YHI
Since 1948

友发国际有限公司
INTERNATIONAL LIMITED

# GEARING UP FOR CHALLENGES

Annual Report
2016

# CONTENTS

# OUR **MISSION**

- To be a recognised global distributor of high quality automotive and industrial products, and a familiar and trusted brand name in alloy wheels manufacturing as an Original Design Manufacturer.

- To position our company effectively by continuously providing our customers with quality products and distinctive customer services so as to build strong customer relationships.

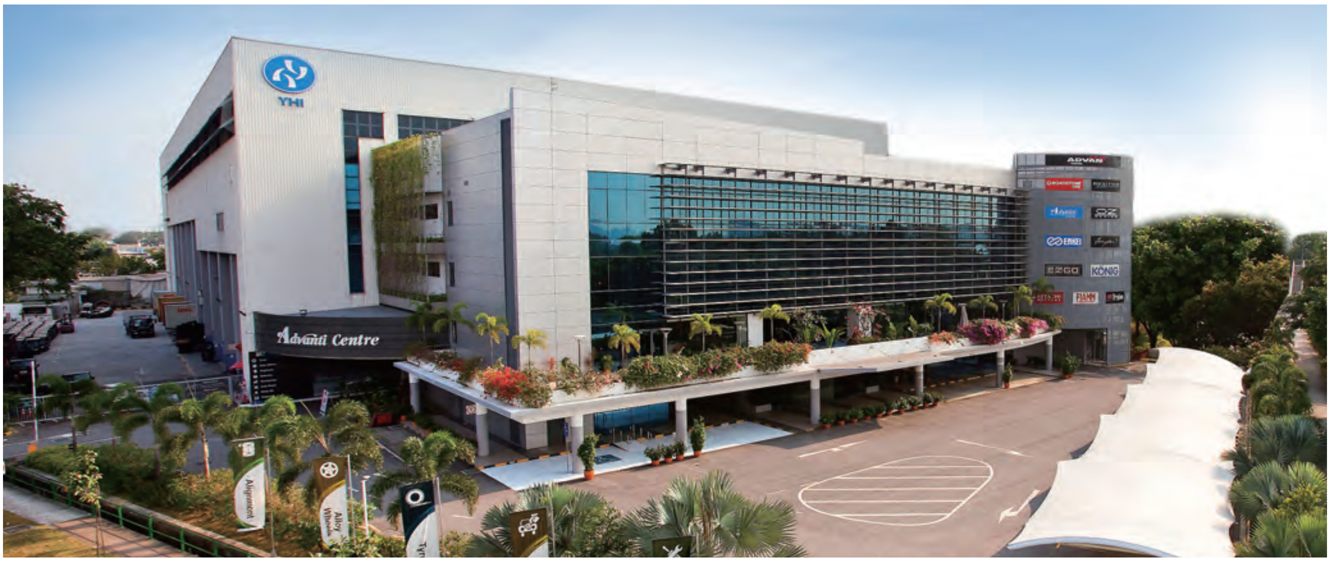
- To provide growth and opportunities for our employees and to consistently generate stable returns to our shareholders.

- To be committed to quality, professional and personnel management, sound business practices and teamwork.

# INNOVATING FOR **SUCCESS**

*Enhance our capability through application of better solutions that meet new requirements and improvements to new methods, ideas and products.*

# CORPORATE **PROFILE**




*YHI's international presence spans across over 100 countries through its 31 subsidiaries and 1 associated company located across Asia Pacific, North America and Europe. YHI distributes a diverse range of premium automotive products, which includes tyres, alloy wheels, automotive and industrial batteries, as well as golf and utility buggies to more than 5,000 customers globally.*

YHI International Limited is a leading global distributor of high-quality automotive and industrial products, and a trusted brand name in alloy wheels manufacturing as an Original Design Manufacturer (ODM).

Listed on the Mainboard of the Singapore Exchange Securities Trading Limited (SGX-ST) on 3 July 2003, YHI has successfully diversified its business and carved a niche for itself in the global automotive arena since its humble beginnings as a sole proprietorship established in 1948.

Today, YHI's international presence spans across over 100 countries through its 31 subsidiaries and 1 associated company located across Asia Pacific, North America and Europe. YHI distributes a diverse range of premium automotive products, which includes tyres, alloy wheels, automotive and industrial batteries, as well as golf and utility buggies to more than 5,000 customers globally.

YHI currently has four alloy wheels manufacturing plants located in Shanghai and Suzhou in China, Taoyuan in Taiwan and Malacca in Malaysia, with a current total production capacity of 3.6 million units per annum. As an integrated ODM solutions provider, it provides services from the design and development to the manufacturing, marketing and distribution of alloy wheels.

In order to strengthen the YHI distribution network, the Group will continuously sharpen its sales focus, as well as embark on strategic plans to promote and develop its portfolio of premium and proprietary brands in the global market where "The World is Our Market".

# OUR PRODUCTS

## TYRES

We have an extensive range of tyres from passenger cars to commercial and off-the-road vehicles, to cater for different market needs. The key tyre brands we represent are Yokohama, Nankang, Nexen, Pirelli and our own proprietary brand, Neuton Tyres.

SINGAPORE

JAPAN

JAPAN

ITALY

THAILAND

THAILAND

TAIWAN

INDONESIA

INDONESIA

KOREA

KOREA

INDIA

INDIA

USA

CHINA

CHINA

CHINA

## ALLOY WHEELS

Our alloy wheels brand portfolio includes renowned brands like Enkei, OZ, Konig and our own proprietary brand, Advanti Racing.

SINGAPORE

JAPAN

GERMANY

ITALY

ITALY

USA

USA

JAPAN

## BUGGY & UTILITY VEHICLES

Our range of environmentally friendly buggies and utility vehicles are used in golf greens, resorts, private and commercial areas and also for special events. It can be used for work, personal transportation or any general purpose mobility. We represent brands such as E-Z-GO, Cushman and Garia and our own proprietary brand, Neuton Power.

Neuton Power – SINGAPORE
E-Z-GO – USA
Cushman – USA
Garia – DENMARK

## INDUSTRIAL AND AUTOMOTIVE BATTERIES

We carry an extensive range of rechargeable batteries suitable for commercial and industrial use. These batteries are used in different industries for different applications.
The leading brands that we represent include Hitachi, Trojan, CSB, Vision and our own proprietary brand, Neuton Power.

Neuton Power – SINGAPORE
Trojan – USA
C&D Technologies – USA
Supreme – USA
Panasonic – JAPAN
Hitachi – JAPAN
CSB – TAIWAN
Shoto – CHINA
Vision – CHINA
Yokohama – MALAYSIA
FIAMM – ITALY
Crown – USA

## OTHER PRODUCTS

We have a wide range of industrial power products such as solar panels, chargers and UPS.

JinKO Solar – CHINA
ReneSola – CHINA
Canadian Solar – CANADA
delta-q – CANADA
Delta – TAIWAN
Benning – GERMANY
SMA – GERMANY
Eaton – USA
enphase energy – USA
Suntellite – CHINA
Solax Power – CHINA

# MANUFACTURING **CAPABILITIES**

As an Original Design Manufacturer (ODM), our value proposition is providing our customers with a seamless supply chain from the design and development, manufacturing, advertising and promotion to distribution and sales for their alloy wheels through our extensive global network.

While distribution had been the core business of YHI, the Group took the bold initiative to venture into alloy wheels manufacturing in 1996. From one production line in Taoyuan, Taiwan, we have since expanded to 18 manufacturing lines in operation at 4 production sites today. In September 2000, the Group took the bold initiative to invest in new plant in Shanghai, followed by further expansion in two new alloy wheels manufacturing plants – YHI Advanti Manufacturing (Suzhou) Co., Ltd located in Suzhou, China and YHI Manufacturing (Malaysia) Sdn Bhd located in Sepang, Malaysia – in 2006.

In 2012, the Malacca plant was added to become the fifth production site for the alloy wheel manufacturing, with 0.6 million new capacity added.

To enhance our capability as an integrated ODM, YHI Precision Moulding (Shanghai) Co., Ltd was set up in 2004 to manufacture and supply alloy wheels moulds for the manufacturing plants. Through continuous innovation and improvements in production processes, Enkei Corporation has put the Group at the forefront of alloy wheels manufacturing. Our Most Advanced Technology (MAT) is an innovative casting and wheel forming technology that is critical in improving the alloy wheel's material property and strength.

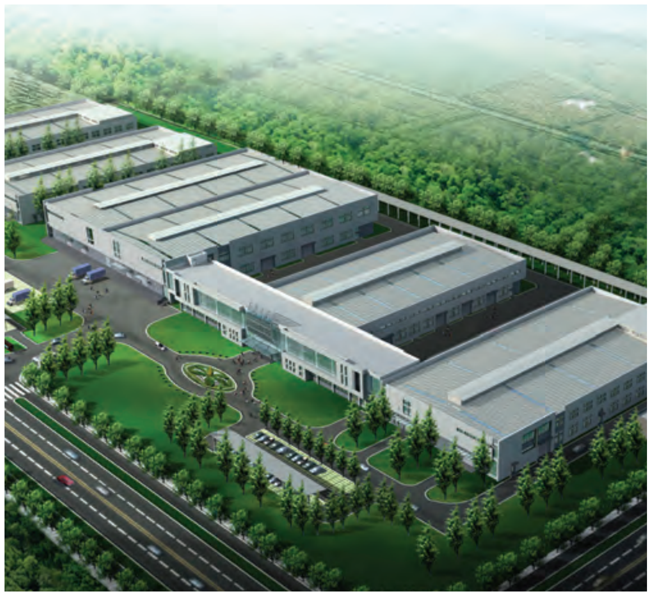
In Malaysia, we completed the sale of our plant in Sepang in 2015. With the disposal, the Group's manufacturing operations were consolidated to our plant in Malacca. The right-sizing of our operations not only enhanced our efficiency but also enabled us to strengthen our balance sheet and conserve resource for tapping future growth opportunities.

In China, we have also moved our precision moulding operations from Shanghai to our manufacturing plant at Suzhou in 2016. The consolidation will streamline and enable better integration of our production processes, generating greater efficiency and synergy.

With the blueprint success in restructuring in our Malaysia plant, we embarked on a similar restructuring plan to consolidate Shanghai manufacturing operation to Suzhou as announced on 17 February 2017 to further reduce operating costs. We plan to move the production capacity of our Shanghai factory to Suzhou and Malaysia factories.

In term of manufacturing R&D, the team has achieved a breakthrough with a new proprietary Dynamic Spinning Technology (DST) launched for the After-market segment. Based on flow forming technology, the new DST alloy wheels offer the strength and high performance of forged wheel at cost effective rate. This new technology has enabled YHI to produce lighter and stronger alloy wheels which will, in turn, lead to lower production costs and enhance the Group's competitiveness.

**YHI MANUFACTURING (SHANGHAI) CO., LTD**
**SHANGHAI, CHINA**
Products: Alloy Wheels
Land area: 47,000 $m^2$
Year of Production: 2000
Annual production capacity: 1.0 million



**YHI ADVANTI MANUFACTURING (SUZHOU) CO., LTD**
**SUZHOU, CHINA**
Products: Alloy Wheels & Precision Moulding Sets
Land area: 75,600 $m^2$
Year of Production: 2006
Annual production capacity: 1.2 million + 850 set mould

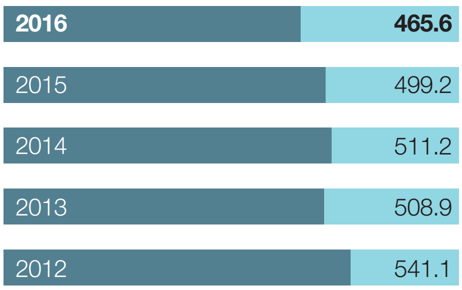
# OUR QUALITY **CERTIFICATES**

**YHI INTERNATIONAL TAIWAN CO., LTD**
**TAOYUAN, TAIWAN**
Products: Alloy Wheels
Land area: 13,500 m²
Year of Production: 1996
Annual production capacity: 0.4 million

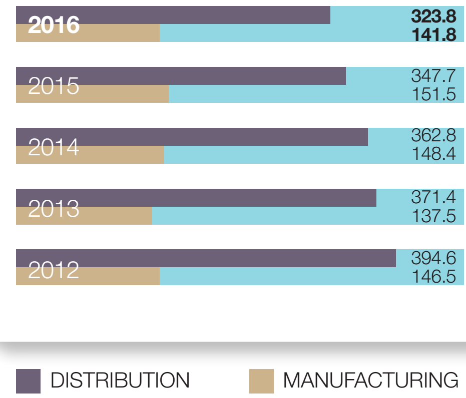
**YHI MANUFACTURING (MALAYSIA) SDN BHD**
**YHI ADVANTI MANUFACTURING (MALAYSIA) SDN BHD**
**MALACCA, MALAYSIA**
Products: Alloy Wheels
Land area: 88,000 m²
Year of Production: 2006
Annual production capacity: 1.0 million

# FIVE-YEAR FINANCIAL **HIGHLIGHTS**

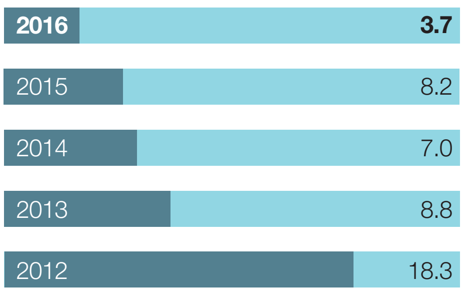
## GROUP REVENUE
(S$ 'MILLION)



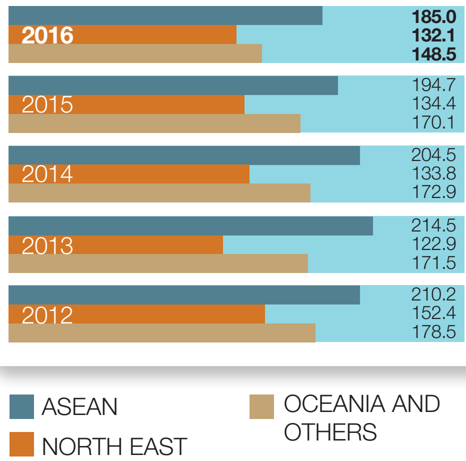

## REVENUE BY BUSINESS SEGMENTS
(S$ 'MILLION)



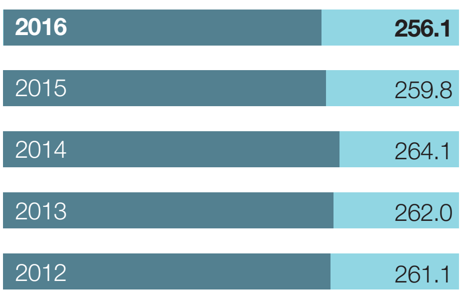

## NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY
(S$ 'MILLION)



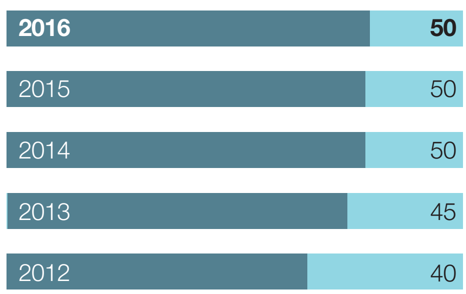

## REVENUE BY GEOGRAPHY
(S$ 'MILLION)




## NET ASSETS
(S$ 'MILLION)




## DIVIDEND PAYOUT
(%)



# FIVE-YEAR FINANCIAL **SUMMARY**

## RESULTS OF OPERATIONS

| FINANCIAL YEAR ENDED 31 DECEMBER | **FY2016 S$ '000** | FY2015 S$ '000 | FY2014 S$ '000 | FY2013 S$ '000 | FY2012 S$ '000 |
|---|---|---|---|---|---|
| Sales | **465,569** | 499,174 | 511,229 | 508,923 | 541,122 |
| Gross Profit % | **21.6** | 21.4 | 22.2 | 22.0 | 23.3 |
| Profit before income tax | **8,355** | 14,469 | 14,873 | 16,417 | 31,885 |
| Net profit attributable to equity holders of the Company | **3,694** | 8,250 | 7,027 | 8,823 | 18,326 |
| Net Profit % | **1.0** | 1.8 | 1.6 | 2.0 | 3.9 |
| EBITDA | **26,046** | 34,519 | 36,365 | 39,188 | 52,620 |

## FINANCIAL POSITION

| AS AT 31 DECEMBER | **FY2016 S$ '000** | FY2015 S$ '000 | FY2014 S$ '000 | FY2013 S$ '000 | FY2012 S$ '000 |
|---|---|---|---|---|---|
| Current assets | **272,545** | 287,677 | 301,620 | 285,563 | 277,791 |
| Non-current assets | **129,864** | 137,627 | 145,086 | 161,105 | 165,718 |
| Total assets | **402,409** | 425,304 | 446,706 | 446,668 | 443,509 |
| Current liabilities | **122,112** | 134,906 | 151,210 | 141,722 | 134,615 |
| Non-current liabilities | **24,228** | 30,569 | 31,365 | 42,911 | 47,805 |
| Total liabilities | **146,340** | 165,475 | 182,575 | 184,633 | 182,420 |
| Net assets | **256,069** | 259,829 | 264,131 | 262,035 | 261,089 |
| Capital and reserves attributable to equity holders of the Company | **242,512** | 246,408 | 251,305 | 249,350 | 247,241 |
| Non-controlling interests | **13,557** | 13,421 | 12,826 | 12,685 | 13,848 |
| Total equity | **256,069** | 259,829 | 264,131 | 262,035 | 261,089 |

## FINANCIAL INDICATORS

| | **FY2016** | FY2015 | FY2014 | FY2013 | FY2012 |
|---|---|---|---|---|---|
| Return on shareholders equity (%) | **1.5** | 3.3 | 2.8 | 3.5 | 7.4 |
| Earnings per share (cents)* | **1.26** | 2.82 | 2.40 | 3.02 | 6.26 |
| Net asset value per share (cents)* | **82.97** | 84.30 | 85.98 | 85.31 | 84.59 |
| Dividend per share (cents)* | **0.64** | 1.42 | 1.20 | 1.36 | 2.51 |
| Cash and bank balances (S$ '000) | **51,470** | 52,271 | 56,421 | 57,426 | 42,470 |
| Net debt to equity ratio (%) | **18.3** | 28.5 | 28.9 | 31.3 | 34.5 |

* Post-consolidation of shares

# CHAIRMAN'S **MESSAGE**

**DEAR SHAREHOLDERS,**

Amidst a backdrop of global economic malaise, continued weak oil and commodity prices, stock market volatility, political shocks in some parts of the world and resulting cautious corporate and retail spending, YHI International Ltd ("YHI" or "the Group") registered a weaker performance for the financial year ended 31 December 2016 ("FY2016"). Nevertheless, given the onerous external factors that weighed down heavily on the Group's businesses, we are encouraged by the substantial progress made in the areas that we had undertaken to restructure our business, rationalise our non-profit-making assets and develop new opportunities for continued and sustained growth.

We managed to turn around unhealthy business divisions and subsidiaries by a dedicated focus on our 3R policy – Reduce inventory, Reduce account receivables, Reduce operating cost – which we first implemented in 2014 to counteract inflationary costs and the economic challenges we had correctly anticipated. Our prior efforts were directed largely towards the first two components of our 3R policy of reducing inventory and account receivables. We lowered inventory by clearing old stock and curbing excessive purchases to bring the overall stock-holding to below three months' projected sales. Our account receivables was brought down to healthier levels through more conscientious collection methods. The results were borne out in our robust financial position with much improvement in our operating cashflow. In FY2016, we channelled more energy and focus into reducing our operating cost. Specifically, we right-sized our businesses to more closely align their operating costs and infrastructure with turnover, thus eliminating excess capacity, optimising resources and reducing wastage. We are certain these will bear results in the near future, as our previous efforts have thus far shown, making us a much leaner, nimble organisation, poised to leverage on the eventual economic uptake.

