residential apartments in two towers of 45-storey and 39-storey, complimented with 7 commercial units. Located in Tiwanon, Bangkok, it is the tallest residential development in its area, fully furnished with extensive amenities, well-connected (a three minute walk from the nearest MRT station), and offers maximum value and convenience to a middle income target market.

***The Posh Twelve** offers fully fitted studio, 1 and 2 bedroom apartments with high ceiling and duplex units.*



***The Posh Twelve** provides 350 sqm of retail space at ground floor for the convenience of residents and the surrounding neighbourhood.*

NON-PROPERTY DIVISION

NON-PROPERTY DIVISION

The Non-Property Division of the Company operates under two divisions – the Aluminium Division and the Vehicle Division.

The business and experience of the Aluminium Division includes the design, fabrication and installation of building façades and interior walls such as curtain walling systems, cladding systems, high quality doors and windows.

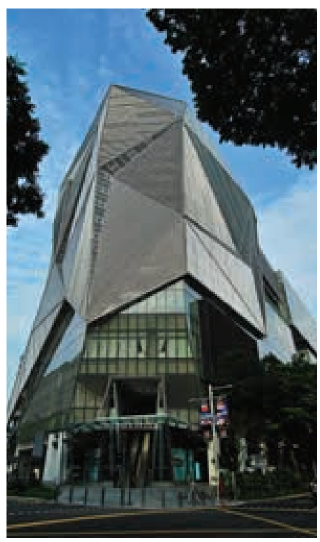
The Aluminium Division's technical expertise and track record accumulated over the years has enabled the Group to register with the top grading (L6) with the Singapore Building and Construction Authority. This allows the Aluminium Division to tender for projects with unlimited tender values.

The Aluminium Division's track record include several Housing Development Board projects, such as The River Vista @ Kallang and The SkyTerrace @ Dawson, as well as Singapore Changi Airport Terminal 3, The Sail @ Marina Bay, The Capella @ Sentosa, Educational Institution Building @ Tampines – United World College South East Asia, Orchard Central, The Clift @ McCallum Street, The Tennery, Floridian and Jardin Condominium.

The Vehicle Division, which is primarily based in South Korea, manufactures vehicle traction devices and vehicle parts.

The Sail @ Marina Bay

Changi Airport Terminal 3



Orchard Central

CORPORATE GOVERNANCE

Corporate Governance

The Board of Directors (the "Board") is committed to ensure that a high standard of corporate governance is practised throughout Pacific Star Development Limited (formerly known as LH Group Limited) (the "Company") together with its subsidiaries (the "Group"), as a fundamental part of its responsibilities to protect and enhance shareholder value and the financial performance of the Group.

This report describes the Group's corporate governance practices and structures that were in place during the financial year ended 31 December 2016 ("FY2016"), with specific reference to the principles and guidelines of the revised Code of Corporate Governance 2012 (the "Code") and, where applicable, the Listing Manual Section B: Rules of Catalist ("Catalist Rules") of the Singapore Exchange Securities Trading Limited ("SGX-ST"), the Singapore Companies Act and the Audit Committee Guidance Committee ("ACGC") Guidebook, focusing on areas such as internal controls, risk management, financial reporting, internal and external audits.

The Board is pleased to confirm that for the financial year ended 31 December 2016, the Group has adhered to the principles and guidelines as set out in the Code and the Catalist Rules, where applicable except where otherwise stated.

BOARD MATTERS

Principle 1: Board's Conduct of its Affairs

The Board of Directors at the date of this report comprises:–

Mr Yee Kee Shian, Leon	(Independent Non-Executive Chairman)
Mr Glen Chan	(Chief Executive Officer and Managing Director)
Mr Chua Siong Kiat	(Executive Director)
Mr Peh Siong Woon Terence	(Non-Independent Non-Executive Director)
Mr Tan Hai Peng Micheal	(Non-Independent Non-Executive Director)
Mr Low Siew Sie Bob	(Independent Non-Executive Director)

The Board's role is to:

- Provide entrepreneurial leadership, set strategic objectives, and ensure that the necessary financial and human resources are in place for the Group to meet its objectives;
- Establish a framework of prudent and effective controls which enables risk to be assessed and managed, including safeguarding of shareholders' interests and the Group's assets;
- Review management's performance;
- Identify the key stakeholder groups and recognise that their perceptions affect the Group's reputation;
- Set the Group's values and standards, and ensure that obligations to shareholders and others are understood and met;
- Consider sustainability issues, including environmental and social factors, as part of its strategic formulations; and
- Approve major investment and funding decisions.

The Board regularly reviews the Group's strategic business plans, the assessment of key risks by management and the operational and financial performance of the Group to enable the Group to meet its objectives. The Board has overall responsibility for establishing and maintaining a framework of good corporate governance in the Group, including the risk management systems and internal controls to safeguard shareholders' interests and the Group's assets. All Board members bring their diversified knowledge and experience to bear on issues of strategy, performance, resources and standards of conduct and ethics.

CORPORATE GOVERNANCE

The Board objectively takes decisions in the interests of the Group. The Board has delegated specific responsibilities to four Committees, namely the Executive ("EXCO"), Audit ("AC"), Nominating ("NC") and Remuneration ("RC") Committees. Information on each of the four Committees is set out below. The Board accepts that while these Committees have the authority to examine particular issues and will report back to the Board with their decisions and/or recommendations, the ultimate responsibility on all matters lies with the Board.

The Company has in place a set of internal controls and guidelines that sets out finance authorisation and approval limits for investments, divestments, capital and operating expenditures and expenses. The Board approves transactions exceeding certain threshold limits, while delegating authority for transactions below those limits to management to facilitate operational efficiency.

The Board meets at least four times a year. Fixed meetings are scheduled at the start of each year. Ad hoc meetings are called when there are pressing matters requiring the Board's consideration and decision in between the scheduled meetings.

The Constitution of the Company allows directors to participate in a Board meeting by telephone conference or video-conference whereby all persons participating in the meeting are able to communicate as a group, without requiring the director's physical presence at the meeting. The numbers of Board and Board Committee meetings held in the FY2016 and the attendance of directors during these meetings are as follows:

	Board	Audit Committee	Remuneration Committee	Nominating Committee	Executive Committee
No. of meetings held	4	4	1	1	9
No. of meetings attended:					
Tan Hai Peng Micheal	4	4*	1*	1*	9
Chng Hee Kok[(1)]	1	1*	1*	1*	2
Tan Hai Seng Benjamin[(2)]	3	3	1	1	5
Low Siew Sie Bob	4	4	1	1	7*
Lim Teck Leong David[(2)]	4	4	1	1	–
Glen Chan^^ (his alternate, Chua Siong Kiat)	3	3*	–	–	6*

(1) Resigned as director on 26 April 2016.

(2) Resigned as director on 15 February 2017.

* Attended by invitation

^^ Mr Glen Chan was appointed to the Board on 29 March 2016 and has therefore not attended the meetings of the Board, EXCO, NC and AC respectively held prior to that date.

A formal letter is provided to each director upon his appointment, setting out the director's duties and obligations. The Group also conducts an orientation programme for new directors to familiarise them with the business activities of the Group, its strategic direction and corporate governance practices.

To keep pace with new laws, regulations, changing commercial risks and financial reporting standards, all directors are encouraged to be members of the Singapore Institute of Directors and attend specifically tailored training conducted by professionals at least annually. Directors are also encouraged to attend, at the Group's expense, relevant and useful seminars for their continuing education and skills improvement courses that are conducted by external organisations. The Company Secretary will bring to directors' attention information on seminars that may be of relevance or use to them.

CORPORATE GOVERNANCE

Principle 2: Board Composition and Independent Directors

The Board currently comprises two (2) Executive Directors and four (4) Non-Executive Directors as follows:

With effect from 15 February 2017

Mr Yee Kee Shian, Leon	(Independent Non-Executive Chairman, appointed on 15 February 2017)
Mr Glen Chan	(Chief Executive Officer and Managing Director, appointed on 15 February 2017)
Mr Chua Siong Kiat	(Executive Director, appointed on 15 February 2017)
Mr Peh Siong Woon Terence	(Non-Independent Non-Executive Director, appointed on 15 February 2017)
Mr Tan Hai Peng Micheal	(Non-Independent Non-Executive Director)
Mr Low Siew Sie Bob	(Independent Non-Executive Director)

Prior to 15 February 2017, the Board comprised one (1) Executive Director and four (4) Non-Executive Directors as follows:

In effect up to 15 February 2017

Mr Tan Hai Peng Micheal	(Executive Chairman)
Mr Tan Hai Seng Benjamin	(Non-Independent Non-Executive Director, resigned on 15 February 2017)
Mr Low Siew Sie Bob	(Lead Independent Non-Executive Director)
Mr Lim Teck Leong David	(Independent Non-Executive Director, resigned on 15 February 2017)
Mr Glen Chan	(Non-Executive Director)
Mr Chua Siong Kiat	(Alternate Director to Mr Glen Chan)

For the Board in effect up to 15 February 2017, all non-executive directors, except for Mr Tan Hai Seng Benjamin who is an Executive Director of Ho Lee Group Pte Ltd and Teck Lee Holdings Pte Ltd, the immediate and the ultimate holding company of the Group respectively, are independent i.e., they have no relationship with the Company, its related companies, its 10% shareholders, or their 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 Group, and they have been able to exercise objective judgement on corporate affairs independently from management and the Group's majority shareholders.

For the current Board in effect from 15 February 2017, the Board consists of six (6) directors, two (2) of whom are independent, namely Mr Yee Kee Shian, Leon and Mr Low Siew Sie Bob. All non-executive directors, except for Mr Peh Siong Woon Terence and Mr Tan Hai Peng Micheal who have deemed interests through the substantial shareholders of the Group, are independent.

Accordingly, the Independent Directors make up at least one-third of the Board for both the Board in effect up to 15 February 2017 and the Board with effect from 15 February 2017.

All directors are required to disclose any relationships or appointments which would impair their independence to the Board in a timely manner. In addition, the Board, on annual basis, determines whether or not a director is independent, taking into account the Code's definition. The Board had assessed the independence of each Independent Director and whose tenure had exceeded nine years from the date of their first appointment. The Board is of the view that an individual's independence cannot be arbitrarily determined merely on the basis of a set period of time. On the contrary, the Independent Directors continue to provide stability to the Board and the Group has benefited greatly from the presence of individuals who are specialist in their own fields and they have, over time, not only gained valuable insight into the Group, its business, markets and industry but have brought their breadth and depth of business experience to the Group.

CORPORATE GOVERNANCE

Based on the Board's observation, the Independent Directors for both the Board in effect up to 15 February 2017 and the Board with effect from 15 February 2017 had demonstrated independent mindedness and conduct at Board and Board committee meetings. The Board is of the firm view and opinion that the Independent Directors are able to exercise independent judgement in the best interest of the Company in the discharge of their duties as independent directors despite their extended tenure in office.

Mr Low Siew Sie Bob has served as Independent Director on the Board since his appointment in 2005. The Board has subjected his independence to particularly rigorous review and established that despite serving as Director for more than nine years, Mr Low Siew Sie Bob remains independent from management and provides a strong independent element on the Board, being free from any business or other relationship which could materially interfere with the exercise of his judgement.

The Board reviews the size of the Board on an annual basis, and considers the present Board size as appropriate for the current scope and nature of the Group's operations. As independent directors make up at least one-third of the Board for both the Board in effect up to 15 February 2017 and the Board with effect from 15 February 2017, no individual or group is able to dominate the Board's decision-making process. There is also balance in the Board because of the presence of Independent Directors of the calibre necessary to carry sufficient weight in Board decisions. Although all the directors have an equal responsibility for the Group's operations, the role of these Independent Directors is particularly important in ensuring that the strategies proposed by Management are constructively challenged, fully discussed and examined, and take account of the long term interests, not only of the shareholders, but also of employees, customers, suppliers and the many communities in which the Group conducts business.

The Board comprises businessmen and professionals with financial, accounting and legal backgrounds. Profiles of the Directors are set out in the "Board of Directors" section of this annual report. The NC is of the view that the Board consists of persons who, as a group, provide core competencies such as business and management experience, industry knowledge, legal expertise, financial and strategic planning experience and knowledge that are necessary to meet the Company's objectives.

In FY2016, whilst the Company was controlled by Ho Lee Group Pte Ltd, its immediate holding company, the investment of minority shareholders was fairly represented through the representation of independent directors.

Principle 3: Chairman and Managing Director ("MD")

In FY2016, the Chairman of the Board, Mr Tan Hai Peng Micheal, had assumed the role, duties and responsibility of the former MD, Mr Chng Hee Kok, while the Company was in the midst of identifying a suitable candidate for replacement. The Board appointed Mr Low Siew Sie Bob to act as Lead Independent Director in FY2016. Shareholders with concerns may contact him directly when contact through the normal channels of the Chairman or the MD has failed to resolve the concern or is inappropriate. All the Independent Directors including the Lead Independent Director met at least annually without the presence of the other executive and non-independent Directors to discuss matters of significance which are thereon reported to the Chairman accordingly.

Following the reconstitution of the Board on 15 February 2017, the role of the Chairman and the Chief Executive Officer ("CEO") are separate to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making. The Chairman and CEO are not related. The division of responsibilities between the Chairman and the CEO has been set out in a set of guidelines reviewed and endorsed by the Board.

CORPORATE **GOVERNANCE**

The Chairman ensures that Board meetings are held as and when necessary. He leads the Board to ensure its effectiveness and approves the agenda of each Board Meeting. The Chairman reviews most Board papers before they are presented to the Board and ensures that Board members are provided with accurate, timely and clear information. Further, he ensures that all agenda items included in the Board papers are provided sufficient airtime and adequately debated at Board meetings. Management staffs who have prepared the papers, or who can provide additional insight into the matters to be discussed, are invited to present the paper or attend at the relevant time during the Board meeting. The Chairman monitors communications and relations between the Company and its shareholders, between the Board and Management, and between independent and non-independent directors, with a view to encourage constructive relations and dialogue amongst them. The Chairman works to facilitate the effective contribution of non-executive directors. The foregoing responsibilities of the Chairman are included in the abovementioned guidelines endorsed by the Board.

NOMINATING COMMITTEE ("NC")

Principles 4 and 5: Board Membership and Performance

The NC comprises three (3) non-executive directors, the majority of whom are independent. The NC is chaired by an independent non-executive director and, as at the date of this Report, the NC members are:

Mr Yee Kee Shian, Leon	(Chairman)
Mr Low Siew Sie Bob	(Member)
Mr Peh Siong Woon Terence	(Member)

In effect up to 15 February 2017

Mr Lim Teck Leong David	(Chairman, resigned on 15 February 2017)
Mr Low Siew Sie Bob	(Member)
Mr Tan Hai Seng Benjamin	(Member, resigned on 15 February 2017)

The NC has a written Terms of Reference endorsed by the Board that sets out its duties and responsibilities. Amongst them, the NC is responsible for making recommendations to the Board on all board appointments, evaluation of performance of the Board and its committees, members and directors, adequacy of the Board's training and professional development programmes and review the Board's succession plans for directors, in particular the Chairman, CEO and MD. The majority of the NC, including the Chairman of the NC, Mr Yee Kee Shian, Leon, is independent.

All directors should be required to submit themselves for re-nomination and re-election at regular intervals and at least every 3 years.

The NC is also responsible for determining annually, the independence of directors. In doing so, the NC takes into account the circumstances set forth in the Code and any other salient factors. Following its annual review for FY2016, the NC has endorsed the following independence status of the directors:

Independent
Mr Low Siew Sie Bob
Mr Lim Teck Leong David

Non-independent
Mr Tan Hai Peng Micheal
Mr Tan Hai Seng Benjamin
Mr Glen Chan (his alternate, Mr Chua Siong Kiat)

CORPORATE GOVERNANCE

The NC is satisfied that sufficient time and attention are given by the directors to the affairs of the Group, taking into consideration the director's number of listed company board representations and other principal commitments. The Board did not determine the maximum number of listed company board representations which any director may hold. The Board has obtained an undertaking from each director that they are able to fulfill the time commitment and responsibilities as a director of the Group. However, the Board exercises its discretion in assessing the time commitment of individual directors in view of their multiple board representations.

The NC will determine the criteria for the appointment of new Directors and will set up a process for the selection and appointment of such Directors, taking into consideration the expertise and experience of each candidate.

The NC does not have a practice of appointing alternate directors. In the event when the need should arise, the NC will review on a case by case basis. In FY2016, Mr Chua Siong Kiat was appointed as the Alternate Director to Mr Glen Chan. The NC notes that the appointment of an alternate Director is only in exceptional cases and it is for a limited period. The NC and the Board will review the period for the appointment of the alternate Director where necessary. Having considered the expertise and experience of Mr Chua Siong Kiat, the NC and the Board are of the view that Mr Chua Siong Kiat was appropriately appointed.

In the search, nomination and selection process for new directors, the NC identifies the key attributes that an incoming director should have, based on a matrix of the attributes of the existing Board and the requirements of the Group. After endorsement by the Board of the key attributes, the NC taps on the resources of directors' personal contacts and recommendations of potential candidates, and goes through a shortlisting process. If candidates identified from this process are not suitable, executive recruitment agencies are appointed to assist in the search process. Interviews are set up with potential candidates for NC members to assess them, before a decision is reached. The NC also oversees the re-appointment of directors as and when their tenure of appointment is due. In assessing the directors for reappointment, the NC evaluates several criteria including qualifications, contributions and independence of the directors.

The information on each director's academic and professional qualifications, shareholdings, relationships (if any), directorship and other principal commitments is presented in the "Board of Directors" and "Directors' Statement" section of this annual report.

The dates of initial appointment and last re-election of each Director in respect of the Board effective 15 February 2017 are set out below:

Name	Date of initial appointment	Date of last re-election	Present directorship in other listed companies	Past directorship in other listed companies in preceding 3 years
Yee Kee Shian, Leon	15 February 2017	Not Applicable	Federal International (2000) Ltd	–
Glen Chan	29 March 2016	15 February 2017	–	–
Chua Siong Kiat	15 February 2017	Not Applicable	–	Libra Group Limited
Peh Siong Woon Terence	15 February 2017	Not Applicable	Chuan Hup Holdings Limited PCI Limited	CH Offshore Ltd.

CORPORATE **GOVERNANCE**

Name	Date of initial appointment	Date of last re-election	Present directorship in other listed companies	Past directorship in other listed companies in preceding 3 years
Tan Hai Peng Micheal	17 September 2007	27 April 2015	Viva Industrial Trust Management Pte Ltd and Viva Asset Management Pte Ltd, both Trustee Managers of the stapled security Viva Industrial Trust	–
Low Siew Sie Bob	30 November 2005	25 April 2014	Interra Resources Limited	China Hongcheng Holdings Limited

Pursuant to Regulation 89 of the Company Constitution, not less than one-third of the Directors (referring to those who have been longest in office since their appointment or re-election), are required to retire from office by rotation at each Annual General Meeting (“AGM”). Mr Low Siew Sie Bob and Mr Tan Hai Peng Micheal are due to retire at the Company’s forthcoming AGM. Mr Low Siew Sie Bob and Mr Tan Hai Peng Micheal have indicated their willingness to stand for re-election at the Company’s forthcoming AGM. Both Mr Low Siew Sie Bob and Mr Tan Hai Peng Micheal do not have any relationships with any of the Company’s directors, the Company and its 10% shareholders.