*"We managed to turn around unhealthy business divisions and subsidiaries by a dedicated focus on our 3R policy – Reduce inventory, Reduce account receivables, Reduce operating cost – which we first implemented in 2014 to counteract inflationary costs and the economic challenges we had correctly anticipated."*

## FINANCIAL PERFORMANCE REVIEW

The Group posted revenue of S$465.6 million and net profit attributable to equity holders of the Company ("net profit") of S$3.7 million in FY2016, representing a year-on-year decrease of 6.7% and 55.2% from revenue and net profit registered in the financial period ended 31 December 2015 ("FY2015"). The decreased revenue was on the back of lower sales from both the distribution and manufacturing businesses as compared to FY2015. With the exclusion of retrenchment compensation payable on the consolidation of our Shanghai wheel manufacturing operations into our Suzhou factory and the disposal gain from our Sepang plant in 2015, net profit after tax and non-controlling interests would have increased by 23.6% for FY2016.

While our gross profit decreased by 6.2% to S$100.3 million as compared to the same period last year, our gross margin increased to 21.6% in FY2016 as compared to 21.4% in FY2015 on account of higher gross profit margin from both the distribution and manufacturing businesses.

The distribution business remained the main contributor to the Group's revenue, constituting 69.6% of Group revenue. In line with the overall decrease in revenue, the business posted sales of S$323.8 million, 6.9% lower than the same period last year. Our distribution business, as with most businesses, is affected by the economic state of the markets in which we operate. Most of our Asia-Pacific markets are resource-based economies, largely influenced by commodity prices. With the decline in commodity prices, including rubber and oil prices, between 2011 and early 2016, these economies were gravely impacted, which in turn directly affected our revenue. Two other factors in the tyre distribution business impacted our profits due to downward pressure exerted on tyre prices. First was weak market demand. The second is the oversupply of tyres in the global market which also led to price competition and further margin erosion. Taking into consideration these factors collectively, our distribution business has done well to mitigate their impact on our profits through conscientious cost control measures.

The Group's wheel manufacturing business registered sales of S$141.8 million, a 6.4% decrease in turnover. Amid the slowing global economy, the sluggish demand of After-market wheels continued to weigh heavily on our wheel manufacturing business, despite an improvement in our Original Equipment Manufacturing (OEM) wheel manufacturing business in Shanghai. Despite this improvement, lower OEM subcontract prices twinned with the rising operating costs in Shanghai impacted the overall profitability of the wheel manufacturing business as a whole. With the blueprint to success in restructuring readily available in our consolidated production operations from Sepang to Malacca, we embarked on a similar restructuring plan to consolidate our manufacturing operations in Shanghai to Suzhou. In the first quarter of FY2016, we moved our precision moulding operations from Shanghai to Suzhou, realising savings in rental and fixed overhead costs. Subsequently, we commenced relocation of our wheel manufacturing operations from our factory in Shanghai into our Suzhou factory to further reduce operating cost. We plan to move the production capacity of our Shanghai factory to our Suzhou and Malaysia factories, with the moving of machinery expected to be completed by the first half of 2017. With this

# CHAIRMAN'S **MESSAGE**

consolidation, we expect to raise our production efficiency and lower the wheels manufacturing costs in China. We have seen the positive results of restructuring and consolidation in our Malaysian operations. Our Malacca operations are the best performing among the Group since the consolidation of operations from Sepang to Malacca in 2015. We anticipate seeing similar positive results from this restructuring, although the cost of rationalisation is being felt immediately this financial year. The consolidation exercise has right-sized our operations in tandem with turnover, enhancing our efficiencies through the streamlining of our operations and the leveraging of greater synergies from operating only one manufacturing facility. Reduction in business costs, such as rental and fixed overheads, will also enable us to strengthen our balance sheet, conserving much needed resources for future growth opportunities.

## KEEPING OUR BALANCE SHEET STRONG

With an effective cost management strategy encompassing our adherence to reducing inventories and account receivables, we are pleased to report that the Group's balance sheet is in a robust state. As at 31 December 2016, we generated total net cash flow of S$44.3 million from operating activities after changes in working capital with cash and cash equivalents amounting to S$50.4 million. Total assets stood at S$402.4 million with S$242.5 million in net assets attributable to shareholders, translating to a net asset value per share of 82.97 cents per share based on the 292.3 million shares in issue. The Group's net gearing ratio was at an acceptable 19 % as at 31 December 2016.

## RETURNING VALUE TO SHAREHOLDERS

Despite the challenging environment, the Board is recommending a first and final tax-exempt cash dividend of 0.64 cents per ordinary share for FY2016, subject to approval at our annual general meeting to be held on 26 April 2017. This represents a dividend yield of 2% based on the closing share price of S$0.33 cents as at 31 December 2016 and a dividend payout of 50% of our net profit. Our distribution of dividends is in line with our commitment to returning value to shareholders and as a recognition for their unwavering support and belief in YHI.

## OUTLOOK AND FORWARD STRATEGY

There are headwinds on the horizon, despite the expected pick-up in emerging markets and developing economies as well as the projected growth in the US economy resulting from fiscal stimulus.[1] Increasing protectionist rhetoric and threat of trade barriers, uncertainty surrounding the US trade policies in light of the new administration, reverberations from Brexit, China's corporate debt situation and geopolitical factors are all downside risks to projected growth. We thus have to be prepared for more uncertain times ahead.

The gradual increase in commodity and oil prices augurs well for our tyre distribution business in particular. Nevertheless, we do not see a real turnaround occurring until at least 2018. We anticipate price competition to continue intensely in FY2017 due to the prevailing overcapacity in the tyre industry. Hence, our ongoing focus on cost management, rationalising and restructuring while exploring new sales channels and business opportunities. With respect to our power distribution business, we have incorporated a wholly-owned subsidiary in Malaysia, YHI Power (Malaysia) Sdn. Bhd. with a view to expanding our power business network in Malaysia. We will look for other such opportunities to augment our distribution business.

We expect the difficult market conditions of the wheel manufacturing business to remain well into 2017. The anti-dumping duty of 22.3% imposed by the European Commission on aluminium wheels imported from China entering the European Union is set to continue. With the United States adopting a protectionist stance, it is uncertain if there will be similar measures imposed for our wheels being imported into the United States, which currently has only imposed anti-dumping duties on tyres. We thus have to be prepared for such a scenario and other similar measures. Towards this end, we will continue to innovate, invest in research and development, improve our technical competencies and enhance our production processes to bring down further production costs to counter such threats to our profitability.

While we cannot control external factors which impact our business, we can and must control our internal responses to these factors. We need to determinedly focus on the 3Rs across our businesses, with an emphasis on reducing operating cost through restructuring, rationalising and right-sizing of our businesses as well as raising productivity and efficiency as a counterforce to external threats and to keep up with the dynamics of business conditions. Simultaneously, we have to continue developing new business opportunities through increasing the reach and network of our distribution channels and seeking synergistic joint-ventures, partnerships or other forms of business tie-ups to widen our revenue stream and open up new markets to our products.

**IN APPRECIATION**

In conclusion, the Board of Directors and I would like to express our appreciation to our customers and partners for their support during the year and to our staff and management for their commitment and hard work, especially during these very challenging times. We would also like to thank our shareholders for their loyalty and belief in the Group. Lastly but no less importantly, my sincere appreciation extends to the Board of Directors for their invaluable counsel during the year. I look forward to working with our stakeholders in FY2017 for sustainable growth, continuing returns to shareholders and value creation for all.


[1] International Monetary Fund, "World Economic Outlook Update January 2017. https://www.imf.org/external/pubs/ft/weo/2017/update/01/

**RICHARD TAY**
Executive Chairman and
Group Managing Director

# 董事长致辞

亲爱的股东们，

在全球经济低迷的背景下，石油和原材料商品价格持续疲软，再加上区域政治动荡因素导致消费市场停滞不前，截至2016年12月31日，友发国际有限公司（“友发”或“集团”）的2016财政年度业绩表现不理想。然而，鉴于外在因素在很大程度上拖累集团的业务，我们已经在一些领域进行了业务的重组，整理一些无盈利公司，并为持续增长开拓新的机遇，我们很欣慰这些都取得了实质性的进展。

我们一直致力于我们的3R政策，降低库存、减少应收账款之风险、降低经营成本，我们的3R政策首次在2014年执行，以应对我们所预期的经济缓慢的挑战，本着3R政策的精神，我们设法整顿了运营不良的业务部门和子公司。而我们也很大程度上将重点放在3R策略的前两个政策上，那就是减少存货和应收账款的风险。我们通过清理老库存和抑制过度采购来降低库存，使整体库存低于三个月的平均销售量。我们研究制定各种收款方式，使我们的应收账款降到一个更健康的水平。通过以上种种措施，我们财务状况趋于稳健，营运现金流得到了很大的改善。2016年，我们将更多的精力和时间花在降低我们的经营成本上。具体来说，我们调整业务规模，将运营成本，基础设施更紧密地和营业额结合在一起，从而消除产能过剩，优化资源，减少浪费。我们相信我们所做的这些努力在不久的将来定会开花结果，呈现给我们一个更精简、灵活的组织，随时应对未来的经济复苏。

## 财务业绩回顾

2016年，集团总收入为4亿6千5百60万新币，归属于本公司股东的净利润为3百70万新币，营业收入和净利润与2015财政年（截至2015年12月31日）同比分别减少6.7%和55.2%。与2015年相比，批发部和制造部门销售量的减少造成了2016年营业收入的下降。除去上海友发制造整合到苏州工厂的裁员补偿和2015年雪邦工厂的处理增益，2016年的净利润增加23.6%。

而我们的毛利润为1亿30万新币，同比去年下降6.2%，基于批发和制造业务取得了较高的毛利率，2016年我们的毛利率上升至21.6%，2015年的毛利率为21.4%。

批发业务仍然是本集团收入的主要来源，占集团收入的69.6%。随着整体收入的减少，批发业务的销售额为3亿2千3百80万新币，比去年同期下降6.9%。我们的批发业务，与大多数业务一样，受到了市场经济的影响。大部分的亚太市场都是资源型经济，很大程度上依赖于原材料商品的价格。随着商品价格下跌，包括橡胶和石油价格，从2011年至2016年初，市场经济受到严重影响，这反过来又直接影响我们的收入。由于经济下行压力波及轮胎价格，轮胎批发业务的另外两个因素影响了我们的利润。首先是市场需求疲弱。第二个因素是轮胎在全球市场供过于求，这也导致价格竞争和进一步的利润空间减少。考虑到这些抑制需求的不利因素，我们的批发业务认真制定执行成本控制措施，从而减轻这些因素对利润的影响和损失。

本集团的轮毂制造业销售额为1亿4千1百80万新币，营业额减少6.4%。在全球经济放缓的背景下，尽管上海友发的OEM轮圈制造业务有所改善，但售后市场对汽车轮毂需求的低迷，继续对我们的轮毂制造业造成沉重的冲击。还有OEM转包的低端价格，加上经营成本上升，这些都从总体上影响了上海轮毂制造业务的整体盈利能力。我们效仿先前将生产运营从雪邦移转到马六甲，重组马六甲工厂的成功模式，又拟定了一条相似的重组计划，将我们在上海的制造业务迁往了苏州。2016年的第一季度，我们把精密数控模具设备从上海搬到苏州，节省了租金和固定费用。随后，我们开始着手逐步将整个轮毂制造业务从我们的上海工厂搬迁到苏州工厂，以进一步降低运营成本。上海工厂的产能会分别转移至苏州和马来西亚两个工厂，我们计划在2017年的上半年，完成机器设备的搬迁。通过这样的整合，我们希望提高我们在中国工厂的生产效率，降低制造成本。我们已经看到马来西亚业务在重组之后取得的成果。自从2015年将雪邦业务归整到马六甲后，马六甲业务便是集团中表现最好的。我们期待在中国的这一重组能够取得同样的佳绩，虽然重组业务代价不菲。工厂重组合并之后，只经营一家工厂的生产设备，能够简化运营，充分利用更大的协同效应，使规模适中的业务经营能带动营业额，提高我们的效率。业务成本的降低，如租金和固定费用的降低，也将使我们能够改善我们的资产负债表，为未来的增长储备所需的资源。

## 保持资产负债表强劲之势

凭借有效的成本管理策略，包括坚持减少库存和应收账款，我们很高兴地宣布本集团的资产负债表处于一个稳健的状态。截至2016年12月31日，经营业务之总现金流净额为4千4百30万新币，现金及现金等价物总额达5千零40万新币。资产总额为4亿2百40万新币，归属于股东的净资产为2亿4千2百50万新币，发行股票2亿9千2百30万股，每股净资产为82.97分。截至2016年12月31日，本集团之净负债比率为19%，在可接受范围内。

## 回馈股东

尽管经营环境充满挑战，董事会仍建议2016年的首次及期末免税现金股息为每股普通股0.64分，此提案会在2017年4月26日我们的年度大会中商讨决议。这代表截至2016年12月31日股票收盘价为0.33分，股息收益率为2%，股息支付占我集团总净利润的50%。我们本着对股东的承诺，进行红利的分配，以此来回馈股东对友发的一如既往的支持和信任。

## 展望未来及前进战略

尽管新兴市场和发展中经济的预期回升，以及美国经济在财政刺激下所产生预计增长，但是目前世界经济复苏仍是困难重重。日益增长的保护主义言论及对贸易屏障的威胁，美国贸易在新政府管理政策下的不确定性，英国退出欧盟的反响，中国企业的债务状况及其地缘政治因素，这些都是预期增长的下行风险。因此，我们必须为未来的不确定期做好充分准备。

石油等原材料商品价格的逐渐增加，预示着对我们的轮胎批发业务市场需求将有着一些正面的帮助。但是，至少到2018年我们没有看到有真正的转机会发生。轮胎行业普遍产能过剩，我们预计2017年轮胎价格竞争战仍会持续。因此，我们会继续加强成本管理，合理化运营和业务重组，同时开拓新的销售渠道和商机。至于我们的电池批发业务，我们已在马来西亚注册成立了一家全资子公司，友发电池（马来西亚）私人有限公司，以扩大我们马来西亚的电池批发网络。我们将在其他区域寻找这样的机会，以增强我们的批发业务。

# 董事长致辞

我们预计2017年，我们的轮毂制造业的市场状况依旧艰难。欧盟委员会对从中国进口的铝合金车轮增收22.3%的反倾销税仍将继续。美国目前只对进口的轮胎征收反倾销税，但由于美国采取了保护主义措施，目前还不确定是否会采取类似的措施对我们的铝合金车轮实施反倾销税。因此，我们必须准备好以应对这样的情况。为此，我们将不断创新，投资于研发，提高我们的技术能力，提高我们的生产工艺，以进一步降低生产成本，以消除所有这些影响到我们盈利的威胁。

虽然我们不能控制影响我们业务的外部因素，但我们可以而且必须控制我们的内部因素。我们需要坚定地在企业内部执行3R政策，将重点放在重组，清理和精简业务，提高生产力和生产效率以达到降低运营成本的目的，克服外界因素，营造一个富有活力的良好的经营状况。同时，我们将继续发展新的商机，加强我们的批发渠道和网络，并寻求企业合资，合作伙伴或其他形式的业务合作，以增加我们的营业额，为我们的产品开拓更多新市场。

## 感谢

在这里，董事会和我要对在这一年里，尤其是在这艰难的时刻，支持我们的客户和合作伙伴表示感谢，还要为我们的管理人员和员工们的承诺和辛勤工作表示感谢。我们还要感谢我们的股东们对友发集团的忠诚和信任。最后，我真诚地感谢董事会成员们在这一年里给出的宝贵意见和建议。

我期待着2017年与我们的股东们并肩作战，使友发持续增长，创造更多价值，继续回馈给股东们。

**郑添和**

友发集团执行主席兼董事长

# GROWING OUR BUSINESS

*Leveraging on our capability, strong partnerships and international network to engineer a stronger growth and stable returns.*

# BUSINESS **REVIEW**

2016 was a year of challenges. A muted global and local economy, volatility in stock markets, languishing oil prices and the continued threat of terrorism as well as political uncertainty in many parts of the world resulted in weak sales and tepid earnings for many corporations. YHI International Ltd ("YHI" or "the Group"), likewise, experienced a decline in revenue and earnings. Nevertheless, financials aside, we successfully pursued our "3R" policy of reducing inventory, reducing account receivables and reducing operation costs, while marrying this with our overarching strategy of developing new business opportunities through our "3M" sales initiatives (Multi-brand, Multi-category and Multi-product), increasing the reach of our distribution channels and exploring business tie-ups such as joint ventures and partnerships.

The Group registered revenue of S$465.6 million and net profit attributable to equity holders of the Company of S$3.7 million for the financial year ended 31 December 2016 ("FY2016"). While both our topline and bottomline were weaker, we bettered our gross margin from 21.4% to 21.6% riding on the performance of our two main business segments, distribution and manufacturing.

With businesses in more than 100 countries spanning three geographical regions of North East Asia, ASEAN and Oceania, we are a truly global business, allowing us to diversify our risks in terms of currency, product cycles, as well as market trends. ASEAN continued to lead the way in terms of revenue contribution, accounting for 39.7% of total revenue. This was followed by North East Asia and Oceania respectively which accounted for 28.4% and 28.0% of total revenue respectively.


Segmentally, in terms of products, revenue from the tyres segment represented 42.7% of total revenue. Revenue from the wheels segment and the industrial power segment constituted 41.1% and 16.2% of total revenue respectively.

The distribution business, accounting for 69.6% of the Group's total revenue, recorded a decrease in sales of 6.9%, from S$347.7 million in the financial year ended 31 December 2015 ("FY2015") to S$323.8 million in FY2016. Manufacturing business, accounting for the remaining 30.4% of Group total revenue, experienced a 6.4% decline in sales, from S$151.5 million in FY2015 to S$141.8 million in FY2016.

## DISTRIBUTION BUSINESS

With as many as 5 main products and more than 45 brands under our portfolio, as well as operations in 15 countries, the Group's distribution business continues to be the driving force for our growth and expansion. Our distribution activities encapsulates perfectly our Multi-product, Multi-brand and Multi-category strategy. We distribute some of the world's best known tyre brands such as Yokohama, Nitto, Nankang, Nexen, Pirelli, Achilles and our proprietary brand, Neuton Tyres. We also distribute industrial power products, which includes both automotive and rechargeable batteries for commercial and industrial use, other industrial power products such as solar panels, chargers and UPS comprising brands such as Hitachi, Trojan, CSB, Benning, Crown, Vision, FIAMM, Jinko Solar and our proprietary brand, Neuton Power. We also distribute golf and utility buggies from E-Z-GO and Cushman, adding to this stable, golf and utility buggies from Neuton Power. Constituting a smaller portion of our distribution business are alloy wheel products which include leading names such as Enkei, OZ, Konig and Breyton and our proprietary brand, Advanti Racing.

In terms of revenue by products distributed, the revenue of the tyres segment represented about 61.4% of the distribution business, followed by 23.3% for the

industrial power segment and 15.3% for the wheels segment respectively.

Our key markets of North East Asia, Oceania and ASEAN, being largely resource-based countries, continued to face lukewarm business and consumer demand resulting from the depressed energy and commodity prices, which only began to stage a recovery towards the tail-end of 2016. There were notable exceptions to this. Our fledgling Philippines market recorded significant growth, while New Zealand turned in a respectable performance with the distribution of rechargeable batteries driving growth there.

Our tyre distribution business continued to be assailed by low prices brought about by fierce competition in the market due to a tyre glut resulting from overcapacity and the weak demand in recent years. The markets which were keenly impacted by margin pressures included China, Thailand, Malaysia and Australia. This was exacerbated by competition from manufacturers selling direct to the end consumers. Despite these conditions, we took steps to find opportunities to augment our business. We deepened our network of regional sales channels, enhanced our logistic support facilities and intensified our marketing efforts to support the brands in our portfolio. Importantly, we grew our Neuton brand of tyres. In the fourth quarter of 2016, we launched a new series of Neuton tyres for four categories, our first for passenger cars, 4x4s, SUVs and light trucks, bringing a total of 76 tyre sizes for the new series. In 2017, we intend to introduce 30 more sizes across the various categories which may include the run-flat tyre category. With the new series of Neuton tyres launched, we will have over 200 tyre sizes, catering to the increasing specialised demands of consumers.

Our alloy wheel segment and industrial power segment performed reasonably well given the overall conditions. Our distribution of rechargeable batteries in New Zealand registered growth as did our distribution of industrial power products in Australia. Key segmental highlights for FY2016 include the incorporation of a wholly-owned subsidiary in Malaysia, YHI Power (Malaysia) Sdn. Bhd, which will better facilitate the export of power products into Malaysia and expand our business network there.

## MANUFACTURING BUSINESS

With an emphasis on reduction of costs, our manufacturing business underwent restructuring to reduce high fixed overheads and increasing business costs, right-size operations thus eliminating idleness of production assets and allocate resources to facilities which were operating at full capacity. While the effects of the reduction on our costs structure is not reflected in the current financial period, we are confident that the business segment will reap the benefits of the restructuring exercise in the coming year.

Our Original Equipment Manufacturing ("OEM") segment constituted 26.8% of the revenue from manufacturing business while our aftermarket segment accounted for 73.2%. Europe remained our largest export market, contributing 50.5% of the aftermarket revenue followed by Japan, USA, Asia ex-Japan and Others, contributing 20.3%, 17.2%, 10.2% and 1.8% respectively. The economic conditions in our key markets, however, were not conducive to the segment's growth. There was uneven recovery in Eurozone economies, slower growth of China's economy from rising corporate debt and a rebalancing of the economy and slow growth momentum despite government intervention in Japan.

Despite an overall challenging year, there were bright spots in the performance of this segment. Our wheel manufacturing facility in Malacca was the best performing for the Group in FY2016, validating our decision to consolidate our manufacturing activities into a single factory in Malaysia. In line with our cost reduction efforts, we took the decision to replicate our rationalisation efforts in China, where we had been operating out of two different cities, Suzhou and Shanghai. In early FY2016, we transferred our precision moulding activities from Shanghai to Suzhou, realising savings from rental and fixed overhead costs from the consolidation exercise. We subsequently consolidated our wheel manufacturing activities from Shanghai to Suzhou and are in the midst of moving our machinery from the Shanghai plant to Suzhou and Malacca with targeted completion in the first half of 2017. With the consolidation of activities, there is now a better allocation of resources and realignment of the infrastructural needs

# BUSINESS REVIEW

and operating costs with projected turnover from our respective markets. The transfer of production capacity will also enable us to meet the increasing demands placed on our Malaysian facilities from customers requiring wheels to be manufactured outside of China in light of the continued anti-dumping duty imposed on China-manufactured aluminium wheels imported into the European Union.

With the rationalisation of our assets and consolidation of operations, we anticipate seeing substantial costs savings, increased efficiency and greater synergy in our business. Although there are currently a certain amount of residual costs until the production assets are fully transferred to Suzhou and Malacca, this is not significant.

Given the competitive nature of our industry, keeping at the forefront of technology is imperative to maintaining our leading edge. Towards this end, we will continue to invest in research and development so as to be able to build better, higher performing products at lower costs, whether as an Original Design Manufacturer or Original Equipment Manufacturer.

Our proprietary Advanti Racing brand continued to strengthen its market position in the alloy wheels segment. 2016 marked the 20th anniversary of the brand. To commemorate this significant milestone, we created the Advanti 20th Anniversary Wheel, which was launched in April 2016. The product was well-received by the market, bearing the trademark of our impeccable craftsmanship twinned with advanced technology.



## BUSINESS OUTLOOK

While there is consensus that the global economy will gain momentum in 2017,[1] there are macro-economic and geopolitical factors that may impact these positive projections. The effects of Brexit, change in trade policies, and increasing protectionist rhetoric which may translate into trade barriers, may weigh down on business and consumer demand. Specifically with respect to our business, we expect our tyre distribution business to continue to face intense price competition as overcapacity lingers into 2017. Although the pick-up in commodity and oil prices will herald better times for resource-based economies, the positive consequences will only be felt in 2018. We will, therefore, continue with our "3R" policy to mitigate the soft demand while at the same time seeking business opportunities through deepening and widening our distribution channels, ramping up our marketing efforts and exploring new business partnerships, joint-ventures or other forms of business structures which will afford us synergies, increase our competencies or open up new markets.

Our wheel manufacturing business, likewise, will face lacklustre growth. Furthermore, with the anti-dumping measures against aluminium wheels imported from China into the European Union set to remain, we will have to look for ways to mitigate its direct impact. We will continue to rationalise and right-size operations where necessary to further trim our operating and related costs, enhance our efficiencies and leverage on synergies brought about by closer collaboration and shared resources. Innovation, technology and research and development will remain key components of our strategy to remain relevant and competitive.

1 Ministry of Trade and Industry, "MTI maintains 2017 GDP Growth Forecast at '1.0 to 3.0 Per Cent'. https://www.mti.gov.sg/ResearchRoom/SiteAssets/Pages/Economic-Survey-of-Singapore-2016/PR_4Q2016.pdf; IMF, "World Economic Outlook Update January 2017. https://www.imf.org/external/pubs/ft/weo/2017/update/01/

# FORTIFYING OUR **CAPABILITIES**

*We streamline production systems and improve operational efficiency, to achieve greater productivity and efficiency leading to lower operating costs.*

# FINANCIAL REVIEW

## INCOME STATEMENT REVIEW

YHI Group delivered a respectable financial performance in FY2016 despite the challenging operating environment.

Excluding the one-time disposal gain of S$2.8 million from our Sepang plant in Malaysia reported in FY2015 and retrenchment compensation payable on the consolidation of our Shanghai wheel manufacturing operations into our Suzhou factory reported in FY2016, the net profit after tax and non-controlling interests would have increased by 23.6% for FY2016.

The Group reported a 6.7% (or S$33.6 million) decrease in turnover to S$465.6 million in FY2016 from S$499.2 million in FY2015 due to lower sales in both the distribution and manufacturing business as compared to last year.

Distribution business, accounting for 69.6% of the Group's total turnover, recorded a decrease of 6.9% (or S$23.9 million) in turnover, from S$347.7 million in FY2015 to S$323.8 million in FY2016 mainly due to lower sales in the tyres distribution business. Our wheel manufacturing business, accounting for 30.4% of the Group's total turnover, recorded a decrease of 6.4% (or S$9.7 million) in turnover, from S$151.5 million in FY2015 to S$141.8 million in FY2016.

Gross Profit decreased by 6.2% (or S$6.7 million) to S$100.3 million in FY2016 from S$107.0 million in FY2015. The Group's gross profit margin increased to 21.6% in FY2016 compared to 21.4% in FY2015 due to higher gross profit margin from both the distribution business and manufacturing business.

A review of the Group's performance by geographical markets, ASEAN, North East Asia, Oceanic and Others contributed 40%, 28%, 28% and 4% respectively. The turnover in ASEAN, our largest revenue contributor, increased by 5% to S$185.0 million mainly due to higher revenue in Malaysia, Philippines and Indonesia offset with lower revenue in Singapore, Thailand and Vietnam. The turnover in North East Asia decreased by 15.4% to S$132.1 million mainly due to lower revenue in Taiwan and China. The turnover in Oceania decreased by 1.8% to S$130.3 million due to lower revenue in Australia despite recorded higher revenue in New Zealand. Lastly, the turnover in Others decreased by 45.8% to S$18.2 million due to lower revenue in USA and Canada.

Other gains decreased by 43.5% (or S$2.7 million) in FY2016 to S$3.4 million compared to S$6.1 million in FY2015 mainly due to a one-time disposal gain from our Sepang plant reported in FY2015.

In term of operating expenses, the Group's total operating expenses decreased by 2.7% (or S$2.7 million) to S$96.9 million in FY2016 from S$99.6 million in FY2015.

Distribution expenses decreased by 8.1% (or S$3.9 million) in FY2016 to S$44.5 million compared to S$48.4 million in FY2015 mainly due to lower carriage outwards, advertising and promotional expenses and sales staff related expenses in line with lower sales for the year.

Administrative expenses increased by 4.8% (or S$2.2 million) in FY2016 to S$48.1 million compared to S$45.9 million in FY2015 mainly due to S$3.1 million retrenchment compensation payable on the consolidation of our Shanghai wheel manufacturing operations into our Suzhou factory.

Financing costs decreased by 18.2% (or S$1.0 million) in FY2016 to S$4.3 million compared to S$5.3 million in FY2015 mainly due to lower interest costs incurred.

Our associated company reported better performance and our share of profits was S$1.5 million in FY2016 compared to S$1.0 million in FY2015.

Income tax expense decreased by 28.1% mainly due to lower Group profit before tax in FY2016 compared to last year. The high effective income tax rate is mainly due to losses in certain subsidiaries lowering the Group's profit before tax.

## FINANCIAL POSITION REVIEW

The Group continue to benefit from a healthy balance sheet with net assets of S$256.1 million. The Company has completed its Share Consolidation exercise effective from 19 January 2016 and every two (2) Existing Shares has been consolidated to constitute one (1) consolidated share. Following the completion, the issued share capital of the Company now comprises 292,295,811 consolidated shares. This result to a net asset value per share of 84.30 Singapore cents post-consolidation shares in FY2015 and 82.97 Singapore cents as at 31 December 2016.

The Group's net working capital decreased to S$150.4 million with cash and cash equivalent of S$50.4 million and net gearing ratio of 19% as at 31 December 2016.

As at 31 December 2016, total assets amounted to about S$402.4 million comprising S$272.5 million of current assets and S$129.9 million of non-current assets. Total liabilities amounted to about S$146.3 million comprising current liabilities of S$122.1 million and non-current liabilities of S$24.2 million. Shareholders' equity including non-controlling interests amounted to S$256.1 million.

Trade and other receivables decreased from S$97.8 million to S$94.6 million mainly due to more conscientious collection methods. Except for those trade receivables where a specific provision has been made, most of the trade receivables that remained outstanding at the end of FY2016 were still within the acceptable credit terms.

Inventories decreased from S$126.3 million to

S$112.9 million mainly due to Group's conscious efforts to reduce inventory level as part of the Group's "3R" policy – Reduce inventory, Reduce account receivables, Reduce operating cost. Inventory turnover improved from 118 days in FY2015 to 113 days in FY2016.

Other current assets increased from S$11.3 million to S$13.4 million mainly due to advance payment paid to suppliers close to year end.

Intangible assets increased from S$3.4 million to S$4.2 million mainly due to the implementation of ERP software.

Property, plant and equipment ("PPE") decreased by S$9.4 million to S$105.9 million from S$115.2 million mainly due to depreciation charged during the financial year.

Trade and other payables increased from S$35.8 million to S$44.7 million due to new purchases at 31 December 2016 and provision for retrenchment compensation to workers from Shanghai factory.

Derivative financial instrument (asset) of S$136,000 relates to forward contract to hedge against USD and EURO receivables. Derivative financial instrument (liability) decreased from S$0.3 million to Nil due to settlement of derivative liability during the year arising from a currency swap contract to hedge our USD receivables.

Borrowings (current & non-current) decreased from S$126.3 million to S$98.4 million due to repayment of bank borrowings during the year. The short-term loans of S$70.6 million which comprises mainly trust receipts and revolving credits, and used for trade financing while the long term loans S$27.8 million are used for capital expenditure in Property, plant and equipment.

Group Net Borrowings (net of cash) decreased from S$74.0 million to S$48.0 million and net gearing ratio improved from 30% to 19% at the end of 31 December 2016. The reduced net borrowings mainly due to repayment of borrowings for the financial year ended 31 December 2016.

Deferred income tax liabilities increased from S$2.2 million to S$2.4 million mainly due to deferred tax liability arising from unremitted earnings of our associated company.

Other reserves consist of foreign currency translation losses on oversea investments which changed from S$16.6 million to S$19.9 million resulting mainly from the weakening of RMB against SGD.

## CASH FLOWS REVIEW

Cash and cash equivalents decreased to S$50.4 million at the end of December 2016, compared to S$51.7 million reported at end of December 2015.

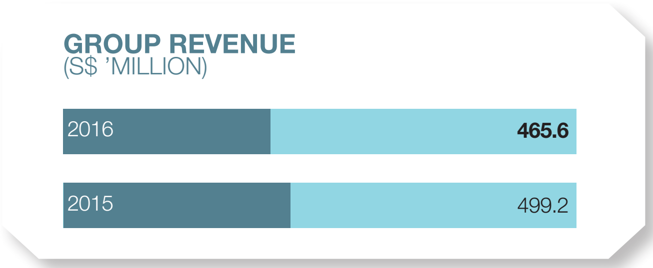
The Group's net cash flow from operating activities improved to S$44.3 million at the end of December 2016, as compared with S$11.6 million in the preceding year. The improvement was mainly due to lower inventory and trade receivables balance compared to previous year.

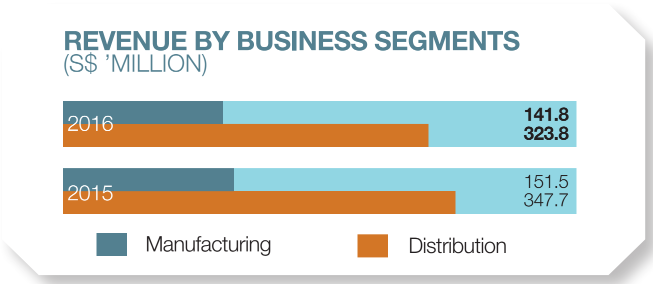
The Group utilised S$6.4 million in investing activities mainly for the purchase of Property, plant and equipment. A total of S$38.3 million was used in financing activities mainly for the repayment of bank borrowings and the payment of dividends to equity holders of the Company.

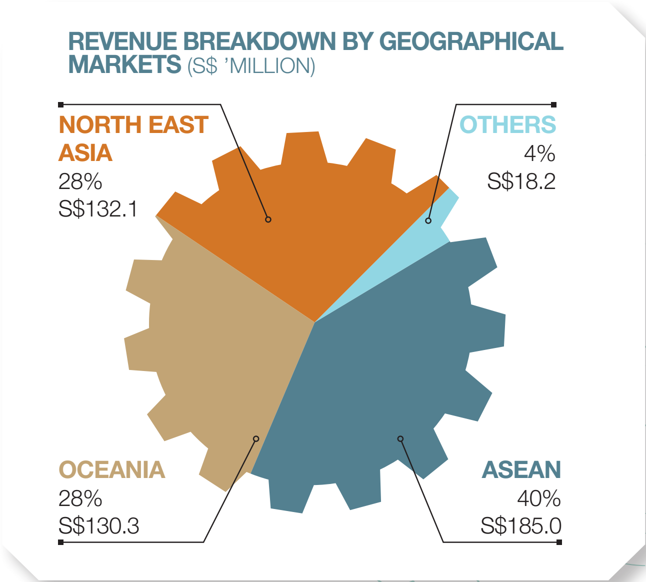
## DIVIDEND

In appreciation of the shareholders for their support, the Board of Directors recommends a one-tier tax exempt first and final dividend of 0.64 Singapore cents per share to be approved by shareholders at the forthcoming annual general meeting on 26 April 2017.

This translates to a dividend yield of 2.0% based on S$0.33 as at the closing share price of last practicable date before printing of the Annual Report and a dividend payout ratio of 50% based on earning per share of 1.26 Singapore cents for FY2016 post Share Consolidation.



# CORPORATE **MILESTONES**

**1948**

- Started as a sole proprietorship, Yew Huat & Company, by founder, the late Mr Tay Chin Kiat.

**1973-1975**

- 1973: Appointed as the exclusive distributor for Hitachi batteries (1973), Yokohama tyres (1974) and Enkei alloy wheels (1975) in Singapore.
- 1975: Yew Huat & Company was renamed to Yew Huat Tyre & Battery (Pte) Ltd.


**1980-1995**

- 1980: Completion of head office at No. 2 Pandan Road, Singapore.
- Started expanding overseas into Malaysia (1980), followed by China and Hong Kong (1989). Ventured into Australia (1992), followed by Indonesia (1994) and New Zealand (1995).


**1996**

- Ventured into alloy wheels manufacturing with its first plant in Taoyuan, Taiwan.
- Launched YHI's proprietary brand – Advanti Racing.
- Mr Richard Tay was presented with the Lianhe Zaobao's ENDEC Entrepreneurship Excellence Award.

**1997**

- 1997: Mr Richard Tay was presented with the Rotary ASME's Entrepreneurship of the Year Award.

- 1999: Ranked fourth in the Business Times Enterprise 50 Awards and presented with the Grand Five-Year Award for being in Enterprise 50 for five consecutive years since 1995.

1999

- Set up second alloy wheels manufacturing plant in Shanghai, China.

2000

- 2003: YHI International Limited listed on the Mainboard of the Singapore Exchange on 3 July.
- 2004: Set up a mould factory in Shanghai, China to manufacture and supply alloy wheel moulds for YHI's manufacturing plants.

2003-2004

- Expanded into United States of America when Konig (American) became part of the YHI Group. It ventured into Thailand (2006), followed by Canada (2007) and Brunei (2010).


2005

- Launched YHI's proprietary brand – Neuton Tyres.
- Two new alloy wheels manufacturing plants located in Suzhou, China and Sepang, Malaysia commenced operations.
- Acquired a 35.51% shareholding in O.Z. S.p.A., a world-renowned alloy wheels manufacturer.
- Appointed by Enkei Corporation under its license to manufacture "Enkei Tuning" brand of alloy wheels.

2006

# CORPORATE **MILESTONES**

## 2007

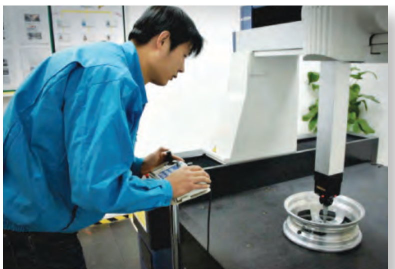
- Mr Richard Tay was presented with the 2007 Ernst & Young's Manufacturing Entrepreneur of the Year Award.


## 2008

- Entered into a supply and sponsorship agreement with Formula One team Scuderia Toro Rosso and O.Z. S.p.A. to supply alloy wheels bearing the Group's proprietary brand Advanti Racing.
- Launched YHI's proprietary brand – Neuton Power.

## 2009

- Installed MAT (Most Advanced Technology) machinery at Suzhou manufacturing plant.



## 2010

- Advanti Racing received the Regional Brand title in the Singapore Prestige Brand Award in recognition for its outstanding Singapore brand. The annual event was organised by Association of Small and Medium Enterprises and Lianhe Zaobao.
- YHI (Malaysia) Sdn Bhd received the Super Golden Bull 2010 Award for outstanding SME in Malaysia.

## 2011

- Set up its 5th alloy wheels manufacturing plant in Malacca, Malaysia.
- Commenced rebuilding of YHI Headquarters in Singapore.
- YHI (Malaysia) Sdn Bhd received its third Super Golden Bull Award for outstanding SME in Malaysia.

2012

- Completed the rebuilding of YHI Headquarters in Singapore.
- Ventured into Vietnam.
- For the fourth consecutive year, YHI (Malaysia) Sdn Bhd received the Super Golden Bull Award for outstanding SME in Malaysia.

2013

- YHI's proprietary brand, Advanti Racing, has been appointed as the Official Supplier to MERCEDES AMG PETRONAS Formula One Team, exclusively supplying alloy wheels for all its race cars.
- Ventured into Philippines.
- For the fifth consecutive year, YHI (Malaysia) Sdn Bhd received the Golden Eagle 2013 Award (formerly known as Golden Bull Award) for outstanding SME in Malaysia.

2014

- For the sixth consecutive year, YHI (Malaysia) Sdn Bhd received the Golden Eagle 2014 Award for outstanding SME in Malaysia
- Consolidation of manufacturing capabilities from Sepang to Malacca plant
- ISO-TS16949 certification for the design and manufacturing of alloy wheels for OEM operations in Malaysia in November 2014

2015

- For the seventh consecutive year, YHI (Malaysia) Sdn Bhd received the Golden Eagle 2015 Award for outstanding SME in Malaysia.
- YHI Hong Kong celebrating 25th year anniversary.
- Ventured into East Malaysia.


2016

- For the eighth consecutive year, YHI (Malaysia) Sdn Bhd received the Golden Eagle 2016 Award for outstanding SME in Malaysia.
- YHI New Zealand celebrating 20th year anniversary.
- The Advanti 20th Anniversary wheel created to celebrate the significant milestone
- Consolidation of Shanghai's precision moulding and wheels manufacturing operations into Suzhou factory

# BOARD OF DIRECTORS

**MR TAY TIAN HOE, RICHARD, 65**
Executive Chairman &
Group Managing Director

Mr Richard Tay is the Executive Chairman & Group Managing Director of YHI International Limited and the key founder of our Group. He is a member of our Nominating Committee.