The information on Mr Low Siew Sie Bob and Mr Tan Hai Peng Micheal’s current directorship in other listed companies and details of their principal commitments is presented above from page 7 and 18 to 19 of this annual report.

The Board has implemented a process for assessing its effectiveness as a whole and for assessing the contribution by each director to the effectiveness of the Board. The Group has designed and implemented internally the board evaluation process. The Board assessment considered the following key performance criteria:

- Board size and composition;
- Board process;
- Board effectiveness and training;
- Board committees;
- Board committee process;
- Provision of information to the Board;
- Standards of conduct;
- Financial performance; and
- Board compensation.

The Chairman of the Board will give feedback to the NC on the appointment of new directors or retirement or resignation of existing directors and the NC will take into consideration his views in this regard.

The NC viewed that given the background, experience and expertise of each Director, it would not be necessary to evaluate the individual performance of each Director.

Principle 6: Access to Information

All directors receive a set of Board papers prior to the Board meeting. The Board papers are generally issued to directors at least five working days prior to the meeting in sufficient time to enable the directors to obtain further explanations, where necessary, in order to be briefed properly and prepare for the meeting. The Board papers include, among others, the following documents and details:

- Minutes of the previous Board meeting;
- Minutes of meetings of all committees of the Board held since the previous Board meeting;

CORPORATE **GOVERNANCE**

- Background or explanations on matters brought before the Board for decision or information, including issues being dealt with by Management, and relevant budgets, forecasts and projections. In respect of budgets, any material variance between the projections and actual results is disclosed and explained to the Board; and
- Major operational and financial issues.

As part of good corporate governance, key matters requiring decision are reserved for resolution at Board meetings rather than by circulation to facilitate discussion.

The directors have separate and independent access to the Group's senior management, including the MD, the Group Financial Controller and other key management, as well as the Group's internal and external auditors. Queries by individual directors on circulated papers are directed to management who will respond accordingly. Where relevant, directors' queries and management's responses are circulated to all Board members for their information.

All directors have separate and independent access to the advice and services of the Company Secretary. The Company Secretary attends all meetings of the Board and ensures that Board procedures are followed and that applicable rules and regulations are complied with. The Company Secretary also attends all meetings of the Audit Committee, Remuneration Committee and Nomination Committee. Under the direction of the Chairman, the Company Secretary is responsible for ensuring good information flows within the Board and its committees and between senior management and non-executive directors, as well as facilitating orientation and assisting with professional development as required.

Under the Constitution of the Company, the decision to appoint or remove the Company Secretary can only be taken by the Board as a whole.

The Board members are aware that they, whether as a group or individually, in the furtherance of their duties, can take independent professional advice, if necessary, at the Company's expense.

REMUNERATION COMMITTEE

Principle 7: Procedures for Developing Remuneration Policies

The Remuneration Committee is responsible for ensuring a formal and transparent procedure for developing policy on executive remuneration, and for fixing the remuneration packages of individual directors and senior management.

The Remuneration Committee ("RC") comprises three (3) non-executive directors, majority of whom, including the Chairman, are independent. As at the date of this Report, the RC members are:

Mr Yee Kee Shian, Leon	(Chairman)
Mr Low Siew Sie Bob	(Member)
Mr Peh Siong Woon Terence	(Member)

In effect up to 15 February 2017

Mr Lim Teck Leong David	(Chairman, resigned on 15 February 2017)
Mr Low Siew Sie Bob	(Member)
Mr Tan Hai Seng Benjamin	(Member, resigned on 15 February 2017)

CORPORATE **GOVERNANCE**

The principal responsibilities of the RC are as follows:

a) recommending to the Board for endorsement a framework of remuneration for the Board and key executives with the aim of building capable and committed Board and management team through competitive compensation and focused management and progressive policies;

b) recommending specific remuneration package and terms of employment for each executive director and key executive;

c) reviewing and recommending directors' fees for non-executive directors, taking into account factors such as their effort and time spent, and their responsibilities; and

d) administering the LHG Employee Share Option Scheme.

The RC reviews the reasonableness of the contracts of service of the executive directors and key management personnel.

If required, the RC will seek expert advice inside or outside the Company on remuneration of all Directors and key executives. The remuneration policy recommended by the RC is submitted for approval by the Board.

No director is involved in deciding his own remuneration, except for providing information and documents specifically requested by the RC to assist in its deliberations.

Principle 8: Level and Mix of Remuneration

The remuneration package of executive directors and key executives consists of the following components:

The fixed components comprise a basic salary and Central Provident Fund ("CPF") contribution. To ensure that key executive's remuneration is consistent and comparable with market practice, the RC regularly benchmarks remuneration components against those of comparable companies, while continuing to be mindful that there is a general correlation between increased remuneration and performance improvements.

The variable components comprise a variable bonus based on the Group's and the individual's performance, as well as the monthly variable component of the basic salary. To link rewards to performance, the more senior the executive is in the Group, the higher is the percentage of the variable component against total compensation. Bonuses payable to senior management are reviewed by the RC and approved by the Board to ensure alignment of their interests with those of shareholders and promote the long term success of the Group.

Benefits provided are consistent with market practice and include medical benefits, flexible benefits, car allowances and club benefits. Eligibility for these benefits will depend on individual salary grade and length of service.

The independent directors are paid a director's fee for their efforts and time spent, responsibilities and contribution to the Board, subject to approval by shareholders at the AGM.

The directors, senior management and staff with at least 12 months of service (other than controlling shareholders of the Company or their associates) are eligible for the grant of options under the LHG Employee Share Option Scheme. The options granted will vest only 1 year after the offer date for options granted without discount and 2 years after the offer date for options granted at a discount. The directors, senior management and staff are encouraged to hold their shares beyond the vesting period. More information on the LHG Employee Share Option Scheme is set out in the Directors' Statement.

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Non-executive directors are also encouraged to acquire shares of the Company so as to better align the interests of such non-executive directors with the interests of the shareholders.

The RC reviews the scheme put in place by the Company for rewarding the non-executive directors to ensure the compensation is commensurate with effort, time and role of the non-executive directors.

Principle 9: Disclosure on Remuneration

The breakdown of remuneration of the Directors of the Company for the financial year ended 31 December 2016 is set out below:

Remuneration Band and Name of Directors	Basic Salary[1] $'000	Directors' fees $'000	Variable or Performance Related Income/Bonus $'000	Benefits-in-kind $'000	Total $'000
Chng Hee Kok	89	–	–	10	99
Tan Hai Peng Micheal	132	–	–	14	146
Tan Hai Seng Benjamin	–	105	–	–	105
Low Siew Sie Bob	–	52	–	–	52
Lim Teck Leong David	–	45	–	–	45
Glen Chan	–	–	–	–	–

(1) Basic salary includes contribution to Central Provident Fund.

The Directors, Mr Tan Hai Seng Benjamin and Mr Tan Hai Peng Micheal are brothers, and the sons of a substantial shareholder, Mr Tan Thuan Teck. The service contracts for executive directors are for fixed appointment periods of two years and they do not contain onerous removal clauses. Notice periods are generally six months or less in service contracts for senior management. The Remuneration Committee is responsible for reviewing the compensation commitments arising from directors' contracts of service in the event of early termination.

There were no employees of the Group who are immediate family members of a Director, the MD or a substantial shareholder and whose remuneration exceeds $50,000 during the financial year ended 31 December 2016.

KEY EXECUTIVES

The gross remuneration received by each of the key executives (excluding Directors) for the financial year ended 31 December 2016 and the breakdown of the level and mix of the remuneration of the key executives is as follows:

Name of Executives	Salary[1] %	Variable or Performance Related Income/Bonus %	Total %
Below $250,000			
Douglas Shin Dae Kyun	100	–	100
Chua Siong Kiat[2]	100	–	100
Cheong Chee Kuan	52	48	100
Josephine Ng Seok Hoon	100	–	100

(1) Basic salary includes contribution to Central Provident Fund.
(2) Mr Chua Siong Kiat, the alternate Director to Mr Glen Chan, was appointed as the Group Interim Chief Operating Officer on 4 July 2016 and subsequently appointed as the Executive Director of the Company with effect on 15 February 2017.

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The aggregate remuneration paid to the above key executives (excluding Directors) for the financial year ended 31 December 2016 is $776,000.

To maintain confidentiality of staff remuneration matters, and for competitive reasons, only their remuneration mix is disclosed as per the table above.

The annual reviews of the compensation of Directors and key executives are carried out by the RC to ensure that their remuneration commensurate with their performance, giving due regard to the financial and commercial health and business needs of the Group. The performance of the MD together with other key executives is reviewed periodically by the RC and the Board.

Principle 10: Accountability

The Board understands its responsibility and provides to the shareholders a balanced and understandable assessment of the Group's performance, position and prospects when presenting interim and other price sensitive public reports, and reports to regulators (if required).

The Board also reviews operational and regulatory compliance reports from management to ensure compliance with all of the Group's operational practices and procedures and relevant regulatory requirements.

The management currently provides the Board with appropriately detailed management accounts of the Group on a timely basis in order for the Board to understand and make a balanced and informed assessment of the Group's financial and operational performance and prospects.

Principle 11: Risk Management and Internal Controls

The Board is responsible for the governance of risk and sets the tone and direction for the Group in the way risks are managed in the Group's businesses. The Board has ultimate responsibility for approving the strategy of the Group in a manner which addresses stakeholders' expectations and does not expose the Group to an unacceptable level of risk. The Board approves the key risk management policies and ensures a sound system of risk management and internal controls and monitors performance against them. In addition to determining the approach to risk governance, the Board sets and instills the right risk focused culture throughout the Group for effective risk governance.

The Board reviews regularly the adequacy of the Group's risk management framework and systems and conducted sessions with management to understand the process to identify, assess, manage and monitor risks within the Group. In addition, an internal review by management was conducted during FY2016 to review on the effectiveness, adequacy and robustness of the Group's risk management policies and processes and make recommendations to enhance the internal controls over the risk management process. The Board is satisfied with the adequacy and effectiveness of the Group's internal controls.

The Group currently does not have a Risk Management Committee but the management regularly reviews the Group's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. The management reviews all significant control policies and procedures and will highlight all significant matters to the Board and the AC.

The Board with the assistance of the management has undertaken an annual assessment on the adequacy and effectiveness of the Group's risk management and internal control systems over financial, operational, compliance and information technology risks. The assessment considered issues dealt with in reports reviewed by the Board during the year together with any additional information necessary to ensure that the Board has taken into account all significant aspects of risks and internal controls for the Group for the financial year ended 31 December 2016.

CORPORATE **GOVERNANCE**

The Board's annual assessment in particular considered:

- the changes since the last annual assessment in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;
- the scope and quality of management's ongoing monitoring of risks and of the system of internal controls and the work of its internal audit function and other providers of assurance;
- the extent and frequency of the communication of the results of the monitoring to the Audit Committee; and
- the incidence of significant internal controls weaknesses that were identified during the financial year.

In order to obtain assurance that the Group's risks are managed adequately and effectively, the Board had reviewed an overview of the risks which the Group is exposed to, as well as an understanding of what countermeasures and internal controls are in place to manage them.

The Board has obtained a written confirmation from the Managing Director and Group Financial Controller:

(a) that the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and
(b) regarding the effectiveness of the Group's risk management and internal control systems.

Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors and reviews performed by management, various Board committees and the Board, the AC and the Board are of the opinion that the Group's internal controls including financial, operational, compliance and information technology controls, and risk management systems, were adequate and effective as at 31 December 2016.

Principle 12: Audit Committee

The Audit Committee comprises three (3) non-executive directors, majority of whom, including the Chairman, are independent. As at the date of this Report, the AC comprises:–

Mr Low Siew Sie Bob	(Chairman)
Mr Yee Kee Shian, Leon	(Member)
Mr Peh Siong Woon Terence	(Member)

In effect up to 15 February 2017

Mr Low Siew Sie Bob	(Chairman)
Mr Lim Teck Leong David	(Member, resigned on 15 February 2017)
Mr Tan Hai Seng Benjamin	(Member, resigned on 15 February 2017)

The AC is responsible for assisting the Board in discharging its statutory and other responsibilities relating to internal controls, financial and other accounting matters as well as matters pertaining to regulatory compliance. The Board is of the view that the members of the AC are appropriately qualified to discharge their responsibilities. The details of the Board member's qualifications and experience are presented in this Annual Report under the section "Board of Directors". None of the members nor the Chairman of the AC are former partners or directors of the Group's auditing firms.

The AC has a written Terms of Reference which is endorsed by the Board and sets out the Committee's duties and responsibilities. The AC is authorised by the Board to investigate any matter within its Terms of Reference and has full access to, and cooperation of management, with full discretion to invite any director or executive officer to attend its meetings. The AC has adequate resources to enable it to discharge its functions properly.

CORPORATE **GOVERNANCE**

During the meetings of the AC held during the financial year, the Committee performed its functions and responsibilities as set out in its Terms of Reference, which include the following:

(i) reviewing the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance;
(ii) reviewing the adequacy of the Group's internal controls, including financial, operational, compliance and information technology controls at least annually;
(iii) reviewing the adequacy and effectiveness of the Group's internal audit function at least annually, including the adequacy of internal audit resources and its appropriate standing within the Group, as well as the scope and results of the internal audit procedures;
(iv) reviewing the scopes, approach and results of the audit and its cost effectiveness, and the independence and objectivity of the independent auditors;
(v) reviewing with the independent auditors their audit plans, audit report, and the independent auditor's evaluation of the system of internal accounting controls, as well as the assistance given by management to the independent auditor;
(vi) reviewing the nature and extent of the independent auditor's non-audit services to the Group as well as the extent of reliance placed by the independent auditor on the internal auditor's work, seeking to balance the maintenance of objectivity and value for money;
(vii) making recommendations to the Board on the appointment, re-appointment and removal of the independent auditor, and approving the remuneration and terms of engagement of the independent auditor; and
(viii) reviewing the quarterly, half-yearly and full-year financial reports of the Group, prior to their submission to the Board;

The AC held 4 meetings during the financial year. These meetings were attended by the Executive Committee (members of the EXCO are set out below in this Report) and Group Financial Controller at the invitation of the AC. The Group's independent auditor was also present at the relevant junctures during these meetings. The AC has also met the external and internal auditors separately, without the presence of any executive of the Group, once during the financial year to:

- obtain feedback on the competency and adequacy of the finance function;
- enquire into the root causes for major audit adjustments and issues; and
- inquire if there are any material weaknesses of control deficiencies over the Group's financial reporting process and the corresponding effect on the financial statements as well as over other operational, compliance and information technology areas.

The AC assesses the independence of the external auditors Moore Stephens LLP annually. The aggregate amount of audit fees paid to the external auditors for FY2016 was $80,000. The AC noted that there was no non-audit related work carried out by the external auditors during FY2016 and is satisfied that the independence of the external auditors has not been impaired.

The Company complied with Rules 712 and 716 and the Board and the AC are satisfied that the appointment of different audit firms for different subsidiaries or significant associated companies would not compromise the standard and effectiveness of the audit of the Company.

The Group is committed to a high standard of ethical conduct and adopts a zero tolerance approach to fraud. The Group has a whistle blowing policy in place which encourages the reporting of matters of fraud, corruption or dishonest and unethical practices. The whistle blowing policy is communicated to all staff and is readily available on the Group's information system.

CORPORATE **GOVERNANCE**

The Group undertakes to investigate complaints of suspected fraud and unethical behavior in an objective manner and has put in place, with the AC's endorsement, arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The objective for such arrangements is to ensure independent investigation of matters raised and to allow appropriate actions to be taken. All such investigations are undertaken by an appointed manager who reports directly to the Chairman of the AC.

Changes to accounting standards and accounting issues which have a direct impact on the financial statements were reported to the Audit Committee, and highlighted by the external auditors in their meetings with the Audit Committee.

Principle 13: Internal Audits

The Company's internal audit function is out-sourced to an independent third party accounting firm (the "Internal Auditor") and is independent of management. The appointment, removal, evaluation and remuneration of the auditing firm to perform such services is approved by the AC. The AC's oversight and supervision of the Group's internal controls are complemented by the work of the Internal Auditor, whose role is to assist the AC to ensure that the Group maintains a sound system of internal controls by regular monitoring of key controls and procedures and ensuring their effectiveness, undertaking investigations as directed by the AC, and conducting regular in-depth audits of high risk areas.

In order to allow for a more open discussion on any issue of concern, the AC meets the Internal Auditor separately without the presence of Management or any executive.

The Internal Auditor's primary line of reporting is to the Chairman of AC.

The AC approves the internal audit plan and budget and ensures the adequacy of internal audit resources. The scope of the Internal Auditor covers all business and support functions within the Group.

During the financial year, the Internal Auditor conducted its audit reviews based on the approved internal audit plans. Upon completion of each audit assignment, the Internal Auditor reported its findings and recommendations to management who would respond on the actions to be taken. The Internal Auditor submitted its internal audit summary reports to the AC on the status of the audit plan and on audit findings and actions taken by management on the findings.

INTERESTED PERSON TRANSACTIONS

The AC reviewed the Group's Interested Person Transactions ("IPT") to ensure that the transactions were executed at normal commercial terms and did not prejudice the interests of the Group and its minority shareholders. The AC is satisfied that there were no material contracts involving the interests of the MD, Directors or the controlling shareholders and their subsidiaries. Management reported that the internal control procedures for determining the transaction prices of IPT had not changed since the date of the last AGM, at which time the shareholders' mandate for IPT was last renewed. The AC is satisfied that the internal controls over the identification, evaluation, review, approval and reporting of IPT was effective. Management accordingly recommended that the Company need not appoint an independent financial advisor to review the IPT methods and procedures in the current financial year. Pursuant to the provisions under SGX-ST Listing Rule 920(1), the AC concurred with management's recommendations.

There is no interested person transactions with aggregate value above $100,000 conducted under the shareholders' mandate pursuant to Rule 920 for the financial year ended 31 December 2016.

CORPORATE GOVERNANCE

EXECUTIVE COMMITTEE

As at the date of this Report, the EXCO members are:

Mr Glen Chan	(Chairman)
Mr Chua Siong Kiat	(Member)
Mr Low Siew Sie Bob	(Member)

In effect up to 15 February 2017

Mr Tan Hai Peng Micheal	(Chairman)
Mr Chng Hee Kok	(Member, resigned on 26 April 2016)
Mr Tan Hai Seng Benjamin	(Member, resigned on 15 February 2017)

The EXCO is established to assist the Board with the operational management of the Group.