He has more than 41 years of business experience in the area of sales and distribution of automotive products. He is responsible for formulating the overall business strategies and policies for our Group, including the development and growth of our distribution and manufacturing operations.

Under his stewardship, Mr Tay has led the development and growth of our alloy wheels manufacturing business. He is a member of the Singapore Institute of Directors. He was appointed to the Board on 26 August 2000.

**MR TAY TIANG GUAN, 64**
Executive Director

Mr Tay Tiang Guan is the Executive Director of our Group. He has more than 36 years of business experience and has extensive knowledge in the automotive and industrial products industry.

He is responsible for spearheading our Group's operations in ASEAN and overseeing the business development and operational management of our tyre and industrial product distribution business.

He is a member of the Singapore Institute of Directors. He was appointed to the Board on 26 August 2000.

**MR HENRY TAN SONG KOK, 52**
Lead Independent Director

Mr Henry Tan was appointed to the Board on 22 May 2003 and last re-appointed on 28 April 2015. He currently chairs the Audit Committee and is a member of our Remuneration Committee and Nominating Committee. He is the Managing Director of Nexia TS Public Accounting Corporation and the Chairman of Nexia China. He was the past Asia Pacific Regional Chairman and board member of Nexia International.

He holds directorship for several companies. He is a director of Raffles Education Corporation Limited and China New Town Development Co Ltd. He is Chairman of the Nanyang Business School Alumni Advisory Board of NTU.

Mr Tan graduated with a First Class Honours Degree in Accountancy from the National University of Singapore. He is a Fellow of the Institute of Singapore Chartered Accountants, Institute of Chartered Accountants in Australia, CPA Australia and Insolvency Practitioners Association of Singapore Ltd and Singapore Institute of Directors and a member of Institute of Internal Auditors, Inc (Singapore Chapter) and Singapore Institute of Accredited Tax Professional Limited.

## MR YUEN SOU WAI, 63
Independent Director

Mr Yuen Sou Wai was appointed to the Board on 22 May 2003 and re-designated as an Independent Director from Non-Executive Director on 25 February 2014. He is a member of the Audit Committee, Nominating Committee and Remuneration Committee.

He was formerly our Group Chief Financial Officer as well as Executive Director responsible for the Group's operations in Australia, New Zealand, Italy, United States of America (USA) and Canada before his appointment as a Non-Executive Director on 1 September 2009.

Mr Yuen is presently the Lead Independent Director of Chew's Group Limited, Libra Group Limited and Huationg Global Limited. He is also Chairman of the Audit Committee at these three companies, which are listed on Catalist of the SGX-ST.

He has more than 36 years of broad based financial management experiences in various large local and global multinational companies. He had held several senior financial positions including Chief Financial Officer, Regional Finance Director and Group Controller in the Asia Pacific region.

Mr Yuen holds a Master in Business Administration Degree from the University of Leicester, United Kingdom. He is a Fellow of the Chartered Institute of Management Accountants of the United Kingdom, a Fellow of the Institute of Singapore Chartered Accountants and a member of the Singapore Institute of Directors.

## MR HEE THENG FONG, 62
Independent Director

Mr Hee Theng Fong was appointed to the Board on 22 May 2003 and was last re-appointed on 26 April 2013. He currently chairs the Remuneration Committee and is a member of our Audit Committee.

He is a Consultant of Harry Elias Partnership LLP and has been practising as an Advocate and Solicitor of the Supreme Court of Singapore since 1982.

Mr Hee is also a director of several companies including Delong Holdings Ltd, Datapulse Technology Limited, Tye Soon Limited, First Resources Limited, Straco Corporation Limited and China Jinjiang Environment Holding Company Limited.

He is on the panel of arbitrators of the Singapore International Arbitration Centre (SIAC), Beijing Arbitration Commission (BAC), China International Economic and Trade Arbitration Commission (CIETAC), Shanghai International Arbitration Centre (SHIAC), Kuala Lumpur Regional Centre for Arbitration (KLRCA) and Hong Kong International Arbitration Centre (HKIAC).

## MR PHUA TIN HOW, 66
Independent Director

Mr Phua Tin How was appointed to the Board on 22 May 2003 and was last re-appointed on 25 April 2014. He currently chairs the Nominating Committee and is a member of our Audit Committee and Remuneration Committee.

Mr Phua held senior appointments in the public service before becoming Group President and CEO of the DelGro Group of companies and the Singapore Bus Services respectively from 1994 to 2003. He is also a director of several companies in Singapore, with the latest appointment as Independent Director & Non-Executive Chairman of Valuemax Group Limited in Oct 2013.

He holds an MBA from INSEAD, France and a Bachelor of Science (Hons) Degree from the University of Singapore.

# SENIOR MANAGEMENT TEAM

**MR GARY SU THIAM HUAT**
Group Chief Financial Officer (CFO)

Mr Gary Su is responsible for the Group's financial reporting & controls, risk management, corporate finance, treasury, investor relations, corporate governance, tax and regulatory compliance functions.

He began his career as an Auditor in London, United Kingdom (UK) and has more than 20 years of experience gained in different industries with various multinational corporations and public listed companies in Singapore and overseas. Prior to joining YHI, Mr Su was CFO & Company Secretary of a SGX Mainboard listed company.

Mr Su holds a Second Class Honours Degree in Accounting from the University of Hull, UK and a Diploma in Treasury from the Association of Corporate Treasurers, UK. He is a Fellow of the Association of Chartered Certified Accountants, UK, associate member of the Association of Corporate Treasurers, UK and a member of the Institute of Singapore Chartered Accountants.

**MR ALEX ONG CHIN KIONG**
Chief Operating Officer (COO)
Distribution Group

Mr Alex Ong is responsible for the development of strategic business goals as well as operational implementation for YHI Distribution Group. He oversees the business operation of all the subsidiaries within the Group, including principal relationship maintenance and product sourcing.

He is responsible for generating synergy within the YHI Distribution Group and leveraging technology to better manage and develop the distribution channels.

He first joined the Group in 2000 as Sales Manager (Industrial Power Solution) after four years with his previous company as a Regional Operations Manager. To date, Mr Ong has more than 20 years of business experience in sales operations and has extensive knowledge of the transportation, automotive and industrial products industries.

He holds a Bachelor of Science (Honours) in Management from the University of London.

**MR LU CHUN YA**
Group General Manager,
Manufacturing Group,
China Operations

Mr Lu Chun Ya was appointed Group General Manager of the YHI Manufacturing Group, China operations on 3 December 2013. With over 24 years of experience in alloy wheels manufacturing, he is now responsible for overseeing our business operations in China, as well as the alloy wheels manufacturing plants and mould manufacturing plant in Shanghai and Suzhou respectively.

Mr Lu first joined YHI International (Taiwan) Co., Ltd as a Quality Assurance Manager in 1998 and was promoted to General Manager of Production Division of YHI Manufacturing Group. He was responsible for the business operations of the alloy wheels manufacturing plant in Shanghai before he left YHI in September 2010.

Prior to joining YHI International, he was a consultant with NingBo Superim Shenglong Technologies Co., Ltd from 2011 to 2012.

Mr Lu holds a Bachelor of Mechanical Engineering degree from Zhong Yuan University, Taoyuan, Taiwan.

**MR ROBERT TAN YONG QUAN**
General Manager,
ASEAN Management

Mr Robert Tan is General Manager, ASEAN Management. He has over 14 years of experience managing the YHI Distribution Group in ASEAN and is responsible for overseeing the business operations in Thailand, Malaysia, Brunei and the Philippines. In Singapore, he oversees the management of the Operation Process Centre (OPC) of YHI Corporation (S) Pte Ltd.

Mr Tan holds an Advanced Diploma in Information System Technology from the Singapore Polytechnic; a Graduate Diploma in Marketing from CIM UK; a Bachelor of Commence (Marketing and Finance) from Curtin University of Technology, Perth Australia; and an Executive Master of Business Administration from the Helsinki School of Economics, Finland.

**MS AMY SOO WEE HSIEN**
General Manager,
Group Human
Resource/Administration, 5S & Kaizen

Ms Amy Soo oversees the Group's Human Resource Management Development and the administration functions and the implementation of 5S and Kaizen across the entire Group.

She joined the Group in 2001 as Group Human Resource Manager after one and a half years with a public listed company and 5 years in a local multinational corporation as a Human Resource Manager. To date, Ms Soo has more than 25 years of experience in Human Resource Management Development.

She holds a Master of Science in Human Resource Management from the University of Bradford, UK as well as a Bachelor of Business Administration from the National Chengchi University, Taiwan.

# HEAD OF SUBSIDIARIES

## MALAYSIA

**MR LEE TECK HOCK**
General Manager
YHI (Malaysia) Sdn Bhd

**MR ALAN HSU**
General Manager
YHI Manufacturing (Malaysia) Sdn Bhd

**MR THAM KONG MOO**
General Manager
Evo-Trend Corporation (Malaysia) Sdn Bhd

## MALAYSIA

**MR THOMAS CHANG HONG WOEI**
General Manager
YHI (East Malaysia) Sdn Bhd

**MR KOK CHEE CHEN**
Deputy General Manager
YHI Power (Malaysia) Sdn Bhd

## THAILAND

**MR NARONGRIT NARONGVITTAYAKARN**
General Manager
YHI Corporation (Thailand) Co., Ltd

## INDONESIA

**MR EKA SATRIA**
Deputy General Manager
PT YHI Indonesia

## VIETNAM

**MR TAN FOONG SIONG**
Manager
YHI (Vietnam) Co., Ltd

## BRUNEI

**MR RICKEY TAY**
Manager
YHI Corporation (B) Sdn Bhd

## PHILIPPINES

**MR JASON G. DELLOSO**
General Manager
YHI (Philippines) Inc

## HONG KONG

**MR BENNY KAN**
General Manager
YHI (Hong Kong) Co., Ltd

## CHINA

**MR LIN CHEN WEI**
General Manager
YHI Advanti Manufacturing (Suzhou) Co., Ltd

**MR LIU DE SEN**
General Manager
YHI Manufacturing (Shanghai) Co., Ltd

**MR WU MENG**
General Manager
YHI Advanti (Shanghai) Co., Ltd &
YHI Corporation (Shanghai) Co., Ltd

**MR WANG ZHAN WEI**
Deputy General Manager
YHI Corporation (Guangzhou) Co., Ltd &
YHI Corporation (Beijing) Co., Ltd

## TAIWAN

**MR LIOU A-JENN**
General Manager
YHI International (Taiwan) Co., Ltd

## JAPAN

**MR NAOTO SAKAGUCHI**
Managing Director
YHI Corporation Japan Co., Ltd

## AUSTRALIA

**MR TONY SUHAN**
Managing Director
YHI (Australia) Pty Ltd

**MR DAVID CHEN**
Managing Director
YHI Power Pty Ltd

## NEW ZEALAND

**MR CHRISTOPHER TALBOT**
Managing Director
YHI (New Zealand) Ltd.

## USA

**MR JOSEPH SCHAEFER**
President
Pan-Mar Corporation
D/B/A Konig (American)

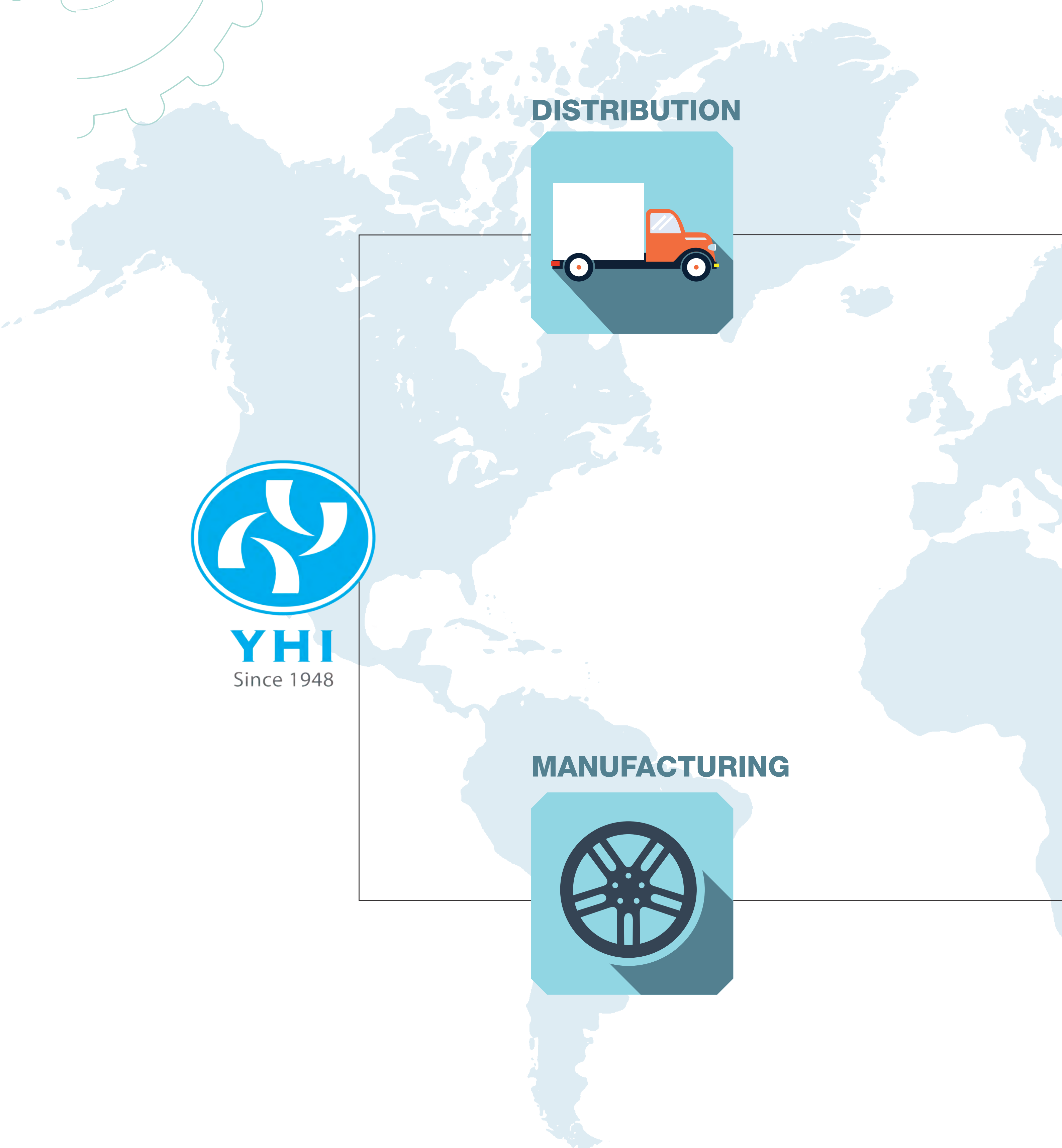
## CANADA

**MR RAYMOND CHAN**
President
YHI (Canada) Inc &
Advanti Racing USA, LLC

## ITALY

**MR CLAUDIO BERNONI**
Managing Director
O.Z. S.p.A

# CORPORATE **STRUCTURE**




EVO-TREND CORPORATION (MALAYSIA) SDN BHD
Malaysia 70%
YHI POWER (MALAYSIA) SDN BHD
Malaysia 100%
PT YHI INDONESIA
Indonesia 90%
YHI CORPORATION (B) SDN BHD
Negara Brunei Darussalam 100%
YHI CORPORATION (THAILAND) CO LTD
Thailand 49%
YHI (VIETNAM) CO., LTD
Vietnam 85%
YHI CORPORATION (BEIJING) CO LTD
Beijing, PRC 100%
YHI CORPORATION (SHANGHAI) CO LTD
Shanghai, PRC 90%
YHI (PHILIPPINES) INC
Philippines 90%
YHI (EAST MALAYSIA) SDN BHD
Malaysia 80%
YHI CORPORATION (SINGAPORE) PTE LTD
Singapore 100%
YHI (MALAYSIA) SDN BHD
Malaysia 100%
YHI (HONG KONG) CO LTD
Hong Kong 100%
YHI (CHINA) STRATEGY CO LTD
Hong Kong 100%
YHI (AUSTRALIA) PTY LTD
Australia 80%
YHI POWER PTY LTD
Australia 80%
YHI (NEW ZEALAND) LTD
New Zealand 70%
YHI CORPORATION (GUANGZHOU) CO LTD
Guangzhou, PRC 100%
YHI MANUFACTURING (SHANGHAI) CO LTD
Shanghai, PRC 100%
YHI CORPORATION JAPAN CO., LTD
Osaka, Japan 90%
YHI MANUFACTURING (SINGAPORE) PTE LTD
Singapore 100%
YHI ADVANTI MANUFACTURING (SUZHOU) CO LTD
Suzhou, PRC 100%
YHI ADVANTI (SHANGHAI) CO LTD
Shanghai, PRC 100%
YHI PRECISION MOULDING (SHANGHAI) CO LTD
Shanghai, PRC 100%
YHI (AMERICA) PTE LTD
Singapore 100%
YHI INTERNATIONAL (TAIWAN) CO LTD
Taiwan 100%
YHI MANUFACTURING (MALAYSIA) SDN BHD
Malaysia 100%
YHI (CANADA) INC
Canada 100%
YHI ADVANTI MANUFACTURING (MALAYSIA) SDN BHD
Malaysia 100%
PAN-MAR CORPORATION D/B/A KONIG (AMERICAN)
USA 95%
OZ S.p.A
Italy 35.51%
ADVANTI RACING USA, LLC
USA 90%

# GLOBAL PRESENCE

## SINGAPORE (HEAD OFFICE)

**YHI Holdings Pte Ltd**
**YHI International Limited**
**YHI Corporation (Singapore) Pte Ltd**
**YHI Manufacturing (Singapore) Pte Ltd**
**YHI (America) Pte Ltd**
No. 2, Pandan Road,
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T: (65) 6264 2155
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## MALAYSIA

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Taman Mount Austin,
81100 Johor Bahru, Johor,
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E: kkchong2286@gmail.com

**Penang Branch**
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Taman Inderawasih,
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**YHI (East Malaysia) Sdn Bhd**
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88450, Kota Kinabalu, Sabah,
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**Evo-Trend Corporation (Malaysia) Sdn Bhd**
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Taman Perindustrian
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## INDONESIA

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W: www.yhi.co.id

**Balikpapan Branch**
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**YHI (China) Strategy Co., Ltd**
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E: lqq@yhias.com
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F: (86) 21 6489 4455
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W: www.advanti-wheel.com

**YHI Corporation (Guangzhou) Co., Ltd**
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**YHI Corporation (Beijing) Co., Ltd**
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Fengtai District, Beijing
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F: (61) 2 9684 1973
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W: www.wheeldemon.com.au

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F: (61) 8 8359 6816
E: sa_sales@yhi.com.au

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F: (61) 7 3379 4898
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F: (61) 3 6344 7795

**Melbourne Branch**
88 Ricketts Road,
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F: (61) 3 9541 9666
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**Perth Branch**
37 Hector Street,
Osborne Park, WA 6017,
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F: (61) 8 9204 3499
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**Townsville Branch (North Queensland)**
797 Ingham Road,
Bohle, QLD 4818, Australia
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F: (61) 7 4774 8182
E: qld_sales@yhi.com.au

**YHI Power Pty Ltd**
**Melbourne Branch**
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VIC 3195, Australia
T: (61) 3 9588 1888
F: (61) 3 9588 0838
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# CORPORATE INFORMATION

## BOARD OF DIRECTORS
**Tay Tian Hoe Richard**
Executive Chairman & Group Managing Director

**Tay Tiang Guan**
Executive Director

**Henry Tan Song Kok**
Lead Independent Director

**Yuen Sou Wai**
Independent Director

**Hee Theng Fong**
Independent Director

**Phua Tin How**
Independent Director

## AUDIT COMMITTEE
**Henry Tan Song Kok**
Chairman

**Hee Theng Fong**
Member

**Phua Tin How**
Member

**Yuen Sou Wai**
Member

## REMUNERATION COMMITTEE
**Hee Theng Fong**
Chairman

**Phua Tin How**
Member

**Henry Tan Song Kok**
Member

**Yuen Sou Wai**
Member

## NOMINATING COMMITTEE
**Phua Tin How**
Chairman

**Tay Tian Hoe Richard**
Member

**Henry Tan Song Kok**
Member

**Yuen Sou Wai**
Member

## COMPANY SECRETARY
**Gn Jong Yuh Gwendolyn**
LLB Hons

## AUDITOR
**PricewaterhouseCoopers LLP**
8 Cross Street
#17-00 PWC Building
Singapore 048424

Partner-in-charge :
Tan Boon Chok
Year of appointment: 2013

## SHARE REGISTRAR
**Tricor Barbinder Share Registration Services**
80 Robinson Road
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Singapore 068898

## PRINCIPAL BANKERS
**DBS Bank**
**Standard Chartered Bank**

## REGISTERED OFFICE
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Email: yhigroup@yhi.com.sg
Website: www.yhigroup.com
Company Registration No: 200007455H

# FINANCIAL CALENDAR

| | |
|---|---|
| **12 May 2016 :** | Announcement of first quarter unaudited results |
| **12 August 2016 :** | Announcement of half year unaudited results |
| **11 November 2016 :** | Announcement of third quarter unaudited results |
| **31 December 2016 :** | Financial year-end |
| **27 February 2017 :** | Announcement of full year unaudited results |
| **26 April 2017 :** | Annual General Meeting |

# CORPORATE GOVERNANCE

## REPORT ON CORPORATE GOVERNANCE

The Board of Directors (the "Board") of YHI International Limited (the "Company") and its subsidiaries (the "Group") is committed to ensuring that the highest standards of corporate governance are adopted as a fundamental part of its responsibilities in protecting and enhancing shareholder value and the financial performance of the Group. The Board has established relevant internal control measures and monitoring mechanisms to ensure corporate governance standards are practised.

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 Code of Corporate Governance issued in May 2012 (the "Code"), which forms part of the continuing obligations of the listing rules of the Singapore Exchange Securities Trading Limited ("SGX-ST") ("Listing Rules").

## A. BOARD MATTERS

As at 18 March 2017, the Board comprises the following Directors:

| | |
|---|---|
| Mr Tay Tian Hoe Richard | (Executive Chairman & Group Managing Director) |
| Mr Tay Tiang Guan | (Executive Director) |
| Mr Henry Tan Song Kok | (Lead Independent Director) |
| Mr Hee Theng Fong | (Independent Director) |
| Mr Phua Tin How | (Independent Director) |
| Mr Yuen Sou Wai | (Independent Director) |

A description of the background of each director is presented in the "Board of Directors" section of this Annual Report.

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

The Board comprises two (2) Executive Directors and four (4) Independent Directors, all having the right competencies and diversity of experience enabling them to effectively contribute to the Group.

The principal functions of the Board include the following:

a. Providing entrepreneurial leadership for the Group and setting the Group's values and standards;

b. Enhancing and protecting long-term returns and value for the Group's shareholders;

c. Reviewing and approving key business strategies and financial plans and monitoring the Group's performance;

d. Reviewing the performance of Management;

e. Reviewing the Group's internal controls, risk management systems, financial reporting process and sustainability issues;

f. Ensuring the Group's compliance with relevant legislative, regulatory and continuing listing requirements;

g. Ensuring that good corporate governance practices are adopted;

h. Approving major investments, divestments and funding plans proposed by the Management; and

i. Ensuring accurate, adequate and timely reporting to, and communication with shareholders.

All Directors exercise due diligence and independent judgement in dealing with the business affairs of the Group and are obliged to act in good faith and to take objective decisions in the interest of the Group.

# CORPORATE **GOVERNANCE**

The Group has adopted a set of internal guidelines on matters that require the Board's approval. The matters include interested person transactions, investments and divestments, capital expenditure and business contracts which exceed certain amount. For example, the Board approves transactions exceeding certain threshold limits while delegating authority for transactions below those limits to the Board Committees and the Management via a structured matrix, which is reviewed on a regular basis and accordingly revised when necessary.

The Board holds regular meetings on a quarterly basis to review the Group's key activities, business strategies, funding plans, financial performance and to approve the announcement of quarterly and annual results. Where required, ad-hoc meetings are arranged. The Directors are also constantly kept updated on the Group's development which allows them to participate and to share their views.

The Constitution of the Company ("Constitution") allows Directors to participate in a Board meeting by telephone conference to communicate as a group without requiring the Directors' physical presence.

All Directors are updated regularly on any changes to legislative and regulatory requirements, Listing Rules, business risks and accounting standards. The Company also encourages the Directors to attend trainings. Directors have attended seminars, programmes and update sessions relevant to new rules, regulations and laws organised by various bodies such as Singapore Institute of Directors, Institute of Singapore Chartered Accountants and SGX-ST.

There has been no appointment of new Directors since the Company was listed on the Mainboard of the SGX-ST in 2003. Nevertheless, the Company will ensure that any incoming Directors are familiar with the Group's business, industry-specific practices and governance practices.

When the new Directors are appointed, the Company will conduct a comprehensive and tailored orientation programme to provide new Directors with extensive background information about the Group's structure and core values, its strategic direction and corporate governance practices as well as industry-specific knowledge. New Directors will have the opportunity to visit the Group's operational facilities and to meet with the Management to gain a better understanding of the Group's business operations. The orientation programme will give the new Directors an understanding of the Group's businesses to enable them to assimilate into their new role. It also will allow the new Directors to get acquainted with the Management, thereby facilitating Board interaction and independent access to the Management. Upon appointment of each new Director, the Company will provide a formal letter to the Director, setting out the Director's duties and obligations.

The Board may delegate the authority to make decisions to any Board Committee but without abdicating its responsibility. The following three (3) committees have been appointed by the Board to assist the Board in discharging some of its key responsibilities:

a. Nominating Committee

b. Remuneration Committee

c. Audit Committee

All the Board Committees are actively engaged and play an important role in ensuring good corporate governance in the Company and within the Group. Minutes of the Board Committee meetings are available to all Board members.

The roles of each Board Committee are outlined in respective committee's written Terms of Reference approved by the Board. The Board acknowledges that while these various Board Committees have the authority to examine particular issues and report back to the Board with their decisions and recommendations, the ultimate responsibility on all matters lies with the Board.

Table 1 below discloses the composition of each Board Committee in FY2016. Table 2 discloses the Directors' attendance at Board and Board Committee meetings in FY2016.

### Table 1: Composition of Board Committees in FY2016

| Director | Nominating Committee | Remuneration Committee | Audit Committee |
|---|---|---|---|
| Mr Tay Tian Hoe Richard (Executive Chairman & Group Managing Director) | Member | – | – |
| Mr Tay Tiang Guan (Executive Director) | – | – | – |
| Mr Henry Tan Song Kok (Lead Independent Director) | Member | Member | Chairman |
| Mr Hee Theng Fong (Independent Director) | – | Chairman | Member |
| Mr Phua Tin How (Independent Director) | Chairman | Member | Member |
| Mr Yuen Sou Wai (Independent Director) | Member | Member | Member |

### Table 2: Attendance of Directors at Board and Board Committee Meetings in FY2016

| Board and Board Meeting | Number of Meetings Held | Number of Meetings Attended | | | | | |
|---|---|---|---|---|---|---|---|
| | | Tay Tian Hoe Richard | Tay Tiang Guan | Henry Tan Song Kok | Hee Theng Fong | Phua Tin How | Yuen Sou Wai |
| Board | 4 | 4 | 4 | 4 | 2 | 4 | 4 |
| Nominating Committee | 1 | 1 | 1^ | 1 | –^^ | 1 | 1 |
| Remuneration Committee | 1 | –^^ | –^^ | 1 | 1 | 1 | 1 |
| Audit Committee | 4 | 4^ | 4^ | 4 | 3 | 4 | 4 |

^: By Invitation

^^: Not a member of the Board Committee

### Principle 2: Board Composition and Guidance

The Board comprises six (6) Directors, two-thirds of whom are Independent Directors. The Independent Directors are:

- Mr Henry Tan Song Kok, Lead Independent Director
- Mr Phua Tin How
- Mr Hee Theng Fong
- Mr Yuen Sou Wai

The criterion of "independence" is based on the guidelines provided in the Code. The Board defines an Independent Director as one who has no relationship with the Company, its related corporations, persons with interest in 10% or more of the voting shares of the Company or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement with a view to the best interests of the Company.

Each independent director completes a Director's Independence Checklist annually to confirm his independence based on the guidelines as set out in the Code. The Directors must also confirm whether they consider themselves independent despite not having any relationship identified in the Code.

The independence of each Director is reviewed by the Nominating Committee annually and as and when required and reported to the Board. The Nominating Committee is responsible for examining the size, composition and diversity of the Board and Board Committees. The criteria of diversity include, among others, whether the Board is equipped with relevant skills and experience, gender composition, age and knowledge of the Company. The criteria are being objectively assessed from time to time to ensure relevancy in view of changing business environment, business needs and relevant regulatory requirements, where applicable.

Having considered the scope and nature of the Group businesses, the requirements of the business and the need to avoid undue disruptions from changes to the composition of the Board and Board Committees, the Board, in concurrence with the Nominating Committee, considers that a board size of between six to eight members as appropriate and facilitates effective decision making. The Board believes that its current board size and the existing composition of the Board Committees effectively serves the Group. It provides sufficient diversity for effective discharging of Board duties without interfering with efficient decision-making.

The Nominating Committee is also of the view that the current Board, with Independent Directors making up two-thirds of the Board, has a strong and independent element that is able to exercise objective judgement on corporate affairs independently. The Nominating Committee is also of the view that no individual or small group of individuals dominates the Board's decision making process. The Board also considers that its current composition of Independent Directors provides an effective mix of commercial, accounting, finance and legal experience. This balance and diversity is important in ensuring that the strategies proposed by the Management are well deliberated taking into account the long term interests of the Group.

The Independent Directors are actively involved in strategy decisions. They constructively challenge and provide invaluable insights to the Management in developing business strategy. They also review and monitor the performance of the Management in meeting agreed business goals.

Independence of Directors Who Have Served on the Board Beyond Nine (9) Years

If Mr Phua Tin How and Mr Yuen Sou Wai are re-nominated at the Annual General Meeting, Mr Henry Tan Song Kok, together with Messrs Hee Theng Fong, Phua Tin How and Yuen Sou Wai, will enter into their fifteenth year of tenure on the Board from the date of their first appointments. Pursuant to the guidelines of the Code, the Board, with the assistance of the Nominating Committee, has subjected the independence of these Directors to rigorous review annually. The aspects of review include the following:

a. The Directors' relationship with the Group, shareholders and the Management;

b. The professionalism and objectivity of the Directors' character and judgement;

c. The Directors' commitment in upholding the interest of the Group and the shareholders as a whole; and

d. The ability of the Directors to confront key issues and hold the Executive Directors and Management accountable for their decisions.

In doing so, the Board has taken into account the need for progressive refreshing of the Board, and they are of the view that each of Mr Henry Tan Song Kok, together with Messrs Hee Theng Fong, Phua Tin How and Yuen Sou Wai, have demonstrated strong independent character and judgement over the years in discharging their duties and responsibilities as Independent Directors of the Company with the utmost commitment in upholding the interest of the non-controlling shareholders. They have expressed individual viewpoints, debated issues and objectively scrutinized and challenged Management. They have sought clarification as they deemed necessary, including through direct access to the Management. Further, the Nominating Committee has noted that there are no relationships or circumstances which are likely to affect or could appear to affect the judgement of the Independent Directors.

After careful consideration of the factors above and upon recommendation of the Nominating Committee, the Board is satisfied that each of Mr Henry Tan Song Kok, together with Messrs Hee Theng Fong, Phua Tin How and Yuen Sou Wai, is independent notwithstanding they have served on the Board for more than nine (9) years from the date of their first appointment.

# CORPORATE GOVERNANCE

The Board and the Management fully appreciate that an effective and robust Board whose members engage in open and constructive debate and challenge the Management on its assumptions and proposals is fundamental to good corporate governance. A Board should also aid in the development of strategic proposals and oversees the effective implementation by Management to achieve set objectives. For this to happen, the Board, particularly the Independent Directors must be kept well informed of the Group's business and be knowledgeable about the industry the Group operates in.

To ensure that the Independent Directors are well supported by accurate, complete and timely information, they have unrestricted access to Management, and have sufficient time and resources to discharge their oversight functions effectively. The Independent Directors also receive board briefings on prospective deals and potential development at an early stage before formal board approval is sought, and in circulation on the relevant information on latest market development and trends, and key business initiatives in relation to the Group or the industries in which it operates.

The Independent Directors have met without the presence of the Management to discuss matters such as the Group's financial performance, corporate governance initiatives, board processes, succession planning as well as leadership development and the remuneration of the Executive Directors.

## Principle 3: Role of Chairman and Group Managing Director

Mr Tay Tian Hoe Richard is the Executive Chairman and Group Managing Director. Accordingly, pursuant to the guidelines of the Code, Independent Directors should make up at least half the Board and a Lead Independent Director should be appointed. As disclosed above, the Independent Directors make up two-thirds of the Board and Mr Henry Tan Song Kok acts as the Company's Lead Independent Director.

As Chairman of the Board, Mr Tay Tian Hoe Richard:

a. Leads the Board to ensure its effectiveness of all aspects of its role;

b. Sets the meeting agenda and ensure that adequate time is available for discussion of all agenda items, in particular strategic issues;

c. Ensures that matters raised by the Independent Directors are appropriately attended to;

d. Ensures that the Directors receive complete, adequate and timely information;

e. Promotes a culture of openness and debate;

f. Encourages constructive relations within the Board and between the Board and Management;

g. Ensures effective communication with the shareholders;

h. Facilitates the effective contribution of Independent Directors; and

i. Promotes high standards of corporate governance and compliance with the Listing Rules.

The following checks and balances are adopted by the Board in view of Mr Tay Tian Hoe Richard's concurrent appointment as the Group Managing Director:

a. Major business and operational decisions made by Mr Tay Tian Hoe Richard are reviewed by the Audit Committee and the Board;

b. The Board has appointed Mr Henry Tan Song Kok as the Lead Independent Director, pursuant to the recommendations of the Code. The Lead Independent Director is available to the shareholders where they have concerns and for which contact through the channels of the Executive Chairman or Group Chief Financial Officer have failed to resolve or is inappropriate; and

c. Independent Directors make up more than half of the Board.

The Independent Directors periodically meet without the presence of Management. The Lead Independent Director will provide feedback to the Executive Chairman after the meeting (if any).

### Principle 4: Board Membership

Mr Phua Tin How, an Independent Director, is the Chairman of the Nominating Committee. The Nominating Committee comprises the following Directors:

- Mr Phua Tin How, as Chairman of the Committee;
- Mr Henry Tan Song Kok, who is also the Lead Independent Director;
- Mr Tay Tian Hoe Richard; and
- Mr Yuen Sou Wai.

The Nominating Committee's role and authority delegated by the Board are outlined in its Terms of Reference. The key duties and activities of the Nominating Committee are to deliberate and make recommendations to the Board on matters regarding the following:

a. The Board's structure, size and composition;

b. The Board succession plans for Directors, in particular, for the Chairman and the Group Managing Director;

c. Identify and make recommendations to the Board on the Directors who are due for retirement by rotation as well as candidates for nomination or re-nomination at the forthcoming Annual General Meeting;

d. The evaluation criteria and process of evaluation for the Board, Board Committees and individual Directors;

e. The independence of individual Directors;

f. The contribution and commitment of each Director; and

g. Training and professional development programs for the Board.

Commitments of Directors Sitting on Multiple Boards

The Board does not prescribe a maximum number of listed company board representations that each Director may hold. However, all Directors are required to declare their board representations. The Nominating Committee is of the view that any maximum number established is unlikely to be representative of the participation and commitment that a Director may contribute to the Board and its overall effectiveness.

The Nominating Committee, after taking into account of the individual Director's assessment results and the Director's participation of meetings, has reviewed and is satisfied that all the Directors who sit on multiple boards have been able to and have devoted sufficient time and attention to the affairs of the Company and have adequately carried out their roles and discharged their duties as Director of the Company, notwithstanding their multiple board representations and directorships in other listed companies.

Appointment of Alternative Directors

There is no alternate director on the Board.

The Process for the Selection, Appointment and Re-appointment of Directors

The Board believes that Board renewal must be an ongoing process which ensures both good governance and maintains relevance to the changing needs of the Company and business.

The Constitution requires at least one-third of the Directors, excluding the Group Managing Director, to retire from office by rotation and submit themselves to re-nomination and re-election by shareholders at every Annual General Meeting. For good corporate governance practice, the Group Managing Director had also submitted himself for re-nomination and re-appointment in past Annual General Meetings. In this respect, no Director stays in office for more than three (3) years without being re-elected by shareholders.

The role of the Nominating Committee also includes the responsibility of reviewing the re-nomination of Directors who retire by rotation, taking into consideration the director's integrity, independent character, contribution and performance (such as attendance, participation, preparedness and candour) and any other factors as determined by the Nominating Committee.

The Board recognises the contribution of its Independent Directors who over time have developed deep insight into the Group's businesses and operations and who are therefore able to provide invaluable contributions to the Group. Accordingly, the Board has not set a fixed term of office for each of its Independent Directors so as to be able to retain the services of the Directors as necessary. Where a vacancy arises or where it is considered by the Board that it would benefit from the contribution of a new Director with particular expertise and experience or diversity, the Nominating Committee, in consultation with the Board, determines the selection criteria and identifies potential candidates with the appropriate expertise and experience or diversity for the position.

The Nominating Committee has in place a selection and nomination process for the appointment of new Director. For appointment of new Directors to the Board, the Nominating Committee would, in consultation with the Board, evaluate and determine the selection criteria with due consideration to the mix of skills, knowledge and experience of the existing Board. The Nominating Committee does so by first evaluating the existing strengths and capabilities of the Board, before it proceeds to assess the likely future needs of the Board, and assesses whether this need can be fulfilled by the appointment of one person and if not, then to consult the Board with respect to the appointment of two persons. The Nominating Committee will then source through their network or engage external professional assistance for potential candidates and resumes for review, undertake background checks on the resumes received, narrow this list of resumes and finally to invite the shortlisted candidates to an interview. This interview may include a briefing of the duties required to ensure that there is no expectations gap, and to ensure that any new director appointed has the ability and capacity to adequately carry out his duties as a Director of the Company, taking into consideration the number of listed company board representations he holds and other principal commitments he may have. The Nominating Committee will take an open view in sourcing for candidates and does not solely rely on current Directors' recommendations or contacts, and is empowered to engage professional search firms. The Nominating Committee will interview all potential candidates in frank and detailed meetings and make recommendations to the Board for approval.

The Nominating Committee is charged with determining the independence of the Directors. The Board, after taking into consideration the views of the Nominating Committee, is of the view that Mr Henry Tan Song Kok, Mr Yuen Sou Wai, Mr Hee Theng Fong and Mr Phua Tin How are independent and that no individual or small group of individuals dominates the Board's decision-making process.

Retirement and Re-Nomination of Directors at the Forthcoming Annual General Meeting

The Nominating Committee has recommended to the Board that Messrs Phua Tin How and Yuen Sou Wai be nominated for re-appointment at the forthcoming Annual General Meeting.

Information on Directors

Key information on each Director's academic and professional qualifications, shareholdings, relationships (if any), directorships and other principal commitments is presented in "Board of Directors" and "Director's Report" section of this Annual Report.

## Principle 5: Board Performance

A formal review of the effectiveness of the Board and Board Committees and the assessment of Director's contribution is undertaken collectively by the Nominating Committee and reported to the Board annually. The review undertaken by the Nominating Committee also takes in input from other Directors and the Company Secretary.

During the financial year, Directors were requested to complete assessment checklists designed to seek their comments on the following:

a. The effectiveness and performance of the Board (including Board Committees); and

b. The contribution of each Director.

With the assistance of the Company Secretary, the completed checklists were submitted to the Nominating Committee for review before submitting to the Board for discussion and determining areas for improvement.

Performance Criteria for Board (including Board Committees)

The Board believes that apart from discharging its fiduciary duties (i.e. acting in good faith, with due diligence and care and in the best interests of the Company and its shareholders) the Board is to set strategic directions and ensure that the long term objective of enhancing shareholder value is achieved.