The Terms of Reference of the EXCO are:–

- Reviewing strategic and non-strategic investments and divestments;
- Reviewing the Group's strategy, business plans, annual budget and capital structure;
- Reviewing and supervising the operations of the Group including implementing all the Group's operating, financial and personnel policies;
- Reviewing and approving project tenders within designated limit;
- To act on behalf of the Board in urgent situations, when it is not feasible to convene a meeting of the entire Board; and
- To carry out such other functions as may be delegated to it by the Board.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Principle 14: Shareholder Rights

The Group is committed to providing shareholders with adequate, timely and sufficient information pertaining to changes in the Group's business which could have a material impact on the share price or value.

The Group strongly encourages shareholder participation during the AGM. Shareholders are able to proactively engage the Board and management on the Group's business activities, financial performance and other business related matters. Resolutions are passed through a process of voting by poll and shareholders are entitled to vote in accordance with established voting rules and procedures. The poll results in favour and against for each resolution put forth are presented during the AGM.

Registered shareholders including corporations, who are unable to attend the AGM are provided the option to appoint a nominee or custodial services to appoint not more than two proxies. This allows shareholders who hold shares through corporations to attend and participate in the AGM as proxies. The Companies Act allows certain members who are relevant intermediaries such as corporations holding licences in providing nominee and custodial services and CPF Board which purchases shares on behalf of CPF investors, to appoint multiple proxies to attend and participate in general meetings.

CORPORATE **GOVERNANCE**

Principle 15: Communication with Shareholders

The Group values dialogue with its shareholders and believes in regular, effective and fair communication with its shareholders and is committed to hearing shareholders' views and addressing their concerns where possible.

The Group monitors the dissemination of material information to ensure that it is made publicly available on a timely and non-selective basis. Results and annual reports are announced or issued within the mandatory period. All materials are made available on SGXnet for the information of shareholders.

Dividend Policy

The Group does not have a dividend policy. No dividend was declared for the financial year ended 31 December 2016 due to the current financial performance of the Group and Company in the financial year.

Principle 16: Conduct of Shareholder Meetings

The Group believes in encouraging shareholder participation at general meetings. A shareholder who is entitled to attend and vote may either vote in person or appoint a nominee or custodial services to appoint more than two proxies.

For shareholders present in person, the Company has introduced the system of voting by poll and results of each resolution put to vote at the AGM is announced with details of percentages in favour and against.

Each item of special business included in the notice of the meeting will be accompanied by a full explanation of the effects of a proposed resolution. Separate resolutions are proposed for substantially separate issues at the meeting.

At each AGM, the Chairman of the Board presents the performance of the Group and encourages shareholders to participate in the Question and Answer session. The external auditor is present to address shareholders' queries on the conduct of the audit and the preparation and content of the auditor's report.

The Chairpersons of the Board and the Audit, Nomination, Remuneration and Executive Committees, or members of the respective committees standing in for them, are present at each AGM, and other general meetings held by the Company, if any, to address shareholders' queries. Appropriate senior management personnel/members are also present at general meetings to respond, if necessary, to operational questions from shareholders.

The Company prepares minutes of general meetings, which include substantive comments or queries from shareholders and responses from the Chairman, Directors and Management. These minutes are available to shareholders upon their request.

CORPORATE GOVERNANCE

DEALINGS IN SECURITIES OF THE COMPANY – BEST PRACTICES

The Company has adopted a set of code of conduct to provide guidance to its officers regarding dealings in the Company's securities, in compliance with Rule 1207(19) of the SGX-ST Listing Manual.

The Company has issued notices to its Directors, officers and employees to state that there must be no dealings in the Company's shares whilst they are in possession of unpublished material or price sensitive information and during the period commencing two weeks before the announcement of the Company's financial statements for each of the first three quarters of the financial year and one month before the announcement of the Company's full year financial statements, as the case may be, and ending on the date of announcement of such financial results. Directors and officers are also prohibited from dealing in the Group's securities on short-term considerations.

MATERIAL CONTRACTS

Other than as disclosed under Interested Person Transactions in this report, there were no material contracts entered into by the Company or any of its subsidiary companies involving the interests of the Managing Director, any director and/or substantial shareholder.

NON-SPONSOR FEES

The aggregate amount of non-sponsor fees paid to the Company's sponsor, SAC Capital Private Limited, for FY2016, is S$500,000, for acting as the financial adviser to the Company in respect of the reverse takeover transaction.

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

The directors present their statement to the members together with the audited consolidated financial statements of Pacific Star Development Limited (formerly known as LH Group Limited) (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the financial year ended 31 December 2016 and the audited statement of financial position of the Company as at 31 December 2016.

In the opinion of the directors,

(a) the statement of financial position of the Company and the consolidated financial statements of the Group as set out on pages 40 to 97, are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 31 December 2016, and the financial performance, changes in equity and cash flows of the Group for the financial year then ended; and

(b) 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.

1 DIRECTORS

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

Mr Yee Kee Shian, Leon	(appointed on 15 February 2017)
Mr Glen Chan	
Mr Chua Siong Kiat	(appointed on 15 February 2017)
Mr Peh Siong Woon Terence	(appointed on 15 February 2017)
Mr Tan Hai Peng Micheal	
Mr Low Siew Sie Bob	

2 ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than as disclosed under "Share options" in this statement.

3 DIRECTORS' INTEREST IN SHARES OR DEBENTURES

According to the Register of Directors' Shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Direct interest		Deemed interest	
Name of directors and companies in which interests are held	**As at 1.1.2016**	**As at 31.12.2016**	**As at 1.1.2016**	**As at 31.12.2016**
(Ordinary shares)				
The Company				
Mr Tan Hai Peng Micheal	–	–	8,000,226	8,000,226
Mr Tan Hai Seng Benjamin (resigned on 15 February 2017)	–	–	8,000,226	8,000,226

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

3 DIRECTORS' INTEREST IN SHARES OR DEBENTURES (CONTINUED)

	Direct interest		Deemed interest	
Name of directors and companies in which interests are held	**As at 1.1.2016**	**As at 31.12.2016**	**As at 1.1.2016**	**As at 31.12.2016**
The ultimate holding company – Teck Lee Holdings Pte Ltd				
Mr Tan Hai Peng Micheal	4,000,000	4,000,000	–	–
Mr Tan Hai Seng Benjamin (resigned on 15 February 2017)	4,000,000	4,000,000	–	–

Mr Tan Hai Peng Micheal and Mr Tan Hai Seng Benjamin, who by virtue of their interest of not less than 20% of the issued share capital of the ultimate holding company, are deemed to have an interest in the shares of Company and all its related corporations.

According to the Register of Directors' Shareholding, certain directors holding office at the end of the financial year had interests in options to subscribe for ordinary shares of the Company granted pursuant to the LHG ESOS as set out below and under "Share options" below.

	No. of unissued ordinary shares under option	
	As at 1.1.2016	**As at 31.12.2016**
LHG ESOS		
– Mr Low Siew Sie Bob	24,000	24,000
– Mr Lim Teck Leong David (resigned on 15 February 2017)	24,000	24,000

Except that Mr Tan Hai Seng Benjamin and Mr Lim Teck Leong David who resigned on 15 February 2017, the directors' interest in the ordinary shares of the Company as at 21 January 2017 were the same as those as at 31 December 2016.

4 SHARE OPTIONS

(a) LHG Employee Share Option Scheme

The LHG Employee Share Option Scheme (the "LHG ESOS") for key management personnel and employees of the Group was approved by members of the Company at an Extraordinary General Meeting on 25 April 2013 and is administered by the Remuneration Committee.

The LHG ESOS provides a means to recruit, retain and give recognition to employees who have contributed to the growth and success of the Group.

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

4 SHARE OPTIONS (CONTINUED)

(a) LHG Employee Share Option Scheme (Continued)

Under the LHG ESOS, options to subscribe for the ordinary shares of the Company are granted to key management personnel and employees who have been in the employment of the Group for a period of at least 12 months, or such shorter period as the Committee may determine. The exercise price of the options is (i) determined at the volume weighted average of the Company's ordinary shares as quoted on the Singapore Exchange for five consecutive market days immediately preceding the date of the grant ("Market Price"); or (ii) set at a discount not exceeding 20% of the Market Price. The vesting of the options is conditional on the key management personnel or employees completing another (i) one year of service to the Group for options granted with the exercise price set at Market Price; or (ii) two years of service to the Group for options granted with the exercise price set at a discount to the Market Price. Once the options are vested, they are exercisable for a period of four years. The options may be exercised in full or in part in respect of 100 shares or a multiple thereof, on the payment of the exercise price.

The aggregate number of shares over which options may be granted on any date, when added to the number of shares issued and issuable in respect of all options granted under the LHG ESOS, shall not exceed 15% of the issued share capital of the Company on the day preceding that date.

Details of the options granted to the directors of the Company are as follows:

	No. of unissued ordinary shares of the Company under option			
Name of director	**Granted in the financial year ended 31.12.2016**	**Aggregate granted since commencement of scheme to 31.12.2016**	**Aggregate exercised since commencement of scheme to 31.12.2016**	**Aggregate outstanding as at 31.12.2016**
Mr Low Siew Sie Bob	–	24,000	–	24,000
Mr Lim Teck Leong David (resigned on 15 February 2017)	–	24,000	–	24,000

There were no shares of the Company or its subsidiaries issued during the financial year by virtue of the exercise of options granted under the LHG ESOS to take up unissued shares.

Controlling shareholders of the Company and their associates (as defined in the Listing Manual of Singapore Exchange Securities Trading Limited) are not entitled to participate in the LHG ESOS.

No participant under the LHG ESOS has received 5% or more of the total number of shares under option available under the LHG ESOS.

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

4 SHARE OPTIONS (CONTINUED)

(b) Share Options Outstanding

The number of unissued ordinary shares of the Company under option in relation to the LHG ESOS outstanding at the end of the financial year was as follows:

	No. of unissued ordinary shares under option at 31.12.2016	Exercise price	Exercise period
2014 Options	126,400	$1.75	3.3.2015 – 2.3.2019

5 AUDIT COMMITTEE

The members of the Audit Committee ("AC") at the end of the financial year were as follows:

Mr Low Siew Sie Bob		(Chairman)
Mr Lim Teck Leong David	(resigned on 15 February 2017)	(Member)
Mr Tan Hai Seng Benjamin	(resigned on 15 February 2017)	(Member)

All members of the AC were non-executive directors.

The members of the Audit Committee ("AC") effective 15 February 2017 are as follows:

Mr Low Siew Sie Bob		(Chairman)
Mr Yee Kee Shian, Leon	(appointed on 15 February 2017)	(Member)
Mr Peh Siong Woon Terence	(appointed on 15 February 2017)	(Member)

All members of the AC are non-executive directors.

The AC performs its functions in accordance with Section 201B (5) of the Companies Act, Chapter 50. In performing its functions, the Audit Committee reviewed:

- the scope and the results of internal audit procedures with the internal auditor;
- the audit plan of the Company's independent auditors and any recommendations on internal accounting controls arising from the statutory audit;
- the assistance given by the Company's management to the independent auditors; and
- the statement of financial position of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2016 before their submission to the Board of Directors, as well as the Independent Auditor's Report on the statement of financial position of the Company and the consolidated financial statements of the Group.

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

5 AUDIT COMMITTEE (CONTINUED)

Further details of the terms of reference of the AC are included in the accompanying Corporate Governance Report.

On behalf of the Board of Directors

Mr Glen Chan
Director

Mr Chua Siong Kiat
Director

Singapore, 30 March 2017

INDEPENDENT **AUDITOR'S REPORT**

TO THE MEMBERS OF PACIFIC STAR DEVELOPMENT LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Pacific Star Development Limited (formerly known as LH Group Limited) (the "Company") and its subsidiaries (the "Group"), set out on pages 40 to 97, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2016, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

Basis for Opinion

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

Key Audit Matters

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

Revenue and Cost of Sales Recognition on Construction Contracts

Refer to Note 2(l) under "Significant Accounting Policies", Note 3(i) under "Critical Accounting Estimates and Assumptions", Note 4 and Note 16 to the consolidated financial statements.

Risk:

Revenue arising from construction contracts represents more than 97% of the Group's total revenue.

The Group recognises contract revenue and contract costs based on the stage of completion of the contract activity when the outcome of the construction contract can be estimated reliably at the financial reporting date. The Group recognises the stage of completion of the contract by reference to the surveys of work performed.

Significant judgement and estimation are involved in assessing the percentage of completion, project costs-to-complete and the amount of unapproved variations and claims to include in contract revenue. Percentage of completion includes the estimation of total contract value which encompasses the value of work done to date and an estimation of the variation works that are recoverable from the customers. Any change in circumstances including cost overruns may result in penalties and provisions for liquidated damages.

INDEPENDENT **AUDITOR'S REPORT**

TO THE MEMBERS OF PACIFIC STAR DEVELOPMENT LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key Audit Matters (Continued)

Revenue and Cost of Sales Recognition on Construction Contracts (Continued)

Our response:

We have reviewed the Group's control environment on the revenue and costs cycle and performed tests of controls and tests of details on a sample basis. We have inspected the relevant documents which included sales invoices, internal and external valuation reports. We have also verified that construction costs are identified and recognised in the appropriate projects.

We have evaluated the unapproved variations and claims that were included in the computation of the contract revenue. In particular, we focused on whether there is subsequent approval of these variations and claims.

We have checked the appropriateness of work-in-progress by reviewing the budget versus actual costs incurred, and also challenged management's assessment of foreseeable losses on projects by focusing on projects with low or negative margins. We have analysed the actual progress of the key projects and their contractually agreed timeline to identify any major delays and/or potential costs overruns. For projects which are expected to incur losses, we tested the computation of the foreseeable losses.

Our findings:

We found the Group's revenue recognition to be in line with its accounting policy as disclosed in Note 2(l) to the consolidated financial statements.

Valuation of Inventories

Refer to Note 2(k) under "Significant Accounting Policies", Note 3(ii) under "Critical Judgements made in Applying Accounting Policies" and Note 15 to the consolidated financial statements.

Risk:

Inventory is carried in the consolidated financial statements at the lower of cost and net realisable value.

We focused on this area because of the degree of judgement required in determining the carrying amount of inventories as at the reporting date. The Group writes down the cost of inventories whenever the net realisable value of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

The Group has written down the cost of inventories amounting to $14,000 and $2,025,000 respectively for inventories under the aluminium and vehicle segment. As at 31 December 2016, the total carrying amount of the Group's inventories was $725,000.

Our response:

We have reviewed the carrying amount of the inventories held under the aluminium segment to ascertain that the inventories are stated at the lower of cost and net realisable value.

We have discussed with the key management to understand the Group's plan on its vehicle traction business and the expected future movements of its inventories. Management has fully provided for obsolescence on the inventories held under the vehicle segment which are unsold.

INDEPENDENT **AUDITOR'S REPORT**

TO THE MEMBERS OF PACIFIC STAR DEVELOPMENT LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key Audit Matters (Continued)

Valuation of Inventories (Continued)

Our response: (Continued)

We have evaluated the appropriateness of management assumptions made to inventory obsolescence in the current financial year, taking into consideration the historical information, management future plans and data trends such as the age and movements of inventories in the past. We have analysed the inventory turnaround and compared that to management's estimates on obsolete inventories.

Our findings:

We found that management's assessment of the net realisable values of inventories and the allowance for inventory obsolescence to be reasonable based on available evidence.

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

Management is responsible for the other information. The other information comprises the annual report on pages 1 to 34 and 98 to 106, but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of Management and Directors for the Financial Statements

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

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

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

INDEPENDENT **AUDITOR'S REPORT**

TO THE MEMBERS OF PACIFIC STAR DEVELOPMENT LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditor's Responsibility for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

INDEPENDENT **AUDITOR'S REPORT**

TO THE MEMBERS OF PACIFIC STAR DEVELOPMENT LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditor's Responsibility for the Audit of the Financial Statements (Continued)

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

The engagement partner on the audit resulting in this independent auditor's report is Ms Lao Mei Leng.

Moore Stephens LLP
Public Accountants and
Chartered Accountants

Singapore, 30 March 2017

CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

		Group	
	Note	2016 $'000	2015 $'000
Revenue	4	**12,553**	19,159
Cost of sales		**(11,182)**	(20,546)
Gross profit/(loss)		**1,371**	(1,387)
Other operating income	5	**490**	775
Expenses:			
Distribution		**(190)**	(305)
Administrative		**(2,458)**	(2,776)
Other operating		**(6,417)**	(2,038)
Finance	6	**(20)**	(21)
Total expenses		**(9,085)**	(5,140)
Loss before income tax	7	**(7,224)**	(5,752)
Income tax expense	9	**(2)**	(3)
Net loss for the financial year		**(7,226)**	(5,755)
Other comprehensive loss, net of tax:			
Items that may be reclassified subsequently to profit or loss			
– Currency translation differences arising from consolidation		**(109)**	(106)
Total comprehensive loss for the financial year		**(7,335)**	(5,861)
Loss attributable to:			
Equity holders of the Company		**(5,446)**	(4,567)
Non-controlling interest		**(1,780)**	(1,188)
		(7,226)	(5,755)
Total comprehensive loss attributable to:			
Equity holders of the Company		**(5,502)**	(4,621)
Non-controlling interest		**(1,833)**	(1,240)
		(7,335)	(5,861)
Loss per share	10		
– Basic (cents)		**(12.11)**	(9.66)
– Diluted (cents)		**(12.11)**	(9.66)

STATEMENTS OF **FINANCIAL POSITION**

AS AT 31 DECEMBER 2016

	Note	Group 2016 $'000	Group 2015 $'000	Company 2016 $'000	Company 2015 $'000
ASSETS					
Current assets					
Cash and bank balances	11	**12,783**	12,911	**10,474**	10,416
Financial assets, at fair value through profit or loss	12	**5**	5	**–**	–
Trade receivables	13	**6,921**	10,029	**725**	1,235
Other receivables and other current assets	14	**3,953**	1,836	**3,537**	9,399
Inventories	15	**725**	3,224	**–**	–
Due from customers on construction contracts	16	**32**	1,074	**–**	–
		24,419	29,079	**14,736**	21,050
Non-current assets					
Investments in subsidiaries	17	**–**	–	**–**	653
Intangible assets	18	**–**	585	**–**	–
Property, plant and equipment	19	**333**	693	**3**	108
		333	1,278	**3**	761
Total assets		**24,752**	30,357	**14,739**	21,811
LIABILITIES					
Current liabilities					
Trade payables	20	**3,615**	3,330	**–**	–
Other payables	21	**3,321**	1,247	**2,283**	412
Borrowings	22	**571**	513	**–**	–
Current tax liabilities		**46**	43	**–**	–
Due to customers on construction contracts	16	**1,606**	2,115	**–**	–
Provision for warranty	23	**2,187**	1,959	**–**	–
Total liabilities		**11,346**	9,207	**2,283**	412
NET ASSETS		**13,406**	21,150	**12,456**	21,399
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	24	**48,196**	48,196	**48,196**	48,196
Treasury shares	24	**(513)**	(104)	**(513)**	(104)
Reserves	25	**(30,919)**	(25,417)	**(35,227)**	(26,693)
		16,764	22,675	**12,456**	21,399
Non-controlling interest	26	**(3,358)**	(1,525)	**–**	–
Total equity		**13,406**	21,150	**12,456**	21,399

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Attributable to equity holders of the Company								
	Share capital $'000	Treasury shares $'000	Accumulated losses $'000	Share options reserve $'000	Other reserves $'000	Currency translation reserve $'000	Total $'000	Non-controlling interest $'000	Total equity $'000
Group									
Balance at 1 January 2016	48,196	(104)	(24,438)	194	(1,150)	(23)	22,675	(1,525)	21,150
Net loss for the financial year	–	–	(5,446)	–	–	–	(5,446)	(1,780)	(7,226)
Other comprehensive loss for the year, net of tax:									
Currency translation differences arising from consolidation	–	–	–	–	–	(56)	(56)	(53)	(109)
Total comprehensive loss for the financial year	–	–	(5,446)	–	–	(56)	(5,502)	(1,833)	(7,335)
Transaction with owners, recognised directly in equity:									
Purchase of treasury shares	–	(409)	–	–	–	–	(409)	–	(409)
Reversal of employee share options	–	–	123	(123)	–	–	–	–	–
Total transaction with owners, recognised directly in equity	–	(409)	123	(123)	–	–	(409)	–	(409)
Balance at 31 December 2016	48,196	(513)	(29,761)	71	(1,150)	(79)	16,764	(3,358)	13,406

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Attributable to equity holders of the Company								
	Share capital $'000	Treasury shares $'000	Accumulated losses $'000	Share options reserve $'000	Other reserves $'000	Currency translation reserve $'000	Total $'000	Non-controlling interest $'000	Total equity $'000
Group									
Balance at 1 January 2015	48,196	–	(19,871)	219	(1,150)	31	27,425	(285)	27,140
Net loss for the financial year	–	–	(4,567)	–	–	–	(4,567)	(1,188)	(5,755)
Other comprehensive loss for the year, net of tax:									
Currency translation differences arising from consolidation	–	–	–	–	–	(54)	(54)	(52)	(106)
Total comprehensive loss for the financial year	–	–	(4,567)	–	–	(54)	(4,621)	(1,240)	(5,861)
Transaction with owners, recognised directly in equity:									
Purchase of treasury shares	–	(104)	–	–	–	–	(104)	–	(104)
Reversal of employee share options	–	–	–	(25)	–	–	(25)	–	(25)
Total transaction with owners, recognised directly in equity	–	(104)	–	(25)	–	–	(129)	–	(129)
Balance at 31 December 2015	48,196	(104)	(24,438)	194	(1,150)	(23)	22,675	(1,525)	21,150

CONSOLIDATED STATEMENT OF **CASH FLOWS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Group	
	2016	**2015**
	$'000	**$'000**
Cash Flows from Operating Activities		
Loss before income tax	**(7,224)**	(5,752)
Adjustments for:		
Amortisation of intangible assets	**52**	212
Depreciation of property, plant and equipment	**85**	538
Gain on disposal of property, plant and equipment	**(18)**	(43)
Bad debts written off	**69**	18
Impairment loss on intangible assets	**519**	1,194
Impairment loss on property, plant and equipment	**142**	270
Reversal of write down of inventories	**(10)**	(13)
Write down of inventories	**2,039**	22
Interest expense	**20**	21
Interest income	**(87)**	(66)
Employee share options expense	**–**	(25)
Unrealised foreign exchange gain	**(92)**	(180)
Operating cash flow before working capital changes	**(4,505)**	(3,804)
Movement in working capital		
Changes in inventories and construction contracts	**1,003**	1,511
Changes in trade, other receivables and other current assets	**3,922**	6,713
Changes in financial assets, at fair value through profit or loss	**–**	2
Changes in trade, other payables and provision for warranty	**2,587**	(972)
Cash generated from operations	**3,007**	3,450
Interest received	**87**	66
Interest paid	**(20)**	(21)
Net cash generated from operating activities	**3,074**	3,495
Cash Flows from Investing Activities		
Deposit paid for the Proposed Acquisition	**(3,000)**	–
Additions to property, plant and equipment	**(76)**	(52)
Proceeds from disposal of plant and equipment	**223**	134
Net cash (used in)/generated from investing activities	**(2,853)**	82
Cash Flows from Financing Activities		
Movement in fixed deposits pledged with bank	**(33)**	(13)
Increase in bank borrowings	**–**	144
Purchase of treasury shares	**(409)**	(104)
Repayment of finance lease liabilities	**–**	(14)
Net cash (used in)/generated from financing activities	**(442)**	13
Net (decrease)/increase in cash and cash equivalents	**(221)**	3,590
Cash and cash equivalents at the beginning of the financial year	**7,729**	4,139
Effects of currency translation on cash and cash equivalents	**1**	–
Cash and cash equivalents at the end of the financial year (Note 11)	**7,509**	7,729

The accompanying notes form an integral part of these financial statements

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1 GENERAL INFORMATION

Pacific Star Development Limited (formerly known as LH Group Limited) (the "Company") is a public limited liability company incorporated and domiciled in Singapore. With effect from 8 February 2017, the name of the Company was changed from LH Group Limited to Pacific Star Development Limited. On 13 February 2017, the listing of the Company's shares was transferred from the Mainboard of the Singapore Exchange Securities Trading Limited ("SGX-ST") to the Catalist of the SGX-ST.

The registered office and the principal place of business is located at Blk 8, #08-05, Liang Huat Industrial Complex, 51 Benoi Road, Singapore 629908.

As at the reporting date, the Company's immediate holding company and ultimate holding company were Ho Lee Group Pte Ltd and Teck Lee Holdings Pte Ltd respectively. Both companies are incorporated in Singapore. The ultimate controlling party is Mr Tan Thuan Teck. Following the completion of the acquisition of PSD Singapore Pte Ltd (formerly known as Pacific Star Development Pte Ltd) on 15 February 2017 which resulted in a "reverse takeover" of the Company as defined under Chapter 10 of the Listing Manual of the SGX-ST (Note 32), Ho Lee Group Pte Ltd and Teck Lee Holdings Pte Ltd have ceased to be the immediate holding company and ultimate holding company of the Company.

With effect from 15 February 2017, the immediate and ultimate holding company of the Company is PSD Singapore Pte Ltd (formerly known as Pacific Star Development Pte. Ltd.) and PSD Holdings Pte. Ltd. respectively, both incorporated in Singapore.

The principal activity of the Company is that of an investment holding company. The principal activities of its subsidiaries are disclosed in Note 17.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") and the provisions of the Singapore Companies Act, Chapter 50. The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Critical accounting judgements and key sources of estimation uncertainty used that are significant to the financial statements are disclosed in Note 3 to the financial statements.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of Preparation (Continued)

Adoption of New/Revised FRS

For the financial year ended 31 December 2016, the Group has adopted the following new/revised FRS that are mandatory for application in the said year and which are relevant to the Group as follows:

Amendment to FRS 1 *Disclosure Initiative*

These amendments to FRS 1 further clarify the guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting and are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. As this is a disclosure standard, the adoption of this standard did not have any impact on the Group's financial performance or financial position.

Amendments to FRS 27 *Equity Method in Separate Financial Statements*

The amendment will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in the entities' separate financial statements. This is in addition to the accounting policy choice to account for such investments at cost less impairment, or fair value (in accordance with FRS 39), which currently exists and will continue to be available. The adoption of this standard did not have any impact on the Group's financial performance or financial position.

Amendments to FRS 107 *Financial Instruments: Disclosures*

The amendments to FRS 107 provide additional guidance to clarify whether an entity has continuing involvement in a transferred financial asset as a result of a servicing contract for the purpose of the disclosures requirements. As this is a disclosure standard, the adoption of this standard did not have any impact on the Group's financial performance or financial position.

New/Revised FRS Issued But Not Yet Effective

At the date of authorisation of these financial statements, the relevant new/revised FRS that have been issued but are not yet effective are as follows:

Amendments to FRS 7 *Statement of Cash Flows*

The amendments require new disclosure about changes in liabilities arising from financing activities in respect of:

(a) changes from financing cash flows;
(b) changes arising from obtaining or losing control of subsidiaries or other businesses;
(c) the effect of changes in foreign exchange rates;
(d) changes in fair values; and
(e) other changes.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of Preparation (Continued)

New/Revised FRS Issued But Not Yet Effective (Continued)

Amendments to FRS 7 *Statement of Cash Flows* (Continued)

The above disclosure also applies to changes in financial assets if cash flows from those financial assets are included in cash flows from financing activities. The standard is effective for annual period beginning on or after 1 January 2017. As this is a disclosure standard, it will not have any impact on the financial performance or financial position of the Group when implemented.

Amendments to FRS 12 *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments clarify the application to FRS 12 to unrealised losses on debt investments, and the assessment of future taxable profits against which deferred tax assets can be recognised. The amendments are effective for annual periods beginning on or after 1 January 2017. The adoption of this standard will not have any impact on the Group's financial performance or financial position and the Group will review the impact if any for future transactions.

FRS 109 *Financial Instruments*

FRS 109 was introduced to replace FRS 39 *Financial Instruments: Recognition and Measurement*. FRS 109 changes the classification and measurement requirements for financial assets and liabilities, and also introduces a three-stage impairment model that will impair financial assets based on expected losses regardless of whether objective indicators of impairment have occurred. This standard also provides a simplified hedge accounting model that will align more closely with the entity's risk management strategies. The standard is effective for annual period beginning on or after 1 January 2018. The Group is in the process of assessing the impact on the financial statements.

FRS 115 *Revenue from Contracts with Customers*

FRS 115 changes the revenue recognition model under FRS. The core principle of FRS 115 is to recognise the revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. It is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is in the process of assessing the impact on the financial statements.

FRS 116 *Leases*

FRS 116 *Leases* sets out a revised framework for the recognition, measurement, presentation and disclosure of leases, and replaces FRS 17 *Leases*, INT FRS 104 *Determining whether an Arrangement contains a Lease*, INT FRS 15 *Operating Leases – Incentives*; and INT FRS 27 *Evaluating the Substance of Transactions involving the Legal Form of a Lease*.

FRS 116 requires lessees to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, except where the underlying asset is of low value. The right-of-use asset is depreciated and interest expense is recognised on the lease liability. The accounting requirements for lessors have not been changed substantially, and continue to be based on classification as operating and finance leases. Disclosure requirements have been enhanced for both lessors and lessees.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of Preparation (Continued)

New/Revised FRS Issued But Not Yet Effective (Continued)

FRS 116 *Leases* (Continued)

FRS 116 is effective for accounting periods beginning on or after 1 January 2019. Early application is permitted for companies but only if it also apply FRS 115 *Revenue from Contracts with Customers* at or before the date of initial application of FRS 116. The Group is in the process of assessing the impact on the financial statements.

(b) Currency Translation

Functional and Presentation Currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Singapore Dollar ("$"), which is the functional and presentation currency of the Company and all values are rounded to the nearest thousand ($'000) except when otherwise indicated.

Transactions and Balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Currency translation differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the financial reporting date are recognised in profit or loss, except for currency translation differences on net investment in foreign entities and borrowings and other currency instruments qualifying as net investment hedges for foreign operations. These currency translation differences are recognised in the currency translation reserve within equity in the consolidated financial statements and transferred to profit or loss as part of the gain or loss on disposal of the foreign operation.

Non-monetary items that are measured in terms of historical cost in foreign currencies are not retranslated. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Translation of Group Entities' Financial Statements

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– Assets and liabilities are translated at the closing exchange rate at the financial reporting date;

– Income and expenses are translated at an average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Currency Translation (Continued)

Translation of Group Entities' Financial Statements (Continued)

– All resulting currency translation differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve within equity. These currency translation differences are reclassified to profit or loss on disposal or partial disposal (i.e. loss of control) of the entity giving rise to such reserve. Any currency translation differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

– Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rates at the reporting date.

(c) Subsidiaries

Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through the power over the entity.

Subsidiaries are consolidated from the date of acquisition, being the date on which control is transferred to the Group and deconsolidated from the date on which control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and statement of financial position. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

Acquisition of Business

The acquisition method of accounting is used to account for business combinations by the Group.

The consideration transferred for the acquisition of a subsidiary or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Subsidiaries (Continued)

Acquisition of Business (Continued)

Contingent consideration arrangements arising from business combinations under the revised FRS 103 *Business Combinations*, are recognised at fair value at initial recognition, even if it is deemed not to be probable of payment at the date of the acquisition. All subsequent changes in the contingent consideration are recognised in profit or loss, rather than goodwill.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously-held equity interest in the acquiree over the fair values of the identifiable assets acquired net of the fair values of the liabilities and any contingent liabilities assumed, is recorded as goodwill.

Disposals of Subsidiaries or Businesses

When a change in the Group's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific Standard.

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in profit or loss.

Please refer to the paragraph "Investments in Subsidiaries" for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

Transactions with Non-Controlling Interests

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as equity transactions. Any difference between the change in the carrying amounts of the non-controlling interest and the fair value of the consideration paid or received is recognised within equity attributable to the equity holders of the Company.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group's activities. Revenue is presented, net of value-added tax, rebates and discounts, and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue and related cost can be reliably measured, it is probable that the collectibility of the related receivables is reasonably assured and when the specific criteria for each of the Group's activities are met as follows:

Construction Contracts – Contract Income and Manufacturing Contract Income

Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see Note 2(l) construction contracts below).

Sale of Goods – Trading Income

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the customer, in accordance with the terms of the sales contract.

Dividend Income

Dividend income is recognised when the right to receive payment is established.

Interest Income

Interest income is recognised using the effective interest method.

Rental Income

Rental income is recognised on a straight-line basis over the tenancy period.

(e) Property, Plant and Equipment

Property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Cost includes professional fees and capitalised borrowing costs for qualifying assets. The projected cost of dismantlement, removal or restoration is also included as part of the cost of a plant and equipment if the obligation for the dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, Plant and Equipment (Continued)

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

	Useful lives
Building	40 years
Plant and equipment	1 to 10 years
Motor vehicles	6 years
Leasehold improvements	2 to 8 years

The residual values, estimated useful lives and depreciation method are reviewed and adjusted as appropriate, at each financial reporting date. The effects of any revision are recognised in profit or loss when the changes arise.

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Other subsequent expenditure is recognised as repair and maintenance expense in profit or loss during the financial year when incurred.

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss.

(f) Investments in Subsidiaries

Investments in subsidiaries are carried at cost less accumulated impairment losses in the Company's statement of financial position. On disposal of investments in subsidiaries, the difference between net disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

(g) Intangible Assets

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Patents

Patents acquired are initially recognised at cost and are subsequently carried at cost less accumulated amortisation and accumulated impairment loss. These costs are amortised to profit or loss using a straight-line basis over their estimated useful lives of 15 years. The estimated useful life and amortisation method are reviewed at each financial reporting date, with the effect of any changes in estimate being accounted for on a prospective basis.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Intangible Assets (Continued)

Goodwill

Goodwill on acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously-held equity interest in the acquiree over the fair values of the identifiable assets acquired net of the fair values of the liabilities and any contingent liabilities assumed.

Goodwill arising from the acquisition of subsidiaries is recognised separately as an intangible asset and carried at cost less accumulated impairment losses.

Gains and losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the entity disposed.

(h) Impairment of Non-financial Assets

Intangible Assets (other than goodwill)
Property, Plant and Equipment
Investments in Subsidiaries

Intangible assets (other than goodwill), property, plant and equipment and investments in subsidiaries are tested for impairment whenever there is any indication that these assets may be impaired.

For the purpose of impairment testing of the assets, the recoverable amount (i.e. the higher of the fair value less costs of disposal and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating-units ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss, unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased.

An impairment loss for an asset other than goodwill 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. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss, unless the relevant asset is carried at revalued amount, in which case, such reversal is treated as revaluation increase. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense, a reversal of that impairment is also recognised in profit or loss.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment of Non-financial Assets (Continued)

Goodwill

Goodwill is tested annually for impairment and whenever there is any indication that the goodwill may be impaired.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's CGU expected to benefit from synergies arising from the business combination.

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU's fair value less cost to sell and value-in-use.

The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

An impairment loss on goodwill is recognised in profit or loss and is not reversed in a subsequent period.

(i) Financial Assets

Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial reporting date.

Financial assets, at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair values through profit or loss at inception. Financial assets are classified as held for trading if they are acquired principally for the purpose of selling in the short term. Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performances are evaluated on a fair value basis, in accordance with a documented Company investment strategy. Assets in this category are presented as current assets if they are either held for trading or are expected to be realised within twelve months after the financial reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than twelve months after the financial reporting date which are presented as non-current assets. Loans and receivables are presented as "trade receivables", "other receivables" and "cash and bank balances" on the statements of financial position.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial Assets (Continued)

Recognition and Derecognition

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the net sales proceeds is recognised in profit or loss.

Initial Measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets, at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets, at fair value through profit or loss are recognised immediately as an expense.

Subsequent Measurement

Financial assets, at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets, at fair value through profit or loss including the effects of currency translation, interest and dividends are recognised in profit or loss when the changes arise.

Impairment

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are considered indicators that the receivable is impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

The impairment allowance is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, bank balances and deposits with financial institutions, which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are presented as current borrowings on the statements of financial position. For the purpose of the consolidated statement of cash flows, cash and cash equivalents are shown net of restricted bank deposits and bank overdrafts.

(k) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of work-in-progress and finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. The net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and applicable variable selling expenses.

(l) Construction Contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the financial reporting date ("percentage-of-completion method"). When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are likely to be recoverable and contract costs should be recognised as an expense in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Contract revenue comprises the initial amount of revenue agreed in the contract and variations in the contract work and claims that can be measured reliably. A variation or a claim is recognised as contract revenue when it is probable that the customer will approve the variation or negotiations have reached an advanced stage such that it is probable that the customer will accept the claim.

The stage of completion of the contract is measured by reference to the surveys of work performed.

At the financial reporting date, the cumulative costs incurred plus recognised profits (less recognised losses) on each contract is compared against the progress billings. Where the cumulative costs incurred plus the recognised profits (less recognised losses) exceed progress billings, the balance is presented as due from customers on construction contracts as an asset. Where progress billings exceed the cumulative costs incurred plus recognised profits (less recognised losses), the balance is presented as due to customers on construction contracts as a liability.

Progress billings not yet paid by customers and retentions by customers are included within "trade receivables". Advances received are included within "trade payables".

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Trade and Other Payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). Otherwise, they are presented as non-current liabilities.

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability recognised and the consideration paid and payable is recognised in profit or loss.

(n) Borrowings

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least twelve months after the financial reporting date, in which case they are presented as non-current liabilities.

Borrowings are initially recognised at fair value, net of transaction costs and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowing costs are recognised in profit or loss using the effective interest method.

(o) Provisions

Provisions for warranty, restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employment termination payments. Provisions are not recognised for future operating losses.

The Group recognises the estimated liability to repair or replace products still under warranty at the financial reporting date. This provision is calculated based on historical experience of the level of repairs and replacements.

Other provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in profit or loss as a finance expense.