The performance criteria (which is consistent with previous years' performance criteria) for the Board and Board Committees are comparable with industry peers and have been approved by the Board. The evaluation includes size and composition, independence of Independent Directors, deliberation processes, information and accountability and performance in relation to discharging its principal functions including enhancing long-term shareholder value and achievement of financial targets including annual targets and return on equity and Company's share price performance over a five-year period.

Over the years, the Board and Board Committees' composition, performance and effectiveness is measured by its ability to provide guidance to the Management especially in times of crisis and to steer the Company and the Group towards profitable direction and the attainment of strategic and long-term objectives, and has allowed the Group to deliver value to its shareholders.

Evaluation of Individual Directors

Evaluation criteria in assessing the contribution of individual Director to the Board as well as his commitment to the role include the following:

a. Attendance at Board/Board Committee meetings;

b. Preparedness and participation in meetings;

c. Availability for consultation and advice;

d. Candour and the ability to confront key issues; and

e. Contribution to the Board and Board Committee in terms of appropriate experience, expertise and skills.

The Executive Chairman will consider the Board and individual Director's evaluation results, and in consultation with the Nominating Committee, where appropriate, propose new members to be appointed to the Board or seek the resignation of Directors.

Following the review, the Board is of the view that the Board and its Board Committees operate effectively and each Director is contributing to the overall effectiveness of the Board for FY2016. The Board and Board Committees have met the prescribed performance objectives. There was no external facilitator engaged to assess the performance of the Board for FY2016.

### Principle 6: Access to Information

In order to ensure that the Board is able to discharge its responsibilities, Management is required to provide adequate and timely information to the Board on Board affairs and issues that require the Board's decision as well as ongoing reporting relating to the operational and financial performance of the Company and the Group.

The Board also has separate and independent access to the Management. Directors are entitled to request and receive, in a timely manner, from the Management such additional information as necessary to make informed decisions.

All Directors are provided with Board papers prior to Board and Board Committee meetings. Generally, detailed Board and Board Committees papers prepared for each meeting are circulated five (5) working days in advance of each meeting. This is to give Directors sufficient time to review and consider the matters to be discussed so that discussions can be more meaningful and productive. All deliberations and decisions of the Board or Board Committees are properly recorded in minutes.

The Board papers include financial results, draft announcements and various reports covering the Group's business performance, competitive position as well as significant trends and prospects of the industry. The Board papers provide contextual information that enables the Directors to make informed decisions and decide upon any further information to be obtained, where necessary. Such explanatory information may also be in the form of briefings to provide additional insights to the Directors or formal presentations made by the Management in attendance at the meetings, or by external consultants engaged on specific projects. The Board also receives reports from the internal and external auditors.

The Board receives monthly management accounts and quarterly financial statements including region performance and capital expenditure of the Group, cash flow projections, annual budgets and explanation on material forecasts variances to enable them to oversee the Group's operational and financial performance. Directors are also informed on a regular basis as and when there are any significant developments or events relating to the Group's business operations and risk management.

Directors' Access to Company Secretary

The Directors have separate and independent access to the Company Secretary at all times. The Company Secretary also attends all Board, Audit Committee, Nominating Committee and Remuneration Committee meetings. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

Under the direction of the Lead Independent Director, the Company Secretary ensures good information flows within the Board and its Board Committees and between the Management and Independent Directors.

The Company Secretary assists the Executive Chairman and the Chairman of each Board Committee in the development of the agendas for the various Board and Board Committees meetings, and administers and attends all Board and Board Committees meetings of the Company and prepares minutes of meetings. The Company Secretary is also responsible for, among other things, ensuring that Board procedures are observed and that the relevant rules and regulations, including requirements of the Companies Act, Securities and Futures Act and the Listing Rules of the SGX-ST, are complied with.

Directors' Access to Independent Professional Advice

Should Directors, whether as a group or individually, need independent professional advice, the Company Secretary will, upon the Board's direction, appoint a professional advisor selected by the individual Directors or the group of Directors to render the advice. The cost of such professional advice will be borne by the Company.

## B. REMUNERATION MATTERS

### Principle 7: Procedures for Developing Remuneration Policies

Mr Hee Theng Fong, an Independent Director, is the Chairman of the Remuneration Committee. The Remuneration Committee comprises the following Independent Directors:

- Mr Hee Theng Fong, as Chairman of the Committee;
- Mr Henry Tan Song Kok, who is also the Lead Independent Director;
- Mr Phua Tin How; and
- Mr Yuen Sou Wai.

The Remuneration Committee's role and authority delegated by the Board are outlined in its written Terms of Reference. The key duties and activities of the Remuneration Committee include the following:

a. Reviewing and recommending to the Board a formal and transparent framework of remuneration for the Directors and key management personnel on all aspects of remuneration including Director's fees, salaries, allowances, bonuses, options and benefits-in-kind;

b. Reviewing and recommending to the Board the specific remuneration packages and terms of employment for each Executive Director and key management personnel;

c. Reviewing the level of remuneration such that it is appropriate to attract, retain and motivate the Directors and key management personnel whilst linking rewards to group or corporate and individual performance;

d. Ensuring adequate disclosure on Director's remuneration; and

e. Recommending to the Board any long-term incentive scheme which may be set up from time to time and doing all acts necessary in connection therewith.

In its deliberations, the Remuneration Committee takes into consideration industry practices and norms in compensation, the Group's performance vis-a-vis the industry as well as the individual Director and the key management personnel's contribution and performance. No Director or key management personnel is involved in deciding his own remuneration. Following the Remuneration Committee's review, the Board is of the view that the remuneration packages are appropriate and the performance conditions set have been met for FY2016.

Each Executive Director has a service contract with a fixed appointment period and the Remuneration Committee reviews in particular the termination provisions, such as obligations arising in the event of termination of the Executive Directors and key management personnel's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous.

<u>Access to Remuneration Consultant's Advice</u>

When the need arises, the Remuneration Committee has access to external remuneration consultants' service and advice on Director's remuneration. No remuneration consultant was appointed for FY2016.

### Principle 8: Level and Mix of Remuneration

Remuneration of Executive Directors and Key Management Personnel

Executive Directors do not receive directors' fees but are remunerated as members of Management. The compensation structure for Executive Directors and key management personnel is directly linked to corporate and individual performances and measured by financial and non-financial indicators. The compensation structure comprises a fixed component (i.e. in the form of base salary) and a variable component (i.e. annual performance bonus) directly determined by the financial performance of the Group and the performance of the individual Executive Director or key management personnel during the financial year. Non-financial performance indicators such as quality of work and diligence are also considered. This is in line with the emphasis placed by the Group on achieving its long term vision and goals and the performance target set for the individuals, and aligns the remuneration with the performance of the Group and the individual. For example, annual performance bonus is computed based on certain percentage of profit before tax of the Group. Such performance indicators selected by the Group are consistent with industry practice.

The performance of the Group Managing Director (together with other key management personnel) is reviewed periodically by the Remuneration Committee and the Board. In structuring the compensation framework, the Remuneration Committee also takes into account the risk policies of the Group, the need for the compensation to be symmetric with the risk outcomes and the time horizon of risks.

The Company has no share-based compensation scheme or any long-term scheme involving the offer of shares or options or other forms of deferred remuneration. The YHI Share Option Scheme (the "Scheme"), which was adopted on 22 May 2003, has since expired. The Company had not granted any share options pursuant to the Scheme in previous financial years and decided not to renew the Scheme.

Remuneration of Independent Directors

The Independent Directors receive Director's fees, in accordance with their contribution to the Company, taking into account various factors such as effort and time spent as well as his responsibilities on the Board. The Company recognises the need to pay competitive fees to attract, motivate and retain Directors without being excessive to the extent that their independence might be compromised.

The Board will recommend the remuneration of the Independent Directors for approval at the Annual General Meeting.

Contractual Provisions to Reclaim Incentive Components of Remuneration

There are no contractual provisions to allow the Company to reclaim incentive components of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company. Nonetheless, the Remuneration Committee, together with the Board, will consider, monitor and re-assess at appropriate junctures where such provisions should be adopted.

### Principle 9: Disclosure of Remuneration

The Executive Directors' remuneration consists of their salary, allowances, bonuses, and profit sharing awards conditional upon their meeting of certain profit before tax targets. There are no termination, retirement and post-employment benefits that may be granted to the Directors and key executives. The Independent Directors receive Director's fees which are subject to the approval of shareholders at the Annual General Meeting. The Company does not have any share-based compensation scheme or any long-term scheme involving the offer of shares or options in place.

Remuneration of Directors and Key Executives in FY2016

**Table 3: Remuneration and fees, in bands of S$250,000, paid to Directors in FY2016**

| | Number of Directors 2016 | Number of Directors 2015 |
|---|---|---|
| S$1,000,001 and above | **–** | 1 |
| S$750,001 to S$1,000,000 | **1** | – |
| S$500,001 to S$750,000 | **–** | – |
| S$250,000 to S$500,000 | **–** | 1 |
| Below S$250,000 | **5** | 4 |
| Total | **6** | 6 |

**Table 4: Breakdown of the Directors' remuneration and fees, in percentage terms, for FY2016**

| | Salary % | Bonus % | Director's Fees % | Other Benefits % | Total % |
|---|---|---|---|---|---|
| Tay Tian Hoe Richard | 48 | 50 | – | 2 | 100 |
| Tay Tiang Guan | 35 | 53 | – | 12 | 100 |
| Yuen Sou Wai | – | – | 100 | – | 100 |
| Henry Tan Song Kok | – | – | 100 | – | 100 |
| Hee Theng Fong | – | – | 100 | – | 100 |
| Phua Tin How | – | – | 100 | – | 100 |

While the Company is cognizant of the need for corporate transparency in the remuneration of its Directors and key executives, the Company notes that the disclosure of details in excess of the above may be detrimental to its business interests, given the highly competitive industry conditions where poaching has become commonplace. In particular, the Company had previously announced its "3R" strategy and restructuring of its PRC operations and the disclosure of remuneration matters are sensitive and confidential in light of its restructuring and resizing strategy. The Group also sees human capital as one of its key advantages over its competitors and, noting that the highly competitive industry which the Group operates in, believes that the disclosure above best preserves the business interests of the Group. As far as the Company is aware, the remuneration paid to Directors and key executives is in line with industry practices.

Remuneration of Employees Who are Immediate Family of Directors

Details of employees whose remuneration exceed S$50,000 and are immediate family members of Executive Directors are set out below:

| Name of Employee | Remuneration Band |
|---|---|
| Tay Soek Eng Margaret(1) | S$150,000 to S$200,000 |
| Tay Guoren Ryan(2) | S$100,000 to S$150,000 |

Notes:

(1) Mdm Tay Soek Eng Margaret is the sister of our Executive Chairman and Group Managing Director, Mr Tay Tian Hoe Richard, and our Executive Director, Mr Tay Tiang Guan.

(2) Mr Ryan Tay is the son of our Executive Chairman and Group Managing Director, Mr Tay Tian Hoe Richard.

## C. ACCOUNTABILITY AND AUDIT

### Principle 10: Accountability

The Board is mindful of its obligations to provide timely, balanced and fair disclosure of material information in compliance with statutory reporting requirements. Price sensitive information is first publicly released, either before the Company meets with any group of investors or analysts or simultaneously with such meetings.

Management presents to the Audit Committee the quarterly and full-year results and the Audit Committee reports the results to the Board for review and approval before the timely release of the results to the SGX-ST. Financial results and Annual Reports are announced or issued within the mandatory period. The announcements and reports will comment on the Group's business performance, competitive position as well as significant trends and prospects of the industry. When required, the Board will also provide reports to regulators.

Financial reports and other price-sensitive information are disseminated to shareholders through announcement via SGXNET, press releases and the Company's website. The Company's Annual Reports are accessible on the Company's website.

Compliance with Legislative and Regulatory Requirements

Under the Board's direction and monitoring, Management ensures that relevant legislative and regulatory compliance requirements are complied with and Management regularly reports the compliance status to the Board. Management, Company Secretary and external auditors will also highlight to the Board on all new compliance requirements. Where necessary, the Board is provided advice on the compliance requirements that are included in the Group Management Policy. These requirements are communicated to relevant personnel for adherence and implementation.

In line with the Listing Rules of the SGX-ST, the Board provides a negative assurance statement to the shareholders in its quarterly financial statements announcements, confirming to the best of its knowledge that nothing had come to the attention of the Board which might render the financial statements false or misleading in any material aspect.

Management Accounts

Management provides the Board with financial results on a quarterly basis for deliberation and approval. Monthly management accounts are provided to the Board. The information provided allows the Board to make a balanced and informed assessment of the Group's performance, position and prospects.

### Principle 11: Risk Management and Internal Controls

The Board affirms its overall responsibilities for the Group's internal control and risk management systems to safeguard shareholders' interests and the Group's assets.

In order to streamline the functions of the Board and the Board Committees, the Board delegates the role of overseeing the risk management systems to the Audit Committee.

Risk Management Framework

The Group's Risk Management Framework is aligned with the Internal Controls Integrated Framework set out by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). This framework entails a rigorous and systematic process of anticipating, identifying, prioritising, managing and reporting of key risks. The Management reviews the Group's business and operational activities regularly to identify areas of significant business, operational, compliance and information technology risks, and employs a wide range of corresponding measures to control these risks. The Management has embedded the risk management process and internal controls into all business operating procedures, where all business and operational managers are mindful and compliant of their responsibilities.

All identified areas of risks are promptly addressed by the managers who swiftly determine and implement appropriate measures to control and mitigate such risks. Targets are set to measure the performance of business and effectiveness of risk management. The targets include sales growth, profit margins, operating expenses, management of inventory and receivables.

The identified risks and the corresponding countervailing controls are also regularly reviewed by the Management to ensure that they are up to date and effective. For example, financial risk management is discussed in Note 27 of the financial statements set out on pages 112 to 121.

The Enterprise Risk Management Executive Committee ("RMEC") which comprises members from Management and headed by the Executive Chairman and Group Chief Financial Officer is responsible for the overall effective implementation of risk management strategy, policies and procedures to facilitate the achievement of business plans and goals within the risk profile and risk tolerance levels set by the Board.

The RMEC performs the following principal functions:

a. considers, reviews and approves the risk management strategy, policies and guidelines of the Group;

b. decides on risk profile, risk levels, tolerance and capacity and related resources allocation;

c. monitors and evaluates the Group's risk exposure; and

d. reviews the risk reporting records of the Group and reports of any material breaches of risk limits.

<u>Board's Regular Review of the Adequacy and Effectiveness of Internal Control and Risk Management Systems</u>

The Board, with the assistance of the Audit Committee, reviews the adequacy and effectiveness of the internal control and risk management systems through deliberating the internal audit reports and results of the control self-assessment exercise at each quarter. The Board also deliberates the updates made by the Group Chief Financial Officer on behalf of RMEC.

The Board determines the risk tolerance of the Group and reviews the financial, operational, compliance and information technology aspects of the systems.

<u>Board's Comment on Adequacy and Effectiveness of Internal Control and Risk Management Systems as at 31 December 2016</u>

The Board has received assurance from the Group Managing Director and Chief Financial Officer:

(a) that the financial records of the Group have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and

(b) that the Group's internal control and risk management systems are effective and adequate.

Based on Group's framework of management controls in place, the internal control policies and procedures established and maintained by the Group, as well as the reviews performed by the external and internal auditors, the Board, with the concurrence of the Audit Committee, is of the view that the risk management and internal control systems of the Group, addressing the financial, operational, compliance and information technology risks are adequate and effective as at 31 December 2016.

The Board acknowledges that internal controls and risk management systems are designed to adequately and effectively manage and contain rather than to eliminate risk. An effective and efficient system can only provide reasonable and not absolute assurance against the occurrence of human & system errors, losses, fraud or other irregularities.

### Principle 12: Audit Committee

Mr Henry Tan Song Kok, the Lead Independent Director, is the Chairman of the Audit Committee. The Audit Committee comprises the following Independent Directors:

- Mr Henry Tan Song Kok, as Chairman of the Committee;
- Mr Hee Theng Fong;
- Mr Phua Tin How; and
- Mr Yuen Sou Wai.

None of the members of Audit Committee are former partners or Directors of the Group's external auditors.

The Audit Committee's role and authority delegated by the Board are outlined in its Terms of Reference. The key duties and activities of the Audit Committee include reviewing the following:

a. Financial statements as well as any announcements of the Company and the Group before submission to the Board for approval and release;

b. The adequacy and effectiveness of the Group's internal control and risk management systems;

c. Annual internal audit plan and internal audit reports tabled by the internal auditors;

d. Nomination of the Company's external auditors for appointment;

e. Audit plan of the external auditors;

f. The external auditors' reports;

g. Co-operation given by executives to the external auditors;

h. Independence of the external auditors;

i. Group's compliance with relevant key legislative and regulatory requirements and the continuing listing requirements;

j. Group Whistle-Blowing Policy and ensure that concerns or complaints received are properly attended to;

k. Interested person transactions reported (if any);

l. Group's capital expenditure transactions and investments; and

m. Group's foreign currency hedging activities.

The Audit Committee has explicit authority to investigate any matter within its written Terms of Reference. It has full access to, and the co-operation of the Management and full discretion to invite any Executive Director or key management personnel to attend its meetings. The Audit Committee has adequate resources, including access to external consultants and auditors, to enable it to discharge its responsibilities properly.

At least three (3) members of the Audit Committee including the Audit Committee Chairman have the recent and relevant accounting or related financial management expertise or experience, as the Board interprets such qualifications in its business judgement.

The Audit Committee keeps abreast of changes to accounting standards and other business issues which may have a direct impact on the Company and Group's financial statements through regular updates made by the Management and external auditors.

The internal and the external auditors are invited to attend the Audit Committee meetings to table their plans and reports respectively. During the financial year, the Audit Committee had also met with the external auditors, without any executives of the Group being present.

# CORPORATE **GOVERNANCE**

Review of full-year financial statements and the key audit matters highlighted by the external auditors

In the review of the full-year financial statements, the Audit Committee reviews the accounting policies, estimates, assumptions and judgements applied by Management. Audit Committee also discusses with the external auditors on any significant audit and accounting observations highlighted.

Key audit matters are those matters that, in the external auditors' professional judgement, were of most significance in the audit of the full-year financial statements. The Audit Committee's reviews and assessments of the key audit matters highlighted by the external auditors for the full-year financial statements ended 31 December 2016 are provided as follows:

- **Impairment assessment of property, plant and equipment ("PPE") in YHI Manufacturing (Shanghai) Co., Ltd ("YHIMS")**

YHIMS's cessation of production at year end was an indicator for the requirement of an impairment analysis of the net book value of its PPE amounting to S$20,700,000 as at 31 December 2016. Audit Committee discussed with auditors on their review of the impairment analysis performed by Management, the recoverable amount of the PPE estimated and the approach adopted.

– For plant and machineries, the primary inputs into the impairment analysis were the relevant fair values, adjusted for remaining useful lives, as assessed by an independent external valuer. Audit Committee considered the valuation methodology adopted and key assumptions made by the valuer in conjunction with the findings of the audit work and conclusions presented by the external auditors in relation to their assessment of the valuer's competency, independence, assumptions and the valuation methodology adopted.

– For the leasehold property, the primary input into the impairment analysis was the recent sales prices of comparable plots identified by Management as compared with the carrying value of YHIMS's leasehold property. Audit Committee considered the estimations and comparisons performed in conjunction with the findings of the audit work and conclusions presented by the external auditors in relation to their assessment of the assumptions and judgements applied by Management and the appropriateness of the comparable market transactions.

- **Valuation of past due trade receivables**

Audit Committee regulary reviews management policy in granting of credit limits, credit controls and debt collection on an ongoing basis. Audit Committee considered the aging and the reasonableness of the recoverability of the trade receivables and the allowance for doubtful trade receivables as identified by Management. Audit Committee considered how Management has assessed the collectability and their consideration based on the past payment track records, financial positions of the debtors and guarantors (where applicable), on-going business relationship with the debtors and where relevant, the repayment plans agreed with the debtors in conjunction with the observations, analysis and the findings presented by the external auditors.

After the review and assessment of the key audit matters highlighted by the external auditors, the Audit Committee recommended to the Board to approve the full-year financial statements.