The changes in the estimated timing or amount of the expenditure or discount rate are recognised in profit or loss when the changes arise.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Leases

Finance Leases

Leases of plant and equipment where the Group assumes substantially the risks and rewards of ownership are classified as finance leases.

The leased assets and the corresponding lease liabilities (net of finance charges) under finance leases are recognised on the statements of financial position as plant and equipment and finance lease liabilities respectively, at the inception of the leases based on the lower of the fair value of the leased assets and the present value of the minimum lease payments.

Each lease payment is apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense is recognised in profit or loss on a basis that reflects a constant periodic rate of interest on the finance lease liability.

Operating Leases

Leases of factories and offices where substantially the risks and rewards of ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(q) Income Taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the financial reporting date.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

Deferred income tax liabilities is recognised on temporary differences arising on investments in subsidiaries, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Income Taxes (Continued)

Deferred income tax is measured at:

(i) the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the financial reporting date; and

(ii) the tax consequence that would follow from the manner in which the Group expects, at the financial reporting date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss for the financial period, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred taxes arising from a business combination is adjusted against goodwill on acquisition.

(r) Employee Compensation

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

Defined Contribution Plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The Group's contributions are recognised as employee compensation expense when they are due.

Employee Leave Entitlements

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

Termination benefits

Termination benefits are those benefits which are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of FRS 37 and involves the payment of termination benefits. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Employee Compensation (Continued)

Share-Based Compensation

The Group operates an equity-settled, share-based compensation plan. The value of the employee services received in exchange for the grant of options is recognised as an expense with a corresponding increase in the share option reserve over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the options granted on the date of the grant. Non-market vesting conditions are included in the estimation of the number of shares under options that are expected to become exercisable on the vesting date. At each financial reporting date, the Group revises its estimates of the number of shares under options that are expected to be exercisable on the vesting date and recognises the impact of the revision of the estimates in profit or loss, with a corresponding adjustment to the share option reserve over the remaining vesting period.

When the options are exercised, the proceeds received (net of transaction costs) and the related balance previously recognised in the share option reserve is credited to share capital account, when new ordinary shares are issued.

(s) Government Grants

Grants from the government are recognised as a receivable at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants receivable are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants relating to expenses are shown separately as other income.

Government grants relating to assets are deducted against the carrying amount of the assets.

(t) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are recognised as other reserves.

(u) Treasury Shares

When any entity within the Group purchases the Company's ordinary shares ("treasury shares"), the consideration paid including any directly attributable incremental cost is presented as a component within equity attributable to the Company's equity holders, until they are cancelled, sold or re-issued.

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained earnings of the Company if the shares are purchased out of the earnings of the Company.

When treasury shares are subsequently sold or re-issued pursuant to the employee share option scheme, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or re-issue, net of any directly attributable incremental transaction costs and related income tax, is recognised in the capital reserve.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Dividends to Company's Shareholders

Dividends to the Company's shareholders are recognised when the dividends are approved for payment.

(w) Fair Value Estimation of Financial Assets and Liabilities

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the financial reporting date. The quoted market prices used for financial assets held by the Group are the current bid prices and the appropriate quoted market prices for financial liabilities are the current asking prices.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each financial reporting date. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as discounted cash flow analyses, are also used to determine the fair values of the financial instruments.

The carrying amounts of current financial assets and liabilities, carried at amortised cost, are assumed to approximate their fair values.

(x) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the executive committee whose members are responsible for allocating resources and assessing performance of the operating segments.

(y) Financial Guarantee

A financial guarantee contract is a contract that requires the issuer to make specific payments to reimburse the holder for a loss it incurs in the event the Group fails to perform its contractual obligations in accordance with the terms of the financial instrument.

3 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates and assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

3 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date, 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.

(i) Critical Accounting Estimates and Assumptions

Construction Contracts and Revenue Recognition

The Group uses the percentage-of-completion method to account for its contract revenue and contract cost. The stage of completion is measured by reference to the surveys of work performed to date.

Significant assumptions are required to estimate the value of work done to date and the recoverable variation works that will affect the stage of completion and the contract costs respectively. Estimation of total contract revenue also includes an estimation of the variation works that are recoverable from the customers. In making these estimates, management has relied on past experience and/or the work of specialists.

Estimated total contract cost for construction contracts comprises direct costs attributable to the construction of each project. In estimating the total budgeted costs for construction contracts, management makes reference to information such as current offers from contractors and suppliers, recent offers agreed with contractors and suppliers, and professional estimations on construction and material costs as well as its past experience.

In particular, the Group is exposed to fluctuations in the prices of aluminium ingots. Any significant increase/decrease in the prices of aluminium ingots will result in a corresponding increase/decrease in the costs incurred by the Group to complete its existing and ongoing projects.

As at 31 December 2016 and 2015, the carrying amounts due from/to customers on construction contracts are disclosed in Note 16 to the financial statements.

If the estimated surveys of work done on uncompleted contracts at the financial reporting date increase/decrease by 10% from management's estimates, the Group's gross profit (2015: gross loss) will decrease/increase (2015: decrease/increase) by approximately $70,000 (2015: $111,000) respectively.

Impairment of Intangible Assets and Property, Plant and Equipment

Non-financial assets (excluding goodwill) are tested for impairment whenever there is an indication that such assets may be impaired. The recoverable amounts of cash-generating units ("CGU") have been determined based on value-in-use calculations. These calculations require the use of estimates and assumptions. Changes to the estimates and assumptions will result in changes in the carrying values of the non-financial assets.

The Group has charged an impairment loss on intangible assets and plant and equipment under the vehicle segment to profit or loss for the financial year ended 31 December 2016 of $519,000 (2015: $1,194,000) and $142,000 (2015: $270,000) respectively. If the management's estimated growth rate decrease by 5%, the carrying amount of the intangible assets and plant and equipment would decrease by $Nil (2015: $186,000) and $Nil (2015: $41,000) respectively.

3 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

(i) Critical Accounting Estimates and Assumptions (Continued)

Impairment of Intangible Assets and Property, Plant and Equipment (Continued)

As at 31 December 2016, the carrying amount of the Group's intangible assets and property, plant and equipment was $Nil (2015: $585,000) and $333,000 (2015: $693,000) respectively.

Impairment of Investments in Subsidiaries

The Company assesses at each financial reporting date whether there is any indication that the investments in subsidiaries are impaired. To determine whether there is an indication of impairment, the Company considers factors such as the industry or sector performance, technology changes and operational and financing cash flow. Management will exercise significant judgement to evaluate the financial conditions and business prospects of the investments.

Where there is an indication of impairment, the recoverable amount of the subsidiary is estimated to determine the extent of an impairment loss. As at 31 December 2016, the recoverable amounts are determined in accordance with Note 2(h) to the financial statements. The Company has charged an impairment loss of $653,000 (2015: $2,288,000) and $Nil (2015: $1,000,000) respectively to profit or loss for its investment in subsidiaries in the aluminium and vehicle segments during the financial year ended 31 December 2016, as the recoverable amounts of the subsidiaries are lower than the carrying amounts.

Estimated Useful Lives of Property, Plant and Equipment and Patents

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these property, plant and equipment to be between 1 to 40 years. The carrying amount of the Group's property, plant and equipment as at the financial reporting date was $333,000 (2015: $693,000). Patents are amortised on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these patents to be 15 years (2015: 15 years). The carrying amount of the Company's intellectual properties has been fully impaired as at the financial year ended 31 December 2016 (2015: $585,000).

The Group assesses annually the residual values and the useful lives of the property, plant and equipment and patents and if expectations differ from the original estimates due to changes in the economic environment and the business outlook, such differences will impact the depreciation/amortisation charges in the period in which such estimates are changed.

If depreciation on property, plant and equipment increases/decreases by 10% from management estimates, the Group's loss will increase/decrease by $9,000 (2015: $54,000) for the financial year ended 31 December 2016.

Warranty Claims

The Group gives ten-year warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as the recent trends that suggest the past cost information may vary from future claims. The factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

3 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

(i) Critical Accounting Estimates and Assumptions (Continued)

Warranty Claims (Continued)

As at 31 December 2016, the carrying amount of the provision for warranty was $2,187,000 (2015: $1,959,000). If warranty claims costs increase/decrease by 10% from management's estimates, the Group's loss will increase/decrease by $219,000 (2015: $196,000) respectively.

(ii) Critical Judgements made in Applying Accounting Policies

Impairment of Receivables

Management reviews its receivables for objective evidence of impairment at least quarterly. To determine whether there is objective evidence of impairment, the Group considers factors such as significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy and default or significant delay in payments. Management makes a judgement as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with an adverse effect in the technological, market, economic, or legal environment in which the debtor operates in.

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 Group has charged and reversed impairment losses on trade receivables to profit or loss for the financial year ended 31 December 2016 of $Nil (2015: $11,000) and $Nil (2015: $16,000) respectively. As at 31 December 2016, the carrying amount of the Group's trade receivables and other receivables was $6,921,000 and $3,759,000 (2015: $10,029,000 and $895,000) respectively.

During the financial year ended 31 December 2016, the Company has charged an impairment loss on trade and other receivables due from its subsidiaries to profit or loss of $1,223,000 (2015: $Nil) and $4,274,000 (2015: $4,603,000) respectively. As at 31 December 2016, the carrying amount of the Company's trade and other receivables was $725,000 (2015: $1,235,000) and $3,524,000 (2015: $9,386,000) respectively.

Write down of inventories

The Group writes down the cost of inventories whenever the net realisable value of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. During the financial year ended 31 December 2016, the Group has written down the cost of inventories amounting to $14,000 (2015: $22,000) and $2,025,000 (2015: $Nil) respectively for inventories under the aluminium and vehicle segment.

During the financial year ended 31 December 2016, the Group has reversed inventories write down of $10,000 (2015: $13,000) from inventory allowances made in prior years for inventories under the aluminium segment, as the inventories were recovered above the carrying amounts through use in ongoing projects.

As at 31 December 2016, the carrying amount of the Group's inventories under the aluminium and vehicle segment was $725,000 (2015: $1,188,000) and $Nil (2015: $2,036,000) respectively.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

4 REVENUE

	Group	
	2016	**2015**
	$'000	**$'000**
Contract income	**12,201**	18,335
Sale of goods	**352**	824
	12,553	19,159

5 OTHER OPERATING INCOME

	Group	
	2016	**2015**
	$'000	**$'000**
Foreign exchange gain (net)	**21**	321
Gain on disposal of property, plant and equipment	**18**	43
Government grant	**98**	112
Interest income	**87**	66
Rental income	**184**	52
Reversal of allowance for impairment of trade receivables	**–**	16
Other income	**82**	165
	490	775

6 FINANCE EXPENSES

	Group	
	2016	**2015**
	$'000	**$'000**
Finance lease interest	**–**	1
Overdraft and loan interest	**20**	20
	20	21

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

7 LOSS BEFORE INCOME TAX

	Group	
	2016	**2015**
	$'000	**$'000**
This is determined after charging/(crediting):		
Cost of sales		
Cost of inventories sold	**3,959**	10,676
Provision for warranty	**254**	233
Reversal of write down of inventories	**(10)**	(13)
Administrative expenses		
Amortisation of intangible assets	**52**	212
Depreciation of property, plant and equipment	**85**	538
Operating lease expenses in respect of factories and offices	**656**	561
Other operating expenses		
Allowance for impairment of trade receivables	**–**	11
Bad debts written off	**69**	18
Directors fees	**202**	202
Fair value loss on financial assets, at fair value through profit or loss	**–**	2
Fees on audit services payable to		
– auditor of the Company	**80**	85
– other auditor	**–**	13
Impairment loss on intangible assets	**519**	1,194
Impairment loss on property, plant and equipment	**142**	270
Legal and professional fee in relation to Proposed Acquisition (Note 32(i))	**2,661**	–
Restructuring costs (Note 21)	**475**	–
Write down of inventories	**2,039**	22

There are no non-audit fees paid to auditors of the Company.

8 STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION)

	Group	
	2016	**2015**
	$'000	**$'000**
Salaries and related costs	**2,961**	3,580
Contributions to defined contributions plans	**188**	179
Foreign workers' levy	**381**	459
Termination benefits (Note 21)	**475**	–
	4,005	4,218

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

9 INCOME TAX EXPENSE

	Group	
	2016	2015
	$'000	$'000
Current income tax		
– current year	**2**	3

The tax expense on the loss differs from the amount that would arise using the Singapore standard rate of income tax due to the following:

	Group	
	2016	2015
	$'000	$'000
Loss before income tax	**(7,224)**	(5,752)
Tax calculated at a tax rate of 17% (2015: 17%)	**(1,228)**	(978)
Effects of:		
Expenses not deductible for tax purposes	**624**	364
Income not subject to tax	**(17)**	(13)
Utilisation of previously unrecognised deferred income tax assets	**–**	(134)
Withholding tax	**2**	3
Deferred tax assets not recognised	**621**	761
	2	3

The expenses not deductible for tax purposes mainly relate to legal and professional fees incurred for the Proposed Acquisition and impairment loss on intangible assets.

As at 31 December 2016, the Group has approximately $6,514,000 (2015: $6,507,000) and $79,542,000 (2015: $75,894,000) estimated unabsorbed capital allowances and tax losses available for offsetting against future taxable profits. These are available for offset against future taxable profits subject to there being no substantial changes in shareholdings and other requirements as provided in the Singapore Income Tax Act. The related deferred tax benefits arising from the unabsorbed capital allowances and tax losses have not been recognised in the financial statements as there is no reasonable certainty of their realisation in future as disclosed in Note 2(q) to the financial statements.

No deferred income tax liabilities have been recognised for the withholding and other taxes that will be payable on the earnings of an overseas subsidiary, if any, when remitted to the holding company as the Group is able to control the timing of the remittance of the earnings and the Group does not expect to remit any earnings on the foreseeable future.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

10 LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year as follows:

	Group	
	2016	**2015**
Net loss attributable to equity holders of the Company ($'000)	**(5,446)**	(4,567)
Weighted average number of ordinary shares outstanding for basic loss per share	**44,987,502[(1)]**	47,270,514[(1)]
Basic loss per share (cents per share)	**(12.11)[(2)]**	(9.66)[(2)]

(1) The weighted average number of ordinary shares outstanding during the financial year ended 31 December 2016 and 31 December 2015 was adjusted for the effect of the Share Split as disclosed in Note 32(i)(f) to the financial statements.

(2) The basis loss per share was computed based on the weighted average number of ordinary shares adjusted for the Share Split.

Diluted loss per share

For the purpose of calculating diluted loss per share, loss attributable to equity holders of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares.

The share options of the Company as disclosed in Note 24 of the financial statements could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted loss per share because there is no dilutive effect for the financial year ended 31 December 2016 and 31 December 2015.

11 CASH AND BANK BALANCES

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	**$'000**	**$'000**	**$'000**
Cash at bank and on hand	**4,640**	4,841	**2,343**	2,358
Fixed deposits	**8,143**	8,070	**8,131**	8,058
Cash and bank balances	**12,783**	12,911	**10,474**	10,416

For the purpose of presenting the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	Group	
	2016	**2015**
	$'000	**$'000**
Cash and bank balances	**12,783**	12,911
Less: Fixed deposits pledged	**(5,087)**	(5,054)
Less: Bank overdraft (Note 22)	**(187)**	(128)
Cash and cash equivalents	**7,509**	7,729

Fixed deposits earned an average effective interest rate between 0.25% to 0.95% (2015: 0.22% to 1.25%) per annum. Fixed deposits totalling $8,131,000 (2015: $8,058,000) are maturing between 1 to 12 months (2015: 3 to 12 months). Fixed deposits totalling $5,087,000 (2015: $5,054,000) are pledged to the banks as security for banking facilities amounting to $7,550,000 (2015: $7,550,000). The Group has performance bonds of $252,500 (2015: $691,000) which are secured with pledged fixed deposits.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

12 FINANCIAL ASSETS, AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2016	**2015**
	$'000	**$'000**
Held for trading		
Listed equity securities – Singapore	**5**	5

13 TRADE RECEIVABLES

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	**$'000**	**$'000**	**$'000**
Due from:				
– third parties	**4,460**	6,759	**162**	–
– subsidiaries	**–**	–	**1,786**	1,235
– related parties	**31**	15	**–**	–
Retention receivables:				
– third parties	**2,266**	3,046	**–**	–
– related parties	**266**	322	**–**	–
	7,023	10,142	**1,948**	1,235
Less: Allowance for impairment				
– third parties	**(102)**	(113)	**–**	–
– subsidiaries	**–**	–	**(1,223)**	–
	6,921	10,029	**725**	1,235

The trade receivables of the Group comprise 5 debtors (2015: 7 debtors) that individually represented more than 5% of trade receivables.

Trade receivables are non-interest bearing and are generally on 30 to 90 days credit terms.

The amounts due from subsidiaries and related parties are trade in nature, unsecured, interest-free and repayable on normal credit terms.

14 OTHER RECEIVABLES AND OTHER CURRENT ASSETS

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	**$'000**	**$'000**	**$'000**
Current				
Other receivables:				
Due from subsidiaries	**–**	–	**9,206**	13,747
Deposits	**656**	664	**206**	206
Deposit paid for Proposed Acquisition (Note 32)	**3,000**	–	**3,000**	–
Sundry debtors	**103**	231	**60**	36
	3,759	895	**12,472**	13,989
Less: Allowance for impairment				
– subsidiaries (Note 30(a))	**–**	–	**(8,948)**	(4,603)
	3,759	895	**3,524**	9,386
Other current assets:				
Prepayments to suppliers	**136**	895	**–**	–
Other prepayments	**58**	46	**13**	13
	3,953	1,836	**3,537**	9,399

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

14 OTHER RECEIVABLES AND OTHER CURRENT ASSETS (CONTINUED)

The amounts due from subsidiaries are non-trade in nature, unsecured, interest-free and repayable on demand and include amounts denominated in USD of $48,000 (2015: $2,511,000). During the financial year, the Company has charged an impairment loss on amounts due from its subsidiaries to profit or loss of $4,274,000 (2015: $4,603,000).

15 INVENTORIES

	Group	
	2016	**2015**
	$'000	**$'000**
Raw materials	**509**	836
Consumable stocks	**143**	141
Work-in-progress	**73**	1,144
Finished goods	**–**	1,103
	725	3,224

During the financial year ended 31 December 2016, the Group has written down the cost of inventories amounting to $14,000 (2015: $22,000) and $2,025,000 (2015: $Nil) respectively for inventories under the aluminium and vehicle segment.

The Group has reversed inventories write down of $10,000 (2015: $13,000) being part of inventory allowances made in prior years for inventories under the aluminium segment, as the inventories were recovered above the carrying amounts through use in ongoing projects.