Whistle-Blowing Policy

A Group Whistle-Blowing Policy ("Policy'") has been put in place and communicated to the employees. The Policy provides employees with clearly defined processes and channels through which they can raise their concerns or complaints in relation to possible violations of the Group's Code of Ethics and Business Conduct or suspected irregularities to the Audit Committee through the internal audit function. There were no instances where concerns were raised under the Policy for FY2016.

The concerns can be made anonymously and will be kept in strict confidence. The Audit Committee monitors to ensure that concerns are independently and appropriately attended to, assessed and resolved in accordance with the Policy. The processes stated in the Policy are also applicable to the concerns or complaints received from the shareholders, suppliers, customers or members of the public, if any.

Nomination and Re-Appointment of External Auditors

The Audit Committee has nominated PricewaterhouseCoopers LLP ("PwC") for re-appointment as external auditors of the Company at the forthcoming Annual General Meeting.

The Audit Committee has conducted an annual review of all non-audit services provided by the auditors to satisfy itself that the nature and extent of such services will not prejudice the independence and objectivity of the auditors before confirming their re-nomination, and is of the opinion that the non-audit services provided by PwC would not affect its independence.

The Group has complied with Rules 712 and 715 of the Listing Manual in relation to its auditors. The aggregate amount of fees paid to the auditors, broken down into audit and non-audit services are set out below:

| | **2016**<br>**S$** | 2015<br>S$ |
|---|---|---|
| Fees on audit services paid/payable to: | | |
| Auditors of the Company – PwC Singapore | **175,000** | 186,000 |
| Other PwC network firms | **160,000** | 146,000 |
| Other auditors | **304,000** | 247,000 |
| | | |
| Fees on non-audit services paid/payable to: | | |
| Auditors of the Company – PwC Singapore | **50,000** | 112,000 |
| Other auditors | **63,000** | 93,000 |
| **Total** | **752,000** | 784,000 |

### Principle 13: Internal Audit

The Group has its own inhouse internal audit function. The Audit Committee approves the hiring, removal, evaluation and compensation of the internal auditors. The internal auditors report directly to the Chairman of the Audit Committee and have unrestricted access to the documents, records, properties and personnel of the Company and of the Group.

The Board recognises that it is responsible for maintaining a system of internal control to safeguard shareholders' investments and the Group's businesses and assets, while the Management is responsible for establishing and implementing the internal control procedures in a timely and appropriate manner. The role of the internal auditors is to assist the Audit Committee in ensuring that the controls are effective and functioning as intended, to undertake investigations as directed by the Audit Committee and to conduct regular in-depth audits of high risk areas. The Audit Committee reviews the adequacy and effectiveness of the internal audit function at least annually.

The Audit Committee is satisfied that the internal audit function is adequately resourced to perform its function effectively. The Audit Committee is also satisfied that the internal audit function is staffed by suitably qualified and experienced professionals with the relevant experience and professional qualification.

# CORPORATE **GOVERNANCE**

The internal audit work carried out is guided by the International Standards for the Professional Practice of Internal Auditing ("IIA Standards") laid down in the International Professional Practices Framework issued by The Institute of Internal Auditors.

The internal audit function plans its internal audit schedules in consultation with, but independent of the Management. The audit plan is submitted to the Audit Committee for approval prior to the commencement of the internal audit work. In addition, the internal auditor may be involved in ad-hoc projects initiated by the Management which require the assurance of the internal auditor in specific areas of concerns.

## D. COMMUNICATION WITH SHAREHOLDERS

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

Sufficient Information to Shareholders

The Board believes that a high level of disclosure on a timely basis is essential for good corporate governance practice. The Executive Directors and the Chief Financial Officer are responsible for implementing the investor relations policy devised by the Board.

In line with the provisions of the Listing Rules and the Companies Act (Cap. 50 of Singapore), the Board's policy is that all shareholders should be equally and in a timely manner be informed of all major developments that impact the Company or the Group. It is also the Board's policy that all corporate news, strategies and announcements be promptly disseminated through the SGXNET system. Press releases, annual reports, other various media and our contact details are provided in our corporate website (http://www.yhigroup.com) to allow shareholders to make well-informed investment decisions and maintain a regular dialogue channel with shareholders to gather views, input and address shareholders' concerns.

Where required, the Executive Directors and the Group Chief Financial Officer will meet up with analysts and investors after the quarterly results are announced through the SGXNET system, to explain the financial performance, Group's strategy and major developments and to understand their views and concerns.

Shareholders' Opportunity to Participate and Vote at General Meeting

The Board supports the Code's principles of encouraging shareholders' participation. All shareholders are entitled to attend and are provided the opportunity to participate in the general meetings of the Company. The general meetings are the principal forum for dialogue with shareholders, where they are given the opportunity to voice their views, raise their concerns with the Directors or question the Management on matters relating to the Group and its operations. The Management also uses this opportunity to inform shareholders of the Group's strategy and goals. The Management believes that shareholder engagement is important to the success of the Group and dedicates time at each general meeting to address and/or receive questions from any shareholder. The Company is also proposing to adopt a new Constitution containing, *inter alia*, updated provisions in respect of shareholders' voting in compliance with the amended Companies Act and the Listing Rules, including provisions for voting in absentia.

Notice of the general meeting is despatched to shareholders, together with explanatory notes or a circular on items of special business (if necessary), at least 21 or 14 working days before the meeting depending on the type of business to be transacted.

The Board welcomes questions from shareholders who wish to raise issues either informally or formally before or at the general meetings. The Executive Chairman, the Chairpersons of the Audit Committee, Nominating Committee and Remuneration Committee and the external auditors are available at the meetings to address shareholders' queries.

Proxies for Corporations Providing Nominee or Custodial Services

Shareholders may vote in person or by proxy. In addition, a shareholder who is a relevant intermediary may appoint more than two (2) proxies so as to allow shareholders who hold shares through such relevant intermediaries can attend and participate in general meetings as proxies.

Dividend Policy

The Company does not have a formal dividend policy, nevertheless, it has a track record of paying annual dividends to shareholders. The Board endeavours to maintain a balance between meeting shareholders' expectations and prudent capital management.

Conduct of General Meetings

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. The Constitution of the Company allows absentia voting at general meetings. The Company conducted poll voting in accordance with the Listing Manual for all resolutions tabled at the general meetings. The rules, including the voting process, were explained by the scrutineers at such general meetings. The Company relies on the advice of the independent scrutineers to determine the need for electronic voting, taking into consideration the logistics involved, costs, and number of shareholders, amongst other factors.

Minutes of the general meetings are prepared and will be made available to shareholders upon request.

## E. DEALING IN SECURITIES

In compliance with the Listing Manual of the SGX-ST, the Company has adopted and implemented a code of conduct governing securities transactions by its Directors and key officers.

Under the code of conduct, the Directors and key officers are prohibited from dealing in the Company's securities at least two (2) weeks before the announcement of the Company's quarterly results and one (1) month before the announcement of the Company's full-year results until one day after the release of the announcement.

The Directors and key officers are required to notify the Company of any dealings in the Company's securities (during the open window period) and within two (2) business days of the transaction(s). At all times, the Directors and key officers are aware that it is an offence to deal in securities of the Company and other companies when they are in possession of unpublished price-sensitive information in relation to those securities and that the law on insider trading applies to them at all times.

The code of conduct also ensures that no Director or key officer deals in the Company's securities on short-term considerations.

The Directors and key officers are periodically reminded of all requirements of the code of conduct and all applicable laws via the regular circulation of internal memoranda.

## F. MATERIAL CONTRACTS

There were no material contracts entered into by the Company or its subsidiaries for the benefit of the Directors or controlling shareholders during FY2016.

# CORPORATE GOVERNANCE

## G. INTERESTED PERSON TRANSACTIONS

In order to ensure that the Company complies with Chapter 9 of the Listing Manual of the SGX-ST on interested person transactions, the Company has adopted an internal policy in respect of any transaction with interested persons and has set out the procedures for review and approval of the transactions. The Audit Committee meets quarterly to review all interested person transactions of the Company.

The Company does not have a general mandate from shareholders pursuant to Rule 920 of the Listing Manual of the SGX-ST.

There was no interested person transaction exceeding S$100,000 in value during the financial period from 1 January 2016 to 31 December 2016.

| Interested Persons | Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under Shareholders' Mandate) | Aggregate value of all interested person transactions conducted under shareholders' Mandate (excluding transactions less than S$100,000) | Total |
|---|---|---|---|
| NA | NIL | NIL | NIL |

# FINANCIAL CONTENTS

# DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

The directors present their statement to the members together with the audited financial statements of the Group for the financial year ended 31 December 2016 and the balance sheet of the Company as at 31 December 2016.

In the opinion of the directors,

(a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 69 to 128 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 covered by the consolidated financial statements; 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.

## DIRECTORS

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

Mr Tay Tian Hoe Richard
Mr Tay Tiang Guan
Mr Henry Tan Song Kok
Mr Yuen Sou Wai
Mr Hee Theng Fong
Mr Phua Tin How

## ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was 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.

## DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

(a) 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:

| | Holdings registered in name of Director | | | Holdings in which Director is deemed to have an interest | | |
|---|---|---|---|---|---|---|
| | At 21.1.2017 | At 31.12.2016 | At 1.1.2016 | At 21.1.2017 | At 31.12.2016 | At 1.1.2016 |
| **Company** (No. of ordinary shares) | | | | | | |
| Mr Tay Tian Hoe Richard[(1), (2)] | – | – | – | 139,958,860 | 139,958,860 | 279,917,721 |
| Mr Tay Tiang Guan[(3)] | – | – | 86,052,907 | 44,576,453 | 44,576,453 | 3,100,000 |
| Mr Henry Tan Song Kok | 20,000 | 20,000 | 40,000 | – | – | – |
| Mr Yuen Sou Wai | 120,000 | 120,000 | 240,000 | – | – | – |
| Mr Hee Theng Fong | 60,000 | 60,000 | 120,000 | – | – | – |
| Mr Phua Tin How | 55,000 | 55,000 | 110,000 | – | – | – |

## DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (CONTINUED)

| | Holdings registered in name of Director | | | Holdings in which Director is deemed to have an interest | | |
|---|---|---|---|---|---|---|
| | At 21.1.2017 | At 31.12.2016 | At 1.1.2016 | At 21.1.2017 | At 31.12.2016 | At 1.1.2016 |
| **Immediate and ultimate holding company – YHI Holdings Pte Ltd**[1] (No. of ordinary shares) | | | | | | |
| Mr Tay Tian Hoe Richard[1, 2] | 641,392 | 641,392 | 641,392 | – | – | – |

**Notes:**

(1) As at the date of this statement, YHI Holdings Pte Ltd directly holds 128,021,860 shares of the Company.

(2) As at the date of this statement, Mr Tay Tian Hoe Richard is interested in 641,392 shares of YHI Holdings Pte Ltd and accordingly is deemed interested in 128,021,860 shares of the Company held by YHI Holdings Pte Ltd and 11,937,000 shares of the Company held in the name of his nominees. Mr Tay Tian Hoe Richard is not directly interested in shares of the Company.

(3) As at the date of this statement, Mr Tay Tiang Guan is deemed interested in 44,576,453 shares of the Company held in the name of his nominees. Mr Tay Tiang Guan is not directly interested in shares of the Company.

(b) Mr Tay Tian Hoe Richard and Mr Tay Tiang Guan, who by virtue of their interests of not less than 20% of the issued capital of the Company, are deemed to have an interest in the whole of the share capital of the Company's wholly-owned subsidiaries and in the shares held by the Company in the following subsidiaries that are not wholly-owned by the Group:

| | At 31.12.2016 | At 1.1.2016 |
|---|---|---|
| **YHI (Australia) Pty Limited** | | |
| – No. of ordinary shares | 80,000 | 80,000 |
| **YHI (New Zealand) Limited** | | |
| – No. of ordinary shares | 70,000 | 70,000 |
| **YHI Corporation Japan Co., Ltd** | | |
| – No. of ordinary shares | 360 | 360 |
| **YHI Power Pty Limited** | | |
| – No. of ordinary shares | 8,000 | 8,000 |
| **YHI Corporation (Thailand) Co., Ltd** | | |
| – No. of ordinary shares | 24,500 | 24,500 |

# DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (CONTINUED)

| | At 31.12.2016 | At 1.1.2016 |
|---|---|---|
| **Evo-Trend Corporation (Malaysia) Sdn Bhd** | | |
| – No. of ordinary shares | 140,000 | 140,000 |
| **PT YHI Indonesia** | | |
| – No. of ordinary shares | 288,000 | 288,000 |
| **YHI (Philippines) Inc** | | |
| – No. of ordinary shares | 8,995 | 8,995 |
| **YHI (Vietnam) Co., Ltd** | VND | VND |
| – Share capital | 5,311,650,000 | 5,311,650,000 |
| **YHI Corporation (Shanghai) Co., Ltd** | | |
| – Share capital | US$360,000 | US$360,000 |
| **Pan-Mar Corporation D/B/A Konig (American)** | | |
| – Common stock | US$142,500 | US$142,500 |
| **Advanti Racing USA, LLC** | | |
| – Common stock | US$85,500 | US$85,500 |
| **YHI (East Malaysia) Sdn Bhd** | | |
| – No. of ordinary shares | 400,000 | 80 |

(c) The directors' interests in the ordinary shares of the Company as at 21 January 2017 are shown in Note (a).

## SHARE OPTIONS

YHI Share Option Scheme

The YHI Share Option Scheme (the "Scheme") for key management personnel and employees of the Group which was adopted on 22 May 2003, has since expired. The Company had not granted any share options pursuant to the scheme in past financial years and had decided not to renew the Scheme.

## AUDIT COMMITTEE

The members of the Audit Committee at the end of the financial year were as follows:

Mr Henry Tan Song Kok (Chairman)
Mr Yuen Sou Wai
Mr Hee Theng Fong
Mr Phua Tin How

# DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## AUDIT COMMITTEE (CONTINUED)

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

- the scope and the results of internal audit procedures with the internal auditor;
- the audit plan of the Company's independent auditor and any recommendations on internal accounting controls arising from the statutory audit;
- the assistance given by the Company's management to the independent auditor; and
- the balance sheet 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.

The Audit Committee has recommended to the Board that the independent auditor, PricewaterhouseCoopers LLP, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company.

## INDEPENDENT AUDITOR

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept re-appointment.

On behalf of the directors

**TAY TIAN HOE RICHARD**
Director

**TAY TIANG GUAN**
Director

24 March 2017

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF YHI INTERNATIONAL LIMITED

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### OUR OPINION

In our opinion, the accompanying consolidated financial statements of YHI International Limited ("the Company") and its subsidiaries ("the Group") and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ("the Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 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.

*What we have audited*

The financial statements of the Company and the Group comprise:

- the consolidated income statement for the year ended 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated balance sheet of the Group as at 31 December 2016;
- the balance sheet of the Company as at 31 December 2016;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows of the Group for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

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

*Independence*

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.

### OUR AUDIT APPROACH

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the accompanying financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

*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 for the financial year ended 31 December 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| *Key Audit Matter* | *How our audit addressed the Key Audit Matter* |
|---|---|
| **Impairment assessment of property, plant and equipment ("PPE") in YHI Manufacturing (Shanghai) Co., Ltd**<br><br>YHI Manufacturing (Shanghai) Co., Ltd ("YHIMS"), a subsidiary of the Group, is in the business of manufacturing, distribution and export of alloy wheels. As at 31 December 2016, the net book value of PPE in YHIMS amount to $20,700,000 (Note 17). YHIMS stopped production on 30 December 2016 as disclosed in Note 31 of the financial statements.<br><br>PPE is required to be tested for impairment when indicators of impairment are identified. As production stopped for YHIMS, indicator of impairment exists for its PPE. Management performed an impairment analysis as follows:<br><br>a) For the plant and machineries, management determined its recoverable amount based on fair value assessed by an independent external valuer. We focused on this area as the valuation process involved significant judgement in estimating the replacement cost adjusted for remaining useful lives.<br><br>b) For the leasehold property, management referenced to the recent sale prices of comparable plots to derive the recoverable amount and compared that with the carrying value of the leasehold property. We focused on this area as significant judgement is used to estimate the comparable sale prices.<br><br>The significant estimations, assumptions and judgements and the results are disclosed in Note 17 to the financial statements. | **a) Plant and machineries:**<br><br>We assessed the valuer's competency and independence. We agreed the data provided to the valuer by management to internal management records.<br><br>We communicated with the valuer and challenged the valuation assumptions used. We, through our valuation specialist, corroborated the assumptions and estimations applied by the valuer on the replacement cost adjusted for remaining useful lives.<br><br>The valuer is qualified and possesses the relevant certificate to practice. We found that the valuation methodology used by the valuer was in line with generally accepted market practices, replacement cost applied were within the range of market data and adjustments for remaining useful lives to be appropriate.<br><br>**b) Leasehold property:**<br><br>We assessed the appropriateness of the underlying comparable transactions used, taking into account the nature, location and tenure of the property.<br><br>Based on the procedures performed, we found the assumptions and estimations used are within the range of market data. |

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF YHI INTERNATIONAL LIMITED

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

*Key Audit Matters* (Continued)

| | |
|---|---|
| **Allowance for doubtful debts**<br><br>As at 31 December 2016, the Group has trade receivables amounting to $92,225,000, net of allowances of $2,345,000.<br><br>Management judgement is required in assessing and determining the recoverability of trade receivables and adequacy of allowance made.<br><br>These judgement include estimating and evaluating expected future receipts from customers based on past payment trend, age of the debtors, knowledge of the customers' businesses and financial condition.<br><br>The key assumptions and estimation on allowance for doubtful debts and the Group's credit risk management are disclosed in Note 3(b) and 27(b) to the financial statements. | We evaluated management's assessment on the recoverability of the outstanding debts and the adequacy of allowance made based on trade receivables ageing analysis, collections subsequent to the end of the reporting period, past collection history and trend analysis and knowledge of the businesses, with focus on long outstanding debts and the debts which are past due but not impaired.<br><br>We found the judgement and assumptions used by management in determining the allowance for impairment of trade receivables to be supportable based on available evidence. |

## OTHER INFORMATION

Management is responsible for the other information. The other information comprises all the sections of the annual report, which we obtained prior to the date of this auditor's report, and excludes 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 and will 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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.

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- 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 audit 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.

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.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF YHI INTERNATIONAL LIMITED

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

The engagement partner on the audit resulting in this independent auditor's report is Tan Boon Chok.