16 CONSTRUCTION CONTRACTS

	Group	
	2016	**2015**
	$'000	**$'000**
Current assets		
Costs in excess of progress billings:		
Costs incurred and recognised profits (less recognised losses) on uncompleted contracts	**7,243**	7,677
Less: Progress billings	**(7,211)**	(6,603)
Due from customers on construction contracts	**32**	1,074
Current liabilities		
Progress billings in excess of costs:		
Costs incurred and recognised profits (less recognised losses) on uncompleted contracts	**67,296**	59,980
Less: Progress billings	**(68,902)**	(62,095)
Due to customers on construction contracts	**(1,606)**	(2,115)

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

17 INVESTMENTS IN SUBSIDIARIES

	Company	
	2016	**2015**
	$'000	**$'000**
Equity investments		
At cost	**27,555**	27,555
Less: Accumulated impairment losses	**(27,555)**	(26,902)
	–	653

The movement in allowance for impairment losses in subsidiaries is as follows:

	Company	
	2016	**2015**
	$'000	**$'000**
At 1 January	**26,902**	23,614
Impairment loss charged to profit or loss	**653**	3,288
At 31 December	**27,555**	26,902

Details of the subsidiaries are as follows:

Name	Principal activities	Country of incorporation/ principal place of business	Effective equity interest held by the Group		Cost of investment	
			2016 %	**2015** %	**2016** $'000	**2015** $'000
Durabeau Industries Pte Ltd ("DIPL")[(1)]	Manufacturer of aluminium grilles, windows and doors	Singapore	**100**	100	**5,600**	5,600
LH Aluminium Industries Pte Ltd ("LHAI")[(1)]	Design, engineering, fabrication and installation of aluminium architectural and engineering products	Singapore	**100**	100	**20,000**	20,000
Autotrax International Pte Ltd ("Autotrax")[(1)]	Investment holdings and design, manufacture and marketing of vehicle traction equipment	Singapore	**51**	51	**1,955**	1,955
					27,555	27,555

Name	Principal activities	Country of incorporation/ principal place of business	Effective equity interest held by the Group	
			2016 %	**2015** %
Held by Autotrax				
Autovox Korea Co., Ltd. ("Autovox Korea")[(2)]	Manufacturing automotive traction devices and parts	South Korea	**51**	51

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

17 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The Group has the following subsidiary that has material non-controlling interest:

Name	Country of incorporation/ principal place of business	Proportion of ownership interests held by non-controlling interest		Loss allocated to non-controlling interest		Accumulated non-controlling interest	
		2016 %	2015 %	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Autovox Korea Co., Ltd. ("Autovox Korea")(2)	South Korea	**49**	49	**(1,499)**	(519)	**(1,920)**	(409)

(1) Audited by Moore Stephens LLP, Singapore

(2) Audited by another firm of auditors, Myung-Jin CPA's Team, Seoul, Korea

Summarised financial information in the Group's subsidiary that has material non-controlling interest is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Autovox Korea Co., Ltd.

	2016 $'000	2015 $'000
Current assets	**534**	2,726
Non-current assets	**290**	572
Current liabilities	**(2,105)**	(1,570)
Non-current liabilities	**(2,638)**	(2,563)
Equity attributable to owners of the Company	**(1,999)**	(426)
Non-controlling interest	**(1,920)**	(409)

	2016 $'000	2015 $'000
Revenue	**199**	404
Expenses	**(3,258)**	(1,463)
Loss for the year	**(3,059)**	(1,059)
Loss attributable to owners of the Company	**(1,560)**	(540)
Loss attributable to the non-controlling interest	**(1,499)**	(519)
Loss for the year	**(3,059)**	(1,059)
Total comprehensive loss attributable to owners of the Company	**(1,573)**	(555)
Total comprehensive loss attributable to the non-controlling interest	**(1,511)**	(533)
Total comprehensive loss for the year	**(3,084)**	(1,088)
Net cash outflow from operating activities	**(472)**	(443)
Net cash inflow from investing activities	**90**	128
Net cash inflow from financing activities	**296**	315
Net cash outflow	**(86)**	–

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17 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Impairment test

The recoverable amount of the CGU to which the investments in subsidiaries belong was determined based on value-in-use calculations. Cash flow projections used in these calculations were based on the financial budgets approved by management covering a one-year period. The assumptions were based on project status and expectations of market developments.

As at the financial reporting date, accumulated impairment losses of approximately $25,600,000 (2015: $24,947,000) and $1,955,000 (2015: $1,955,000) were recognised for subsidiaries in the aluminium segment and vehicle segment respectively. This was due to intense competition in the industry resulting in lower margins for projects secured. The impairment test carried out as at 31 December 2016 for the subsidiaries indicated that the recoverable amounts of the subsidiaries were lower than their carrying amounts and in view of the working capital deficiency, an additional impairment loss of $653,000 (2015: $2,288,000) and $Nil (2015: $1,000,000) was charged for the subsidiaries in the aluminium segment and vehicle segment respectively for the financial year ended 31 December 2016.

18 INTANGIBLE ASSETS

	Group	
	2016	**2015**
	$'000	**$'000**
Patents		
Cost		
At 1 January	**4,244**	3,969
Currency translation	**96**	275
At 31 December	**4,340**	4,244
Accumulated amortisation and impairment		
At 1 January	**3,659**	2,060
Amortisation expense	**52**	212
Impairment loss charged to profit or loss	**519**	1,194
Currency translation	**110**	193
At 31 December	**4,340**	3,659
Net book value		
At 31 December	**–**	585

The Group holds several patents for the manufacture of its vehicle traction devices.

NOTES TO THE FINANCIAL STATEMENTS

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18 INTANGIBLE ASSETS (CONTINUED)

Impairment test

The recoverable amount of the CGU to which the patents belong (one of the product lines under the vehicle segment) was determined based on value-in-use calculations. Cash flow projections used in these calculations were based on the financial budgets approved by management covering a one-year period. Cash flows beyond the one-year period to the fifth year were extrapolated using the estimated growth rates stated below. The growth rate did not exceed the long-term average growth rate for the business in which the CGU operated.

Key assumptions used for value-in-use calculations:

	2016 %	2015 %
Gross margin	**43.0**	61.0
Growth rate	**5.0**	10.0
Discount rate	**10.2**	11.7

These assumptions were used for the analysis of the CGU within the business segment. Management determined budgeted gross margin based on past performance and its expectations of market developments. The weighted average growth rates used were based on the estimated demand of the products and the strategic growth plan of the segment. The discount rates used were pre-tax and reflected specific risks relating to the relevant segment.

During the financial year ended 31 December 2016, an impairment charge of $519,000 (2015: $1,194,000) was recognised to profit or loss for the patents as the recoverable amount of the CGU based on value-in-use calculations was lower than the carrying amount of the assets for the segment. This was mainly due to increasing competition in the South Korea market as well as difficulties in entering new markets in other countries.

As at 31 December 2016, accumulated impairment losses of $2,942,000 (2015: $2,423,000) have been recognised for the patents.

NOTES TO THE **FINANCIAL STATEMENTS**

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19 PROPERTY, PLANT AND EQUIPMENT

	Building $'000	Plant and equipment $'000	Motor vehicles $'000	Leasehold improvements $'000	Total $'000
Group					
2016					
Cost					
At 1 January	**304**	**5,385**	**883**	**211**	**6,783**
Additions	**–**	**76**	**–**	**–**	**76**
Write off	**–**	**(8)**	**–**	**–**	**(8)**
Disposals	**–**	**(252)**	**(262)**	**–**	**(514)**
Currency translation	**(1)**	**(5)**	**–**	**(1)**	**(7)**
At 31 December	**303**	**5,196**	**621**	**210**	**6,330**
Accumulated depreciation and impairment					
At 1 January	**22**	**5,183**	**749**	**136**	**6,090**
Depreciation charge for the year	**8**	**16**	**41**	**20**	**85**
Write off	**–**	**(8)**	**–**	**–**	**(8)**
Disposals	**–**	**(134)**	**(175)**	**–**	**(309)**
Impairment loss charged to profit or loss	**–**	**142**	**–**	**–**	**142**
Currency translation	**–**	**(3)**	**–**	**–**	**(3)**
At 31 December	**30**	**5,196**	**615**	**156**	**5,997**
Net book value					
At 31 December	**273**	**–**	**6**	**54**	**333**
2015					
Cost					
At 1 January	305	5,510	883	211	6,909
Additions	–	52	–	–	52
Disposals	–	(171)	–	–	(171)
Currency translation	(1)	(6)	–	–	(7)
At 31 December	304	5,385	883	211	6,783
Accumulated depreciation and impairment					
At 1 January	15	4,608	625	116	5,364
Depreciation charge for the year	7	387	124	20	538
Disposals	–	(80)	–	–	(80)
Impairment loss charged to profit or loss	–	270	–	–	270
Currency translation	–	(2)	–	–	(2)
At 31 December	22	5,183	749	136	6,090
Net book value					
At 31 December	282	202	134	75	693

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

19 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Plant and equipment $'000	Motor vehicles $'000	Total $'000
Company			
2016			
Cost			
At 1 January	**1,559**	**543**	**2,102**
Additions	**2**	**–**	**2**
Disposals	**(8)**	**(232)**	**(240)**
At 31 December	**1,553**	**311**	**1,864**
Accumulated depreciation and impairment			
At 1 January	**1,551**	**443**	**1,994**
Depreciation charge for the year	**10**	**23**	**33**
Disposals	**(8)**	**(158)**	**(166)**
At 31 December	**1,553**	**308**	**1,861**
Net book value			
At 31 December	**–**	**3**	**3**
2015			
Cost			
At 1 January	1,556	543	2,099
Additions	3	–	3
At 31 December	1,559	543	2,102
Accumulated depreciation and impairment			
At 1 January	1,537	353	1,890
Depreciation charge for the year	14	90	104
At 31 December	1,551	443	1,994
Net book value			
At 31 December	8	100	108

During the financial year ended 31 December 2016, an impairment loss of $142,000 (2015: $270,000) was recognised to profit or loss for the Group's plant and equipment under the vehicle segment as the recoverable amount of the CGU based on value-in-use calculations was lower than the carrying amount of the assets for the segment. Further details of the key assumptions used for value-in-use calculations are set out in Note 18.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

20 TRADE PAYABLES

	Group		Company	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Due to:				
– third parties	**3,087**	2,780	**–**	–
Retention payable:				
– third parties	**528**	550	**–**	–
	3,615	3,330	**–**	–

21 OTHER PAYABLES

	Group		Company	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Accruals	**2,194**	891	**1,962**	334
Restructuring costs	**475**	–	**93**	–
VAT payables	**131**	105	**–**	–
Sundry creditors	**521**	251	**228**	78
	3,321	1,247	**2,283**	412

The restructuring costs comprised termination benefits of $475,000 provided in the current year as a result of the restructuring of the Aluminum Division following the acquisition of PSD Singapore Pte Ltd (formerly known as Pacific Star Development Pte Ltd) by the Company which resulted in a "reverse takeover" of the Company as defined under Chapter 10 of the Listing Manual of the SGX-ST. The amount was recognised based on the termination benefits agreed with the employees respectively and the termination event is expected to complete on or before 31 December 2017.

22 BORROWINGS

	Group		Company	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Current				
Bank overdraft – secured (a)	**187**	128	**–**	–
Short-term loans (b)	**384**	385	**–**	–
	571	513	**–**	–

(a) Bank overdraft – secured

The bank overdraft is secured over certain fixed deposits of the Group (Note 11). The effective interest rate for the bank overdraft is 4.3% (2015: 4.3%) per annum.

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22 BORROWINGS (CONTINUED)

(b) Short-term loan

The short-term loan of $240,000 (2015: $241,000) was undertaken by the subsidiary in South Korea as a condition to maintain its status as a venture company in South Korea. The short-term loan will mature on 4 May 2017 (2015: 6 May 2016) and is renewable on an annual basis. The effective interest rate for the loan is 3.48% (2015: 3.34%) per annum.

The short-term loan of $144,000 (2015: $144,000) was undertaken by the subsidiary in South Korea for the purpose of operations. The short-term loan will mature on 4 May 2017 (2015: 6 May 2016). The effective interest rate for the loan is 3.48% (2015: 3.5%) per annum.

(c) Other borrowings

As at 31 December 2016, the Company has $7,297,500 (2015: $6,859,000) of undrawn committed credit facilities in respect of which all conditions precedent had been met.

23 PROVISION FOR WARRANTY

The Group gives ten-year warranties on certain products sold by undertaking to repair or replace items that fail to perform satisfactorily. A provision is recognised at the financial reporting date for expected warranty claims based on past experience of the level of repairs.

Movement in the provision for warranty account is as follows:

	Group	
	2016	**2015**
	$'000	**$'000**
At 1 January	**1,959**	1,759
Provision made	**254**	233
Provision utilised	**(22)**	(33)
Reversal	**(4)**	–
At 31 December	**2,187**	1,959

24 SHARE CAPITAL

	Number of shares issued		Total share capital	
	Share capital	**Treasury shares**	**Share capital $'000**	**Treasury shares $'000**
Group and Company				
2016				
At 1 January	**15,782,926**	**(208,700)**	**48,196**	**(104)**
Share buyback and held as treasury shares	**–**	**(683,100)**	**–**	**(409)**
At 31 December	**15,782,926**	**(891,800)**	**48,196**	**(513)**
2015				
At 1 January	3,946,428,548	–	48,196	–
Share consolidation	(3,930,645,622)	–	–	–
Share buyback and held as treasury shares	–	(208,700)	–	(104)
At 31 December	15,782,926	(208,700)	48,196	(104)

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

24 **SHARE CAPITAL** (CONTINUED)

Ordinary shares have no par value.

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 at general meetings of the Company and rank equally with regard to the Company's residual assets.

As a result of the share consolidation of every two hundred and fifty (250) existing ordinary shares into one (1) consolidated ordinary share on 13 November 2015, the number of issued shares of the Company has been reduced to 15,782,926 as at 31 December 2015.

Treasury shares

Treasury shares relate to ordinary shares of the Company that are held by the Company. The Company purchased 683,100 (2015: 208,700) of its ordinary shares in the open market during the financial year. The total amount paid to purchase the ordinary shares was $409,000 (2015: $104,000) and this was presented as a component within shareholder's equity.

LHG Employee Share Option Scheme ("LHG ESOS")

The LHG ESOS for key management personnel and employees of the Group was approved by members of the Company at an Extraordinary General Meeting on 25 April 2013 and is administered by the Remuneration Committee.

The LHG ESOS provides a means to recruit, retain and give recognition to employees who have contributed to the growth and success of the Group.

Principal Terms of the LHG ESOS

(i) Participants

All key management personnel and employees of the Group who have been in the employment of the Group for a period of at least 12 months, or such shorter period as the Remuneration Committee may determine are eligible to participate in the LHG ESOS.

(ii) Number of Shares

The aggregate number of shares over which options may be granted on any date, when added to the number of shares issued and issuable in respect of all options granted under the LHG ESOS, shall not exceed 15% of the issued share capital of the Company on the day preceding that date.

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24 SHARE CAPITAL (CONTINUED)

LHG Employee Share Option Scheme ("LHG ESOS") (Continued)

Principal Terms of the LHG ESOS (Continued)

(iii) Options, Exercise Period and Exercise Price

Vesting Period and Exercise Period

The vesting of the options is conditional on the key management personnel or employees completing another (i) one year of service to the Group for options granted with the exercise price set at Market Price; or (ii) two years of service to the Group for options granted with the exercisable price set at a discount to Market Price. Once the options are vested, they are exercisable for a period of four years. The options may be exercised in full or in part in respect of 100 shares or a multiple thereof, on the payment of the exercise price.

Exercise Price

The exercise price of the options is (i) determined at the volume weighted average of the Company's ordinary shares as quoted on the Singapore Exchange for five-consecutive market days immediately preceding the date of the grant ("Market Price"); or (ii) set at a discount not exceeding 20% of the Market Price.

(iv) Grant of Options

The Remuneration Committee may at any time during the period when the LHG ESOS is in force, except that, for so long as the Company's shares are listed and quoted on the SGX-ST, no options under LHG ESOS shall be granted during the period of one month immediately preceding the date of announcement of the Company's full-year results and two weeks before the announcement of the Company's first, second and third quarter results of its financial years.

(v) Acceptance of Options

The grant of options shall be accepted within 30 days from the date of offer. Offers of options made to grantees, if not accepted by the closing date, will lapse.

(vi) Duration of the LHG ESOS

The LHG ESOS shall continue to be in force at the discretion of the Remuneration Committee, subject to a maximum period of ten years from 25 April 2013.

24 SHARE CAPITAL (CONTINUED)

LHG Employee Share Option Scheme ("LHG ESOS") (Continued)

Options Granted under LHG ESOS

Movements in the number of unissued ordinary shares under options and their exercise price are as follows:

	No. of unissued ordinary shares under option					
	At 1.1.2016 '000	Granted during the financial year '000	Forfeited during the financial year '000	At 31.12.2016 '000	Exercise price	Exercise period
Group and Company						
2014 Options	351	–	(225)	126	$1.75	3.3.2015 – 2.3.2019

25 RESERVES

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Accumulated losses	**(29,761)**	(24,438)	**(33,828)**	(25,417)
Other reserves	**(1,150)**	(1,150)	**(1,470)**	(1,470)
Share options reserve	**71**	194	**71**	194
Currency translation reserve	**(79)**	(23)	**–**	–
	(30,919)	(25,417)	**(35,227)**	(26,693)

Other reserves comprise share issues expenses arising from the issuance of ordinary shares, waiver of loan by the non-controlling interest and initial recognition and subsequent cancellation of a redemption liability in 2013 relating to an option to purchase the shares held by the non-controlling interest.

Share options reserve comprises the fair value of employee share options granted under LHG ESOS.

Currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of Group entities whose functional currencies are different from that of the Group's presentation currency.

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26 NON-CONTROLLING INTEREST

	Group	
	2016	**2015**
	$'000	**$'000**
At 1 January	**(1,525)**	(285)
Share of results of subsidiaries	**(1,780)**	(1,188)
Share of currency translation reserve	**(53)**	(52)
At 31 December	**(3,358)**	(1,525)

27 DISCLOSURE OF DIRECTORS' REMUNERATION

The number of directors of the Company in remuneration bands is as follows:

	Number of directors	
	2016	**2015**
$250,000 to below $499,999	**–**	1
Below $250,000	**6**	4
Total	**6**	5

28 RELATED PARTY TRANSACTIONS

Related Party is defined as follows:

(a) A person or a close member of that person's family is related to a reporting entity, if that person (i) has control or joint control over the reporting entity; (ii) has significant influence over the reporting entity; or (iii) is a member of the key management personnel of the reporting entity of a parent of the reporting entity.

(b) An entity is related to a reporting entity if (i) the entity and the reporting entity are members of the same group; (ii) one entity is an associate or joint venture of the other entity; (iii) both entities are joint ventures of the same third party; (iv) one entity is a joint venture of a third party and the other entity is an associate of the third party; (v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity; (vi) the entity is controlled or jointly controlled by a person identified in (a); (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; and (viii) the entity or any member of a group of which is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

NOTES TO THE **FINANCIAL STATEMENTS**

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28 RELATED PARTY TRANSACTIONS (CONTINUED)

As at the reporting date, related companies in these financial statements refer to members of the ultimate holding company's group of companies. Other related parties comprise mainly companies which are controlled or significantly influenced by the Group's key management personnel and their close family members.

Key management personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling activities of the Group. The directors and executive officers of the Group are considered as key management personnel of the Group.

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

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

(a) Sales and purchases of goods and services

	Group	
	2016	2015
	$'000	$'000
Contract income from related parties	**29**	195
Rental payments made to related parties	**–**	76

(b) Key management personnel compensation

Key management personnel compensation is as follows:

	Group		Company	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Wages and salaries	**894**	901	**605**	606
Directors' fees	**202**	202	**202**	202
Employers' contribution to Central Provident Fund	**62**	45	**51**	33
Benefits-in-kind	**65**	71	**24**	29
	1,223	1,219	**882**	870

Compensation to directors of the Company amounted to $447,000 (2015: $665,000). Details on directors' remuneration are disclosed in the Corporate Governance Report.

NOTES TO THE FINANCIAL STATEMENTS

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29 OPERATING LEASE COMMITMENTS

The future minimum lease receivable and payable under non-cancellable operating leases, in respect of the factory and office premises with varying terms and renewal rights contracted for at the financial reporting date but not recognised as receivables and payables respectively, are as follows:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	**$'000**	**$'000**	**$'000**
Receivable:				
Within 1 year	**433**	475	**271**	300
Between 1 to 5 years	**–**	925	**–**	575
	433	1,400	**271**	875
Payable:				
Within 1 year	**572**	653	**572**	616
Between 1 to 5 years	**–**	1,233	**–**	1,233
	572	1,886	**572**	1,849

30 FINANCIAL RISK MANAGEMENT

The Group and the Company are exposed to financial risks, including the effects of credit risk, liquidity risk, interest rate risk and foreign currency risk arising from the normal course of the Group's and the Company's operations. The following sections provide details regarding the Group's and the Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

(a) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group and the Company. The major classes of financial assets of the Group and the Company are cash and cash equivalents, trade receivables and other receivables. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit history and obtaining sufficient collateral or buying credit insurance where appropriate to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties.

Credit exposure to an individual counterparty is restricted by credit limits that are approved by the management based on ongoing credit evaluations. The counterparty's payment profile and credit exposure are continuously monitored by management.

As the Group and the Company do not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statements of financial position.

NOTES TO THE **FINANCIAL STATEMENTS**

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30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit Risk (Continued)

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with a good payment record with the Group and Company. Cash and cash equivalents that are neither past due nor impaired are placed with or entered into with reputable financial institutions.

The Group's and the Company's financial assets not past due or impaired include trade and other receivables amounting to $10,461,000 (2015: $10,126,000) and $4,249,000 (2015: $10,621,000) respectively.

Financial assets that are past due but not impaired

There are no other classes of financial assets that are past due but not impaired except for trade receivables.

The age analysis of unsecured trade receivables past due but not impaired are as follows:

	Group	
	2016	**2015**
	$'000	**$'000**
Less than 30 days	**81**	626
30 to 60 days	**59**	73
61 to 90 days	**24**	51
91 to 120 days	**4**	7
More than 120 days	**51**	41
	219	798

Financial assets that are past due and/or impaired

The carrying amount of trade receivables individually determined to be impaired and the movement in the related allowance for impairment is as follows:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	**$'000**	**$'000**	**$'000**
Gross amount	**102**	113	**1,223**	–
Less: Allowance for impairment	**(102)**	(113)	**(1,223)**	–
	–	–	**–**	–

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit Risk (Continued)

Financial assets that are past due and/or impaired (Continued)

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	**$'000**	**$'000**	**$'000**
At 1 January	**113**	745	**–**	–
Impairment losses charged to profit or loss	**–**	11	**1,223**	–
Impairment losses written off	**(11)**	(627)	**–**	–
Impairment reversed	**–**	(16)	**–**	–
At 31 December	**102**	113	**1,223**	–

The impaired trade receivables of the Group arose from long outstanding amounts due from customers which remained unpaid as at the financial reporting date and accordingly there are significant uncertainties over the recovery of these amounts due from these customers. These receivables are not secured by any collateral or credit enhancement.

The impaired trade receivables of the Company arose from subsidiaries that have been suffering financial losses for the current and previous financial years.

Other receivables

The carrying amount of other receivables due from the subsidiaries individually determined to be impaired and the movement in the related allowance for impairment is as follows:

	Company	
	2016	**2015**
	$'000	**$'000**
At 1 January	**4,603**	–
Impairment losses charged to profit or loss	**4,274**	4,603
Currency translation	**71**	–
At 31 December	**8,948**	4,603

(b) Liquidity Risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions at short notice.

Management monitors rolling forecasts of the Group's and Company's liquidity reserve (comprises undrawn borrowing facilities and cash and cash equivalents (Note 11)) on the basis of expected cash flow. This is generally carried out in accordance with the practice and limits set by the Group.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity Risk (Continued)

These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the Group's and Company's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring liquidity ratios and maintaining debt financing plans.

The table below analyses the maturity profile of the Group's and Company's financial liabilities based on contractual undiscounted cash flows. Balances due within twelve months equal their carrying amounts as the impact of discounting is not significant.

	Carrying amount $'000	Cash flow Contractual cash flow $'000	Less than 1 year $'000	1 to 5 years $'000
2016				
Group				
Trade payables	**3,615**	**3,615**	**3,615**	**–**
Other payables	**3,190**	**3,190**	**3,190**	**–**
Borrowings	**571**	**575**	**575**	**–**
	7,376	**7,380**	**7,380**	**–**
Company				
Other payables	**2,283**	**2,283**	**2,283**	**–**
2015				
Group				
Trade payables	3,330	3,330	3,330	–
Other payables	1,142	1,142	1,142	–
Borrowings	513	518	518	–
	4,985	4,990	4,990	–
Company				
Other payables	412	412	412	–

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

	Cash flow Contractual cash flow $'000	Less than 1 year $'000	1 to 5 years $'000
Group			
Financial guarantees – As at 31 December			
– 2016	**438**	**35**	**403**
– 2015	1,355	437	918
Company			
Financial guarantees – As at 31 December			
– 2016	**253**	**–**	**253**
– 2015	1,130	301	829

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The Group and Company have adequate credit facilities to ensure necessary liquidity as shown below.

The Group and Company have cash balances placed with reputable banks. The Group and Company manage its interest rate risk on its interest income by placing the cash balances in varying maturities and interest rate terms.

The financial assets and liabilities of the Group and Company are non-interest bearing except for cash and bank balances and borrowings as set out in the table below:

	Within 1 year		
	Fixed rate $'000	Variable rate $'000	Total $'000
2016			
Group			
Cash and bank balances	**8,131**	**2,858**	**10,989**
Borrowings	**–**	**(571)**	**(571)**
Company			
Cash and bank balances	**8,131**	**2,260**	**10,391**
2015			
Group			
Cash and bank balances	8,058	4,114	12,172
Borrowings	–	(513)	(513)
Company			
Cash and bank balances	8,058	2,221	10,279

At the financial reporting date, the Group's and the Company's exposure to interest rate risk is not significant.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Foreign Currency Risk

The Group has transactional currency exposures arising from its ordinary course of business that are denominated in a currency other than the functional currency of the Group's entities, which is primarily Singapore Dollar. The foreign currencies in which these transactions are denominated are mainly United States Dollar ("USD") and South Korean Won ("KRW").

The Group's currency exposure based on the information provided to key management is as follows:

	$ $'000	USD $'000	KRW $'000	Other $'000	Total $'000
2016					
Group					
Financial assets					
Cash and bank balances	12,748	16	13	6	12,783
Financial assets, at fair value through profit or loss	5	–	–	–	5
Trade receivables	6,862	–	59	–	6,921
Other receivables and other current assets	3,323	–	436	–	3,759
Due from customers on construction contracts	32	–	–	–	32
	22,970	16	508	6	23,500
Financial liabilities					
Trade payables	3,610	–	–	5	3,615
Other payables	2,975	–	215	–	3,190
Borrowings	–	–	571	–	571
	6,585	–	786	5	7,376
Net financial assets/(liabilities)	16,385	16	(278)	1	16,124

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Foreign Currency Risk (Continued)

	$ $'000	USD $'000	KRW $'000	Other $'000	Total $'000
2015					
Group					
Financial assets					
Cash and bank balances	12,789	61	40	21	12,911
Financial assets, at fair value through profit or loss	5	–	–	–	5
Trade receivables	9,947	–	82	–	10,029
Other receivables and other current assets	326	–	569	–	895
Due from customers on construction contracts	1,074	–	–	–	1,074
	24,141	61	691	21	24,914
Financial liabilities					
Trade payables	3,144	–	14	172	3,330
Other payables	1,064	–	78	–	1,142
Borrowings	–	–	513	–	513
	4,208	–	605	172	4,985
Net financial assets/(liabilities)	19,933	61	86	(151)	19,929

As at 31 December 2016 and 2015, the Company's financial assets and financial liabilities are denominated in Singapore Dollars and have no foreign currency risk exposure except for the amounts due from subsidiaries of $48,000 (2015: $2,511,000) disclosed in Note 14 which are denominated in USD.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Foreign Currency Risk (Continued)

If the USD and KRW strengthened against the $ by 5% (2015: 5%) with all other variables including the tax rate being held constant, the effects arising from the net financial asset/liability position on net loss after tax and equity will increase/(decrease) as follows:

	Group		Company	
	Loss after tax $'000	**Equity $'000**	**Loss after tax $'000**	**Equity $'000**
2016				
USD	**(1)**	**1**	**(2)**	**2**
KRW	**14**	**(14)**	**–**	**–**
2015				
USD	(3)	3	(126)	126
KRW	(4)	4	–	–

If the USD and KRW weakened against the $ by 5%, the effects would have been equal but opposite of the amounts as shown above, on the basis that all other variables remain constant.

(e) Capital Risk

The Group's and Company's objectives when managing capital are to safeguard the Group's and Company's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group and Company may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares, obtain new borrowings or sell assets to reduce borrowings.

In the management of capital risk, management takes into consideration the net debt to equity ratio as well as the Group's and Company's working capital requirement. The net debt to equity ratio is calculated as net debt divided by total capital. Net debt is calculated as total liabilities less total provisions, current tax liabilities and cash and bank balances.

	Group		Company	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
Net debt	**(3,670)**	(5,706)	**(8,191)**	(10,004)
Total equity	**16,764**	22,675	**12,456**	21,399
Net debt to equity ratio	**N.M**	N.M	**N.M**	N.M

N.M – Not meaningful as cash and bank balances are in excess of total liabilities less total provisions and current tax liabilities.

The Group and the Company do not have any externally imposed capital requirements for the financial years ended 31 December 2016 and 2015. There were no changes in the Group's and Company's approach to capital management during the financial year.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Fair Value Measurement

The fair value information presented represents the Group's and the Company's best estimate of those values and may be subject to certain assumptions and limitations. The methodologies and assumptions used in the estimation of fair values depend on the terms and characteristics of the various financial instruments. The following methods and assumptions are used to determine the fair value of each class of financial instruments for which it is practicable to determine that value.

Cash and cash equivalents, trade and other receivables, and trade and other payables

The carrying amounts less impairment provision of these balances approximate their fair values due to the relatively short-term maturity of these financial instruments or are repriced frequently.

Other financial assets and liabilities

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

(i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

(ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

(iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**
Group			
Recurring fair value measurements			
2016			
Financial asset at fair value through profit or loss			
– Trading securities	**5**	**–**	**–**
Recurring fair value measurements			
2015			
Financial asset at fair value through profit or loss			
– Trading securities	5	–	–

There were no transfers between Level 1 and Level 2 during the current and previous financial year.

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the financial reporting date. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

31 STATEMENT OF OPERATIONS BY SEGMENTS

(a) Business Segment

Segment information

Management has determined the operating segments based on the reports reviewed by the Executive Committee ("EXCO") that are used to make strategic decisions. The EXCO comprises the executive directors and non-executive directors.

The EXCO considers the business from both a geographic and business segment perspective. Geographically, the Group's business activities are in Singapore and the Republic of Korea ("South Korea") and derive revenue mainly from construction projects and sale of goods.

Other services including investment holding and trading activities; but these are not included within the reportable operating segments, as they are not included in the reports provided to the EXCO. The results of these operations are included in the "others" column.

Sales between segments are carried out at arm's length. The revenue from external parties reported to the EXCO is measured in a manner consistent with that in the statement of comprehensive income.

(i) Segment assets

The amounts provided to the EXCO with respect to total assets are measured in a manner consistent with that of the financial statements. For the purposes of monitoring segment performance and allocating resources between segments, the EXCO monitors the property, plant and equipment, inventories, receivables and operating cash attributable to each segment. All assets are allocated to reportable segments other than cash and bank balances of the Company.

(ii) Segment liabilities

The amounts provided to the EXCO with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment. All liabilities are allocated to the reportable segments other than income tax liabilities.

(iii) The Group's activities comprise the following reportable segments:

Aluminium – includes trading, project fabrication and contract manufacturing;

Vehicle – includes manufacturing and distribution of vehicle traction devices and other vehicle parts; and

Others – includes corporate office and investment holding activities which are not directly attributable to a particular business segment above.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

31 STATEMENT OF OPERATIONS BY SEGMENTS

(a) Business Segment (Continued)

	Aluminium		Vehicle		Others		Elimination		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Turnover										
External sales	**12,223**	18,697	**330**	462	**–**	–	**–**	–	**12,553**	19,159
Inter-segment sales	**–**	–	**–**	–	**1,897**	1,902	**(1,897)**	(1,902)	**–**	–
Total turnover	**12,223**	18,697	**330**	462	**1,897**	1,902	**(1,897)**	(1,902)	**12,553**	19,159
Segment result	**328**	(2,248)	**(3,507)**	(2,364)	**(8,283)**	(7,078)	**4,258**	5,959	**(7,204)**	(5,731)
Finance costs									**(20)**	(21)
Loss before income tax									**(7,224)**	(5,752)
Income tax expense									**(2)**	(3)
Net loss after income tax									**(7,226)**	(5,755)
Segment assets	**11,861**	17,218	**1,126**	4,179	**4,461**	8,236	**(3,170)**	(9,692)	**14,278**	19,941
Add: Unallocated assets									**10,474**	10,416
Total assets									**24,752**	30,357
Segment liabilities	**14,027**	18,063	**11,796**	10,746	**2,283**	412	**(16,806)**	(20,057)	**11,300**	9,164
Add: Current tax liabilities									**46**	43
Total liabilities									**11,346**	9,207
Other information										
Additions to										
– Property, plant and equipment	**44**	5	**30**	43	**2**	4	**–**	–	**76**	52
Depreciation	**24**	75	**35**	372	**26**	91	**–**	–	**85**	538
Amortisation	**–**	–	**52**	212	**–**	–	**–**	–	**52**	212
Impairment for:										
Trade receivables	**–**	11	**–**	–	**1,223**	–	**(1,223)**	–	**–**	11
Investments in subsidiaries	**–**	–	**–**	1,364	**653**	3,288	**(653)**	(4,652)	**–**	–
Intangible assets	**–**	–	**519**	1,194	**–**	–	**–**	–	**519**	1,194
Property, plant and equipment	**–**	–	**142**	270	**–**	–	**–**	–	**142**	270
Reversal of allowance for impairment of trade receivables	**–**	(13)	**–**	(3)	**–**	–	**–**	–	**–**	(16)
Reversal of write down of inventories	**(10)**	(13)	**–**	–	**–**	–	**–**	–	**(10)**	(13)
Write down of inventories	**14**	22	**2,025**	–	**–**	–	**–**	–	**2,039**	22

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

31 STATEMENT OF OPERATIONS BY SEGMENTS (CONTINUED)

(b) Geographical Segment

Geographically, management manages and monitors the business in two primary geographic areas: Singapore and South Korea. The segments in Singapore derive revenue mainly from construction projects, while South Korea derives revenue mainly from trading activities which is categorised as vehicle segment.

Sales are based on the country in which the customers are located. Non-current assets are shown by the geographical area where the assets are located.

	Sales		Non-current assets	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Group				
Singapore	**12,223**	18,697	**42**	120
South Korea	**330**	462	**291**	1,158
	12,553	19,159	**333**	1,278

Revenue of approximately $7,985,000 (2015: $12,993,000) are derived from two (2015: five) external customers who accounted for at least 10% of the Group's revenue each. These revenues are attributable to the aluminium segment (2015: aluminium segment).

32 EVENTS AFTER THE REPORTING DATE

(i) Proposed Acquisition of PSD Singapore Pte Ltd (formerly known as Pacific Star Development Pte. Ltd.)

Pursuant to an Extraordinary General Meeting ("EGM") held by the Company on 8 February 2017, the followings events took place:

(a) The name of the Company was changed from LH Group Limited to Pacific Star Development Limited with effect from 8 February 2017.

(b) The listing of the Company's shares was transferred from the Mainboard of the SGX-ST to the Catalist with effect from 13 February 2017.

(c) Issue and allotment of 11,037,500 conditional placement shares at the issue price of $0.80 per conditional placement share ("Conditional Placement") on 15 February 2017. The net proceeds arising from the issue and allotment of 11,037,500 conditional placement shares was approximately $8.5 million, after deducting all costs, expenses and commission payable in respect of the Conditional Placement amounting to $0.3 million.

(d) Completion of the acquisition of PSD Singapore Pte Ltd ("PSD") for a purchase consideration of $140 million ("Purchase Consideration") on 15 February 2017 ("Completion Date") which resulted in a "Reverse Takeover" of the Company as defined under Chapter 10 of the Listing Manual of the SGX-ST.

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

32 EVENTS AFTER THE REPORTING DATE (CONTINUED)

(i) Proposed Acquisition of PSD Singapore Pte Ltd (formerly known as Pacific Star Development Pte. Ltd.) (Continued)

(e) Upon the completion of the reverse takeover, the Company has:

(i) acquired the entire issued share capital of PSD; and

(ii) satisfied part of the Purchase Consideration by way of $16 million in cash and issued and allotted 132,500,000 consideration shares at the issue price of $0.80 per consideration share to the vendor and persons as directed by the vendor.

The remaining consideration of $18 million shall be satisfied, as and when appropriate, by way of payment in cash, by allotment and issuance of shares or partially in cash and partially by way of allotment and issuance of shares:

(i) $8 million of the cash consideration component shall be payable by the Company upon three months from the Completion Date; and

(ii) the $10 million balance consideration component shall be paid in the agreed manner as per Sale and Purchase Agreement after property valuations to be conducted by an independent professional property valuer on the Property projects as at the date falling one year after the Completion Date.

(f) Completion of the proposed share split of every one (1) existing ordinary share in the capital of the Company held by shareholders into three (3) shares with effect from 21 February 2017 ("Share Split").

Following the completion of the Conditional Placement, Reverse Takeover and Share Split, the Company's share capital will be adjusted as follows:

	Number of shares issued		
	Share capital	**Treasury shares**	**Share capital $'000**
Issued and paid up capital:			
As at 31 December 2016	15,782,926	(891,800)	48,196
Issue and allotment of Conditional Shares	11,037,500	–	8,521
Issue and allotment of Consideration Shares	132,500,000	–	106,000
Total issued and paid up capital before Share Split	159,320,426	(891,800)	162,717
Total issued and paid up capital after Share Split	477,961,278	(2,675,400)	162,717

32 EVENTS AFTER THE REPORTING DATE (CONTINUED)

(i) Proposed Acquisition of PSD Singapore Pte Ltd (formerly known as Pacific Star Development Pte. Ltd.) (Continued)

The acquisition of PSD will be accounted for as a reverse acquisition in accordance with FRS 103 *Business Combinations*. However, the details of assets acquired and liabilities assumed, non-controlling interests (if any) that will be recognised at the Completion Date, revenue and profits contribution of PSD and the effect on the cash flows for the Group are not disclosed, as the accounting for this acquisition is not completed at the time these financial statements are authorised for issue.

(ii) On 14 February 2017, the Company has increased the issued and paid up capital of its wholly owned subsidiaries, Durabeau Industries Pte Ltd and LH Aluminium Industries Pte Ltd by way of capitalisation of the inter-company loans of $2,250,000 due from these two subsidiaries.

Subsequent to the capitalisation of the inter-company loans, the issued and paid up share capital of the subsidiaries is as follows:

Subsidiary	Amount of Inter-company Loan Capitalised $'000	Existing Number of Issued Shares	Issued and Paid Up Shares Capital after Capitalisation $'000	Number of Issued Shares after Capitalisation
Durabeau Industries Pte Ltd	1,900	5,000,000	6,900	6,900,000
LH Aluminium Industries Pte Ltd	350	20,000,000	20,350	20,350,000
	2,250			

33 AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue in accordance with a resolution of the Directors of Pacific Star Development Limited on the date of the Directors' Statement.

STATISTICS OF **SHAREHOLDINGS**

AS AT 17 MARCH 2017

NO. OF ISSUED SHARES (EXCLUDING TREASURY SHARES):	475,285,878
NUMBER/PERCENTAGE OF TREASURY SHARES:	2,675,400 (0.56%)
CLASS OF SHARES:	ORDINARY SHARES
VOTING RIGHTS (EXCLUDING TREASURY SHARES):	ONE VOTE PER SHARE

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 99	10,042	71.05	216,903	0.04
100 – 1,000	2,325	16.45	748,894	0.16
1,001 – 10,000	1,363	9.65	4,305,470	0.91
10,001 – 1,000,000	387	2.74	18,985,297	3.99
1,000,001 & ABOVE	16	0.11	451,029,314	94.90
TOTAL	14,133	100.00	475,285,878	100.00

TOP TWENTY SHAREHOLDERS AS AT 17 MARCH 2017

	NAME	NO. OF SHARES	%
1	CH BIOVEST PTE. LIMITED	177,454,800	37.34
2	GLAXIER CITY LIMITED	92,848,050	19.53
3	DOUBLE BLESSING HOLDINGS LIMITED	52,348,050	11.01
4	UOB KAY HIAN PTE LTD	39,243,068	8.26
5	HO LEE GROUP PTE LTD	24,000,000	5.05
6	YAP CHOONG	22,106,700	4.65
7	KOH BROTHERS DEVELOPMENT PTE LTD	11,250,000	2.37
8	DAL-JON DONALD MOORE	8,222,700	1.73
9	MARQUE EQUITIES PTE. LTD.	8,164,500	1.72
10	YAO CHIH MATTHIAS	4,084,200	0.86
11	CHIU DENNIS	3,750,000	0.79
12	WU WEI SDN. BHD	2,271,000	0.48
13	LOW CHEONG YEW	1,875,000	0.39
14	XU YONGSHENG	1,215,210	0.26
15	RAFFLES NOMINEES (PTE) LTD	1,126,236	0.24
16	TAN GUEK MING	1,069,800	0.22
17	TAN TAT WEE (CHEN DAWEI)	937,500	0.20
18	GOH AH WHATT JAMES (WU YAFA)	700,000	0.15
19	LEE SOK WANG	580,848	0.12
20	OW KOK WAH (OU GUOHUA)	534,300	0.11
		453,781,962	95.48

SUBSTANTIAL SHAREHOLDERS AS AT 17 MARCH 2017

		NO. OF SHARES DIRECT INTEREST	%	NO. OF SHARES INDIRECT INTEREST	%
1	CH BIOVEST PTE. LIMITED	177,454,800	37.34	–	–
2	GLAXIER CITY LIMITED	92,848,050	19.53	–	–
3	DOUBLE BLESSING HOLDINGS LIMITED	52,348,050	11.01	–	–
4	HO LEE GROUP PTE LTD	24,000,000	5.05	678	–
5	GLEN CHAN	–	–	145,196,100	30.55
6	PEH SIONG WOON TERENCE	–	–	177,454,800	37.34
7	TAN HAI PENG MICHEAL	–	–	24,000,678	5.05

27.06% of the Company's issued paid-up capital is in the hands of the public. Rule 723 of the Catalist Rules has been complied with.

NOTICE OF **ANNUAL GENERAL MEETING**

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Tan Chin Tuan Function Room 1, Level 4, YMCA of Singapore, 1 Orchard Road, Singapore 238824 on Thursday, 27 April 2017 at 10.00 a.m. to transact the following business:–

AS ORDINARY BUSINESS

1. To receive and adopt the Audited Financial Statements of the Company for the financial year ended 31 December 2016 and the Directors' Statement and the Auditors' Report thereon. **(Resolution 1)**

2. To approve the Directors' fees of $202,000.00 for the financial year ended 31 December 2016. **(Resolution 2)**

3. To re-elect Mr Low Siew Sie Bob who retires in accordance with Regulation 89 of the Company's Constitution and who, being eligible, offers himself for re-election. **(Resolution 3)**

   Mr Low Siew Sie Bob, an Independent Non-Executive Director of the Company, if re-elected will remain as a Chairman of the Audit Committee, and a member of the Nominating Committee and of the Remuneration Committee.

4. To re-elect Mr Tan Hai Peng Micheal who retires in accordance with Regulation 89 of the Company's Constitution and who, being eligible, offers himself for re-election. **(Resolution 4)**

   Mr Tan Hai Peng Micheal, if re-elected, will remain as a Non-Independent Non-Executive Director of the Company.

5. To appoint Messrs Ernst & Young LLP as independent auditors of the Company from the financial year ending 31 December 2017 in place of Messrs Moore Stephens LLP and to authorise the Directors to fix their remuneration. **(Resolution 5)**

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

AS SPECIAL BUSINESS

To consider and, if thought fit, pass the following ordinary resolutions with or without modifications:–

7. **Authority to allot and issue shares**

   "That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Catalist Rules of the Singapore Exchange Securities Trading Limited ("SGX-ST"), authority be and is hereby given to the Directors of the Company to: **(Resolution 6)**

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

NOTICE OF ANNUAL GENERAL MEETING

(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 may in their absolute discretion deem fit; and

(b) notwithstanding that 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 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 does not exceed one hundred per cent (100%) of the total number of issued Shares (excluding treasury shares) (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 existing shareholders of the Company (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed fifty per cent (50%) of the total number of issued Shares (excluding treasury shares) (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such manner of calculations as may be prescribed by the SGX-ST), for the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (1) above, the percentage of issued Shares (excluding treasury shares) shall be based on the total number of issued shares (excluding treasury shares) at the time this Resolution is passed after adjusting for:

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

(ii) new Shares arising from exercising of share options or vesting of share awards outstanding and/or subsisting at the time of the passing of this Resolution, provided that the share options or share awards were granted in compliance with Part VIII of Chapter 8 of the Catalist Rules; and

(iii) any subsequent bonus issue, consolidation or sub-division of Shares.

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Catalist Rules for the time being in force (unless such compliance has been waived by the SGX-ST), and all applicable legal requirements under the Act and the Constitution for the time being of the Company; and

(4) unless revoked or varied by the Company in general meeting, the authority conferred by this Resolution shall continue in force until the conclusion of the next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier."

NOTICE OF **ANNUAL GENERAL MEETING**

8. **Authority to issue shares under the LHG Employee Share Option Scheme** **(Resolution 7)**

"That pursuant to Section 161 of the Companies Act, Cap. 50, the Directors of the Company be authorised and empowered to offer and grant options under the LHG Employee Share Option Scheme (the "**Scheme**") and to 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 issued pursuant to the Scheme shall not exceed fifteen per cent. (15%) of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company at 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."

9. **Renewal of Shareholders' Mandate for Interested Person Transactions** **(Resolution 8)**

"THAT:–

(a) approval be and is hereby given, for the purposes of Chapter 9 of the Catalist Rules of SGX-ST, for the Company, its subsidiaries and associated companies that are entities at risk (as that term in Chapter 9) of any of them, to enter into any of the transactions falling within the types of Interested Persons described in the Appendix to the Company's Circular to Shareholders dated 12 April 2017 with any party who is of the class of interested persons described in the Appendix to the Circular, provided that such transactions are made on normal commercial terms and in accordance with the review procedures for such interested person transactions;

(b) the approval be given in paragraph (a) above (the "**IPT Mandate**") shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company; and

(c) the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary or in the interests of the Company to give effect to the IPT Mandate and/or the Resolution."

NOTICE OF **ANNUAL GENERAL MEETING**

10. **Renewal of Share Buyback Mandate** **(Resolution 9)**

"THAT:–

(a) for the purposes of Sections 76C and 76E of the Companies Act, Chapter 50 of Singapore (the "**Companies Act**"), the exercise by the Directors of the Company of all the powers of the Company to purchase or otherwise acquire ordinary shares in the capital of the Company (the "**Shares**") not exceeding in aggregate the Maximum Limit, at such prices as may be determined by the Directors of the Company from time to time up to the Maximum Price, whether by way of:–

(i) market purchase(s) (each an "**On-Market Purchase**") on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"); and/or

(ii) off-market purchase(s) (each an "**Off-Market Purchase**") effected otherwise than on the SGX-ST in accordance with any equal access scheme(s) as may be determined or formulated by the Directors of the Company as they consider fit, which scheme(s) shall satisfy all the conditions prescribed by the Companies Act,

and otherwise in accordance with all other laws and regulations and the Catalist Rules of the SGX-ST as may for the time being be applicable, be and is hereby authorised and approved generally and unconditionally (the "**Share Buyback Mandate**");

(b) any Share that is purchased or otherwise acquired by the Company pursuant to the Share Buyback Mandate shall, at the discretion of the Directors of the Company, either be cancelled or held in treasury and dealt with in accordance with the Companies Act;

(c) unless varied or revoked by the Company in a general meeting, the authority conferred on the Directors of the Company pursuant to the Share Buyback Mandate may be exercised by the Directors at any time and from time to time during the period commencing from 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 is required by law to be held;

(ii) the date on which the share buybacks are carried out to the full extent mandated; or

(iii) the date on which the authority contained in the Share Buyback Mandate is varied or revoked; and

NOTICE OF ANNUAL GENERAL MEETING

(d) any of the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including without limitation, to execute all such documents as may be required and to approve any amendments, alterations or modifications to any documents), as they or he/she may consider desirable, expedient or necessary to give effect to the transactions contemplated by this resolution."

Dated this 12th day of April 2017

BY ORDER OF THE BOARD

Liew Meng Ling
Company Secretary
Singapore

NOTICE OF **ANNUAL GENERAL MEETING**

Notes:

1) A member of the Company entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint not more than two proxies to attend and vote in his/her stead.

2) 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) A member who is a relevant intermediary entitled to attend the Meeting and vote is entitled to appoint more than two proxies to attend and vote instead of the member, but each proxy must be appointed to exercise the rights attached to a different Share or Shares held by such member. Where such member appoints more than two proxies, the appointments shall be invalid unless the member specifies the number of Shares in relation to which each proxy has been appointed.

   "Relevant intermediary" means:

   (a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity;

   (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Cap. 289) and who holds shares in that capacity; or

   (c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

5) If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.

6) The instrument appointing a proxy must be deposited at the registered office of the Company at Blk 8, #08-05 Liang Huat Industrial Complex 51 Benoi Road Singapore 629908 not less than 72 hours before the time appointed for the Meeting.

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes:–

Resolution 6: The proposed Resolution 6, if passed, will empower the Directors from the date of the above Meeting until the date of the next Annual General Meeting, to allot and issue shares and convertible securities in the Company. The number of shares and convertible securities, which the Directors may allot and issue under this Resolution shall not exceed 100% of the total number of issued shares excluding treasury shares of the Company at the time of passing this Resolution. For allotment and issue of shares and convertible securities other than on a pro-rata basis to all shareholders of the Company, the aggregate number of shares and convertible securities to be allotted and issued shall not exceed 50% of the total number of issued shares excluding treasury shares of the Company. This authority will, unless previously revoked or varied at a general meeting, expire at the next Annual General Meeting.

Resolution 7: The ordinary resolution proposed in item 8 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 at a general meeting, whichever is the earlier, to 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 cent. (15%) of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time.

Resolution 8: The ordinary resolution proposed in item 9 above, if passed, will renew the mandate given by Shareholders on 26 April 2016 allowing the Company, its subsidiaries and associated companies that are entities at risk (as that term is used in Chapter 9 of the Catalist Rules of the SGX-ST) or any of them, to enter into transactions with interested persons as defined in Chapter 9 of the Catalist Rules of the SGX-ST. Please refer to the Appendix to the Circular to Shareholders attached for details.

Resolution 9: The ordinary resolution proposed in item 10 above, if passed, will empowered 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, whichever is the earlier, to repurchase ordinary shares of the Company by way of market purchases or off market purchases of up to ten per centum (10%) of the total number of issued shares (excluding treasury shares) in the capital of the Company at the Maximum Price as defined in the ordinary resolution. The rationale for, the authority and limitation on, the sources of funds to be used for the purchase or acquisition including the amount of financing and the financial effects of the purchase or acquisition of ordinary shares by the Company pursuant to the Share Purchase Mandate on the audited consolidated financial statements of the Group for the financial year ended 31 December 2016 are set out in greater detail in the Circular to Shareholders attached.

NOTICE OF ANNUAL GENERAL MEETING

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of 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.

PACIFIC STAR DEVELOPMENT LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration Number: 198203779D)

IMPORTANT NOTES
1. Relevant intermediaries as defined in Section 181 of the Companies Act, Cap. 50 may appoint more than two proxies to attend, speak and vote at the Annual General Meeting.
2. For CPF/SRS investors who have used their CPF/SRS monies to buy Pacific Star Development Limited shares, this form of proxy is not valid for use and shall be ineffective for all intents and purposes if used or purported to be used by them. CPF/SRS investors should contact their respective Agent Banks/SRS Operators if they have any queries regarding their appointment as proxies.
3. 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 12 April 2017.

PROXY FORM

*I/We ______________________________

of ______________________________

being *a member/members of Pacific Star Development Limited (the "Company"), hereby appoint:

Name	Address	NRIC/ Passport No.	Proportion of shareholdings	
			No. of Shares	%

*and/or

Name	Address	NRIC/ Passport No.	Proportion of shareholdings	
			No. of Shares	%

or failing him/her, the Chairman of the Annual General Meeting ("AGM") of the Company as *my/our *proxy/proxies to attend and vote for *me/us on *my/our behalf at the AGM of the Company to be held at Tan Chin Tuan Function Room 1, Level 4, YMCA of Singapore, 1 Orchard Road, Singapore 238824, on Thursday, 27th April 2017 at 10.00 a.m. and at any adjournment thereof.

*I/we direct *my/our *proxy/proxies to vote for or against the Ordinary Resolutions to be proposed at the AGM as indicated hereunder. If no specific direction as to voting is given, the *proxy/proxies will vote or abstain from voting at *his/her/their discretion, as he/she/they will on any other matter arising at the AGM and at any adjournment thereof.

No.	Ordinary Resolutions	Number of Votes For(1)	Number of Votes Against(1)
1.	**Ordinary Business** To receive and adopt the Audited Financial Statements of the Company for the financial year ended 31 December 2016 and the Directors' Statement and the Auditors' Report thereon.		
2.	To approve the Directors' fees for the financial year ended 31 December 2016.		
3.	To re-elect Mr Low Siew Sie Bob as director in accordance with Regulation 89 of the Company's Constitution.		
4.	To re-elect Mr Tan Hai Peng Micheal as director in accordance with Regulation 89 of the Company's Constitution.		
5.	To appoint Messrs Ernst & Young LLP as the independent auditors.		
6.	**Special Business** To authorise Directors to allot and issue shares.		
7.	Authority to issue shares under the LHG Employee Share Option Scheme.		
8.	Renewal of Shareholders' Mandate for Interested Person Transactions.		
9.	Renewal of Share Buyback Mandate.		

(1) If you wish to exercise all your votes "For" or "Against", please tick within the box provided. Alternatively, please indicate the number of votes as appropriate.

Dated this ________ day of ________________ 2017

Total Number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

____
Signature(s) of Member(s)/Common Seal
** Delete accordingly*

IMPORTANT. Please read notes overleaf

Notes:–

1. A member of the Company entitled to attend and vote at the AGM is entitled to appoint not more than two (2) proxies to attend and vote in his/her stead. Such proxy need not be a member of the Company.
2. Where a member of the Company appoints two proxies, he shall specify the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each such proxy.
3. The instrument appointing a proxy or proxies must be under the hand of the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or under the hand of its attorney or duly authorised officer.
4. A corporation which is a member of the Company may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the AGM, in accordance with its Constitution and Section 179 of the Companies Act, Cap. 50 of Singapore.
5. A member who is a relevant intermediary entitled to attend the AGM and vote is entitled to appoint more than two (2) proxies to attend and vote instead of the member, but each proxy must be appointed to exercise the rights attached to a different Share or Shares held by such member. Where such member appoints more than two (2) proxies, the appointments shall be invalid unless the member specifies the number of Shares in relation to which each proxy has been appointed.

   "Relevant intermediary" means:

   (a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity;

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   (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Cap. 289) and who holds shares in that capacity; or

   (c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.
6. The instrument appointing proxy or proxies, together with the power of attorney or other authority (if any) under which it is signed, or notarially certified copy thereof, must be deposited at the registered office of the Company at Blk 8, #08-05 Liang Huat Industrial Complex, 51 Benoi Road, Singapore 629908 not less than 72 hours before the time set for the AGM.
7. A member should insert the total number of shares held. If the member has shares entered against his name in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50 of Singapore), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert the number of shares. If the member has shares entered against his name in the Depository Register and shares registered in his name in the Register of Members of the Company, he should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by the member of the Company.
8. 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 members of the Company whose shares are entered against their names in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if such members are not shown to have shares entered against their names in the Depository Register 72 hours before the time appointed for holding the AGM as certified by The Central Depository (Pte) Limited to the Company.
9. A Depositor shall not be regarded as a member of the Company entitled to attend the AGM and to speak and vote thereat unless his name appears on the Depository Register 72 hours before the time set for the AGM.
10. 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 AGM dated 12 April 2017. 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 AGM dated 12 April 2017.

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AFFIX STAMP

The Company Secretary

PACIFIC STAR DEVELOPMENT LIMITED

Blk 8, #08-05 Liang Huat Industrial Complex

51 Benoi Road

Singapore 629908

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