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants

Singapore, 24 March 2017

# CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| Sales | 4 | **465,569** | 499,174 |
| Cost of sales | 5 | **(365,210)** | (392,202) |
| Gross profit | | **100,359** | 106,972 |
| Other gains | 4 | **3,441** | 6,091 |
| Expenses | | | |
| – Distribution | 5 | **(44,511)** | (48,422) |
| – Administrative | 5 | **(48,137)** | (45,932) |
| – Finance | 6 | **(4,297)** | (5,253) |
| Share of profit of an associated company | | **1,500** | 1,013 |
| Profit before income tax | | **8,355** | 14,469 |
| Income tax expense | 8 | **(3,897)** | (5,418) |
| **Net profit** | | **4,458** | 9,051 |
| **Profit attributable to:** | | | |
| Equity holders of the Company | | **3,694** | 8,250 |
| Non-controlling interests | | **764** | 801 |
| | | **4,458** | 9,051 |
| **Earnings per share attributable to the equity holders of the Company** | | | |
| – Basic | 9 | **1.26 cents** | 2.82 cents |
| – Diluted | | **1.26 cents** | 2.82 cents |

*The accompanying notes form an integral part of these financial statements.*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| **Profit for the year** | **4,458** | 9,051 |
| **Other comprehensive loss, net of tax:** | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| – Currency translation differences | **(3,262)** | (9,158) |
| **Total comprehensive income/(loss) for the year** | **1,196** | (107) |
| **Total comprehensive income/(loss) to:** | | |
| Equity holders of the Company | **254** | (1,389) |
| Non-controlling interests | **942** | 1,282 |
| | **1,196** | (107) |

*The accompanying notes form an integral part of these financial statements.*

# BALANCE SHEET – GROUP AND COMPANY

AS AT 31 DECEMBER 2016

| | Note | The Group 2016 $'000 | The Group 2015 $'000 | The Company 2016 $'000 | The Company 2015 $'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 10 | **51,470** | 52,271 | **4,285** | 2,739 |
| Trade and other receivables | 11 | **94,588** | 97,797 | **32,628** | 38,661 |
| Inventories | 12 | **112,937** | 126,299 | **–** | – |
| Other current assets | 13 | **13,414** | 11,310 | **9** | 10 |
| Derivative financial instruments | 14 | **136** | – | **–** | – |
| | | **272,545** | 287,677 | **36,922** | 41,410 |
| **Non-current assets** | | | | | |
| Transferable club memberships, at cost | | **227** | 227 | **–** | – |
| Investment in an associated company | 15 | **16,263** | 15,441 | **–** | – |
| Investments in subsidiaries | 16 | **–** | – | **100,122** | 100,122 |
| Property, plant and equipment | 17 | **105,878** | 115,187 | **158** | 228 |
| Intangible assets | 18 | **4,201** | 3,376 | **–** | – |
| Deferred income tax assets | 8(c) | **3,295** | 3,396 | **–** | – |
| | | **129,864** | 137,627 | **100,280** | 100,350 |
| **Total assets** | | **402,409** | 425,304 | **137,202** | 141,760 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 19 | **44,678** | 35,807 | **873** | 1,400 |
| Current income tax liabilities | 8(b) | **576** | 639 | **–** | 86 |
| Derivative financial instruments | 14 | **–** | 289 | **–** | 277 |
| Borrowings | 20 | **76,858** | 98,171 | **600** | 4,400 |
| | | **122,112** | 134,906 | **1,473** | 6,163 |
| **Non-current liabilities** | | | | | |
| Borrowings | 20 | **21,517** | 28,099 | **–** | 600 |
| Deferred income tax liabilities | 8(c) | **2,390** | 2,159 | **–** | – |
| Other non-current liabilities | | **321** | 311 | **–** | – |
| | | **24,228** | 30,569 | **–** | 600 |
| **Total liabilities** | | **146,340** | 165,475 | **1,473** | 6,763 |
| **NET ASSETS** | | **256,069** | 259,829 | **135,729** | 134,997 |
| **EQUITY** | | | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | | | |
| Share capital | 22 | **77,001** | 77,001 | **77,001** | 77,001 |
| Other reserves | 23 | **(19,911)** | (16,629) | **–** | – |
| Retained profits | 24 | **185,422** | 186,036 | **58,728** | 57,996 |
| | | **242,512** | 246,408 | **135,729** | 134,997 |
| **Non-controlling interests** | | **13,557** | 13,421 | **–** | – |
| **Total equity** | | **256,069** | 259,829 | **135,729** | 134,997 |

*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

| | Note | Share capital $'000 | Other reserves $'000 | Retained profits $'000 | Sub-total $'000 | Non-controlling interests $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|
| | | Attributable to equity holders of the Company | | | | | |
| **2016** | | | | | | | |
| **Beginning of financial year** | | **77,001** | **(16,629)** | **186,036** | **246,408** | **13,421** | **259,829** |
| Profit for the year | | – | – | 3,694 | 3,694 | 764 | 4,458 |
| Other comprehensive (loss)/income for the year | | – | (3,440) | – | (3,440) | 178 | (3,262) |
| **Total comprehensive (loss)/income for the year** | | **–** | **(3,440)** | **3,694** | **254** | **942** | **1,196** |
| Dividends relating to 2015 paid | 25 | – | – | (4,150) | (4,150) | (806) | (4,956) |
| Transfer from retained profits to other reserves | 23(b)(i) | – | 158 | (158) | – | – | – |
| **End of financial year** | | **77,001** | **(19,911)** | **185,422** | **242,512** | **13,557** | **256,069** |
| **2015** | | | | | | | |
| **Beginning of financial year** | | **77,001** | **(7,117)** | **181,421** | **251,305** | **12,826** | **264,131** |
| Profit for the year | | – | – | 8,250 | 8,250 | 801 | 9,051 |
| Other comprehensive (loss)/income for the year | | – | (9,639) | – | (9,639) | 481 | (9,158) |
| **Total comprehensive (loss)/income for the year** | | **–** | **(9,639)** | **8,250** | **(1,389)** | **1,282** | **(107)** |
| Dividends relating to 2014 paid | 25 | – | – | (3,508) | (3,508) | (687) | (4,195) |
| Transfer from retained profits to other reserves | 23(b)(i) | – | 127 | (127) | – | – | – |
| **End of financial year** | | **77,001** | **(16,629)** | **186,036** | **246,408** | **13,421** | **259,829** |

*The accompanying notes form an integral part of these financial statements.*

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net profit | | **4,458** | 9,051 |
| Adjustments for: | | | |
| – Income tax expense | | **3,897** | 5,418 |
| – Depreciation of property, plant and equipment | | **13,332** | 14,735 |
| – Amortisation of intangible assets | | **62** | 62 |
| – Gain on disposal of property, plant and equipment | | **(289)** | (2,877) |
| – Interest expense | | **4,297** | 5,253 |
| – Interest income | | **(288)** | (350) |
| – Share of profit of an associated company | | **(1,500)** | (1,013) |
| – Fair value gain on derivative financial instruments | | **(425)** | (134) |
| – Gain on disposal of club membership | | **–** | (3) |
| – Unrealised currency translation differences | | **779** | (511) |
| Operating cash flow before working capital changes | | **24,323** | 29,631 |
| Changes in working capital | | | |
| – Inventories | | **13,700** | 1,445 |
| – Trade and other receivables | | **2,789** | (6,875) |
| – Other current assets | | **(2,104)** | 451 |
| – Trade and other payables | | **9,008** | (8,626) |
| Cash generated from operations | | **47,716** | 16,026 |
| Interest received | | **288** | 350 |
| Income tax paid | | **(3,706)** | (4,733) |
| **Net cash provided by operating activities** | | **44,298** | 11,643 |
| **Cash flows from investing activities** | | | |
| Dividends received | | **270** | 224 |
| Proceeds from sale of property, plant and equipment | | **1,285** | 11,004 |
| Purchase of property, plant and equipment | | **(7,121)** | (12,205) |
| Purchase of intangible assets | | **(882)** | – |
| Proceed from disposal of transferable club membership | | **–** | 6 |
| Purchase of transferable club membership | | **–** | (84) |
| **Net cash used in investing activities** | | **(6,448)** | (1,055) |
| **Cash flows from financing activities** | | | |
| Dividends paid to equity holders of the Company | | **(4,150)** | (3,508) |
| Dividends paid to non-controlling interest | | **(806)** | (687) |
| Interest paid | | **(4,297)** | (5,462) |
| Proceeds from borrowings | | **23,822** | 20,611 |
| Repayments of borrowings | | **(52,200)** | (21,280) |
| Repayments of finance lease liabilities | | **(694)** | (1,902) |
| **Net cash used in financing activities** | | **(38,325)** | (12,228) |
| **Net decrease in cash and cash equivalents** | | **(475)** | (1,640) |
| Cash and cash equivalents at beginning of the financial year | | **51,734** | 55,543 |
| Effects of currency translation on cash and cash equivalents | | **(873)** | (2,169) |
| **Cash and cash equivalents at end of the financial year** | 10 | **50,386** | 51,734 |

*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

YHI International Limited (the "Company") is listed on the Singapore Exchange and incorporated and domiciled in Singapore. The address of its registered office is No. 2 Pandan Road, Singapore 609254.

The principal activity of the Company is that of an investment holding company. The principal activities of its subsidiaries are set out in Note 16 to the financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

***Interpretations and amendments to published standards effective in 2016***

On 1 January 2016, the Group adopted the new or amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application for the financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the accounting policies of the Group and Company and had no material effect on the amounts reported for the current or prior financial years.

### 2.2 Revenue recognition

Sales comprise 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. Sales are 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:

**(a) Sale of goods – automotive and industrial products and alloy wheels**

Revenue from these sales is recognised when the Group has delivered the products to locations specified by its customers and the customers have accepted the products in accordance with the sales contract.

**(b) Interest income**

Interest income is recognised using the effective interest method.

**(c) Dividend income**

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

**(d) Rental income**

Rental income from operating leases (net of any incentives given to the lessees) is recognised on a straight-line basis over the lease term.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Group accounting

#### (a) Subsidiaries

##### *(i) Consolidation*

Subsidiaries are 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 its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on that 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 comprise the portion of a subsidiary's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet. 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.

##### *(ii) Acquisitions*

The acquisition method of accounting is used to account for business combinations entered into 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 any contingent consideration arrangement and any pre-existing equity interest in the subsidiary measured at their fair values at the acquisition date.

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 (a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (b) fair value of the identifiable net assets acquired, is recorded as goodwill. Please refer to the paragraph "Intangible assets – Goodwill on acquisitions" for the subsequent accounting policy on goodwill.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Group accounting (Continued)

#### (a) Subsidiaries (Continued)

##### *(iii) Disposals*

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 profits 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 and associated company" for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

#### (b) 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 transactions with equity owners of the Company. 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.

#### (c) Associated company

An associated company is an entity over which the Group has significant influence, but not control, generally accompanied by a shareholding giving rise to voting rights of 20% and above but not exceeding 50%.

Investment in an associated company is accounted for in the consolidated financial statements using the equity method of accounting less impairment losses, if any.

##### *(i) Acquisitions*

Investment in an associated company is initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Goodwill on associated company represents the excess of the cost of acquisition of the associated company over the Group's share of the fair value of the identifiable net assets of the associated company and is included in the carrying amount of the investment.

##### *(ii) Equity method of accounting*

In applying the equity method of accounting, the Group's share of its associated company's post-acquisition profits or losses are recognised in profit or loss and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. These post-acquisition movements and distributions received from the associated company are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals to or exceeds its interest in the associated company, the Group does not recognise further losses, unless it has legal or constructive obligations to make, or has made, payments on behalf of the associated company. If the associated company subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Group accounting (Continued)

#### (c) Associated company (Continued)

##### *(ii) Equity method of accounting* (Continued)

Unrealised gains on transactions between the Group and its associated company are eliminated to the extent of the Group's interest in the associated company. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. The accounting policies of the associated company are changed where necessary to ensure consistency with the accounting policies adopted by the Group.

##### *(iii) Disposals*

Investment in an associated company is derecognised when the Group loses significant influence. If the retained equity interest in the former associated company is a financial asset, the retained equity interest is measured at fair value. The difference between the carrying amount of the retained interest at the date when significant influence is lost, and its fair value and any proceeds on partial disposal, is recognised in profit or loss.

### 2.4 Property, plant and equipment

#### (a) Measurement

##### *(i) 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.

##### *(ii) Components of costs*

The cost of an item of property, 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 also includes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (refer to Note 2.6 on borrowing costs).

#### (b) Depreciation

Freehold land and construction-in-progress are not depreciated. Depreciation on other items of 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 |
|---|---|
| Buildings on freehold land | 50 years |
| Leasehold properties | 3 to 50 years or over the lease term, whichever is shorter |
| Office equipment, plant and machinery | 2 to 10 years |
| Motor vehicles | 3 to 7 years |
| Renovation | 5 to 10 years |
| Computers | 2 to 5 years |
| Furniture and fittings | 2 to 10 years |

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 Property, plant and equipment (Continued)

#### (b) Depreciation (Continued)

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

#### (c) Subsequent expenditure

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. All other repair and maintenance expenses are recognised in profit or loss when incurred.

#### (d) Disposal

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 within “other gains”.

### 2.5 Intangible assets

#### (a) Goodwill on acquisitions

Goodwill on acquisitions of subsidiaries and businesses on or after 1 January 2010 represents the excess of (i) the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over (ii) the fair value of the identifiable net assets acquired.

Goodwill on acquisition of subsidiaries and businesses prior to 1 January 2010 and on acquisition of associated company represents the excess of the cost of the acquisition over the fair value of the Group’s share of the identifiable net assets acquired.

Goodwill on subsidiaries is recognised separately as intangible assets and carried at cost less accumulated impairment losses.

Goodwill on associated company is included in the carrying amount of the investment.

Gains and losses on the disposal of subsidiaries and associated company include the carrying amount of goodwill relating to the entity sold, except for goodwill arising from acquisitions prior to 1 January 2001. Such goodwill was adjusted against retained profits in the year of acquisition and is not recognised in profit or loss on disposal.

#### (b) Acquired trademarks

Trademarks acquired are initially recognised at cost and are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the straight-line method over 30 years.

The amortisation period and amortisation method of trademarks are reviewed at least at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.5 Intangible assets (Continued)

#### (c) Acquired computer software licences

Acquired computer software licences are initially capitalised at cost which includes the purchase prices (net of any discounts and rebates) and other directly attributable costs of preparing the asset for its intended use. Direct expenditures including employee costs, which enhance or extend the performance of computer software beyond its specifications and which can be reliably measured, are added to the original cost of the software. Costs associated with maintaining the computer software are expensed off when incurred.

Computer software licences are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the straight-line method over their estimated useful lives of three to five years.

The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at least at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

### 2.6 Borrowing costs

Borrowing costs are recognised in profit or loss using the effective interest method except for those costs that are directly attributable to the construction or development of qualifying assets. This includes those costs on borrowings acquired specifically for the construction or development of qualifying assets, as well as those in relation to general borrowings used to finance the construction or development of qualifying assets.

Borrowing costs on general borrowings are capitalised by applying a capitalisation rate to construction or development expenditures that are financed by general borrowings.

### 2.7 Investments in subsidiaries and associated company

Investments in subsidiaries and associated company are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of such investments, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

### 2.8 Impairment of non-financial assets

#### (a) Goodwill

Goodwill recognised separately as an intangible asset is tested for impairment annually and whenever there is indication that the goodwill may be impaired.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating-units ("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 as an expense and is not reversed in a subsequent period.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.8 Impairment of non-financial assets (Continued)

#### (b) Intangible assets<br>Property, plant and equipment<br>Investments in subsidiaries and associated company

Intangible assets, property, plant and equipment and investments in subsidiaries and associated company are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell 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 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.

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 this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of 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.

### 2.9 Financial assets

#### (a) 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.

##### *(i) 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 value through profit or loss at inception. A financial asset is classified as held for trading if it is 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 Group investment strategy. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are presented as current assets if they are either held for trading or are expected to be realised within 12 months after the balance sheet date.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.9 Financial assets (Continued)

#### (a) Classification (Continued)

##### *(ii) 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 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are presented as "trade and other receivables" (Note 11) and "cash and cash equivalents" (Note 10) on the balance sheet.

#### (b) 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 sale proceeds is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is reclassified to profit or loss.

#### (c) Initial measurement

Financial assets are initially recognised at fair value plus transaction costs except for derivatives, which are recognised at fair value (see Note 2.13). Transaction costs for financial assets at fair value through profit or loss are recognised immediately as expenses.

#### (d) Subsequent measurement

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value 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 changes arise.

#### (e) Impairment

The Group assesses at each balance sheet 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.

***Loans and receivables***

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are objective evidence that these financial assets are 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.10 Financial guarantees

The Company has issued corporate guarantees to banks for bank borrowings of its subsidiaries. These guarantees are financial guarantees as they require the Company to reimburse the banks if the subsidiaries fail to make principal or interest payments when due in accordance with the terms of their borrowings.

Financial guarantees are initially recognised at their fair values plus transaction costs in the Company's balance sheet.

Financial guarantees are subsequently amortised to profit or loss over the period of the subsidiaries' borrowings, unless it is probable that the Company will reimburse the banks for an amount higher than the unamortised amount. In this case, the financial guarantees shall be carried at the expected amount payable to the banks in the Company's balance sheet.

Intra-group transactions are eliminated on consolidation.

### 2.11 Borrowings

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.

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date, in which case they are presented as non-current liabilities.

### 2.12 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.

### 2.13 Derivative financial instruments

A derivative financial instrument is initially recognised at its fair value on the date the contract is entered into and is subsequently carried at its fair value.

Fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognised in profit or loss when the changes arise.

### 2.14 Fair value estimation of financial assets and liabilities

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 based on market conditions that are existing at each balance sheet date. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as discounted cash flow analysis, are also used to determine the fair values of the financial instruments.

The fair value of currency swaps are determined using actively quoted forward exchange rates.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.15 Leases

#### (a) When the Group is the lessee:

The Group leases certain property, plant and equipment from non-related parties.

##### *(i) Lessee – Finance leases*

Leases where the Group assumes substantially all risks and rewards incidental to ownership of the leased assets are classified as finance leases.

The leased assets and the corresponding lease liabilities (net of finance charges) under finance leases are recognised on the balance sheet as property, plant and equipment and borrowings 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.

##### *(ii) Lessee – Operating leases*

Leases where substantially all risks and rewards incidental to 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.

#### (b) When the Group is the lessor:

The Group leases assets under operating leases to non-related parties.

##### *Lessor – Operating leases*

Leases where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessees) is recognised in profit or loss on a straight-line basis over the lease term.

Initial direct costs incurred by the Group in negotiating and arranging operating leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease income.

### 2.16 Inventories

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.17 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 balance sheet 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.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries and associated company, 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.

A deferred income tax asset 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.

Deferred income tax is measured:

(i) at 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 balance sheet date; and

(ii) based on the tax consequence that will follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

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

The Group accounts for investment tax credits (for example, productivity and innovative credit) similar to accounting for other tax credits where deferred tax asset is recognised for unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax credit can be utilised.

### 2.18 Provisions

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, 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 employee termination payments. Provisions are not recognised for future operating losses.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.19 Employee compensation

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

#### (a) 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 ("CPF") on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

#### (b) Employee leave entitlement

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

#### (c) Other long term benefits

The measurement of these benefits follow that of post-employment defined benefits except that remeasurement are not recognised in other comprehensive income.

#### (d) 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 entity recognises costs for a restructuring that is within the scope of FRS 37 (Note 2.18) and involves the payment of termination benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

### 2.20 Currency translation

#### (a) 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 ("functional currency"). The financial statements are presented in Singapore Dollars, which is the functional currency of the Company.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.20 Currency translation (Continued)

#### (b) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. 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 balance sheet date are recognised in profit or loss. However, in the consolidated financial statements, currency translation differences arising from borrowings in foreign currencies and other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations, are recognised in other comprehensive income and accumulated in the currency translation reserve.

When a foreign operation is disposed of or any loan forming part of the net investment of the foreign operation is repaid, a proportionate share of the accumulated currency translation differences is reclassified to profit or loss, as part of the gain or loss on disposal.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement within "finance expenses". All other foreign exchange gains and losses impacting profit or loss are presented in the income statement within "administrative expenses".

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

#### (c) 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:

(i) assets and liabilities are translated at the closing exchange rates at the reporting date;

(ii) income and expenses are translated at average exchange rates (unless the 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

(iii) all resulting currency translation differences are recognised in other comprehensive income and accumulated in the currency translation reserve. These currency translation differences are reclassified to profit or loss on disposal or partial disposal of the entity giving rise to such reserve.

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.

### 2.21 Segment reporting

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.22 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits with financial institutions which are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are presented as current borrowings on the balance sheet.

### 2.23 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

### 2.24 Dividends to Company's shareholders

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

## 3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### (a) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever there is an indication that these assets may be impaired. The Group considers the guidance of FRS 36 in assessing whether there is any indication that an item of property, plant and equipment may be impaired. If any such indication exists, the recoverable amount of the property, plant and equipment is estimated to ascertain the amount of impairment loss. The recoverable amount is defined as the higher of the fair value less cost to sell and value-in-use.

During the financial year ended 31 December 2016, property, plant and equipment of YHI Manufacturing (Shanghai) Co., Ltd ("YHIMS"), a subsidiary of the Group, amounting to $20,700,000 (Note 17) was subjected to impairment test. Indicator of impairment exists as YHIMS's production had stopped on 30 December 2016 (Note 31). The recoverable amount of these assets were determined based on fair value less cost to sell. These calculations require the use of estimates, assumptions and judgements (Note 17). A reasonably possible change of the following magnitude (on a standalone basis) on the key estimates, assumptions and judgements will not result in a reduction in the carrying amount of the property, plant and equipment as at 31 December 2016:

– Reduction of 10% in the pre-adjusted replacement cost;

– Reduction of 10% in the estimate of useful lives of the plant and machineries; and

– Reduction of 10% in the sale prices of comparable plots for the leasehold property.

### (b) Impairment of loans and receivables

Management reviews its loans and receivables for objective evidence of impairment at least quarterly. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired. In determining this, management assesses and applies judgements 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 adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

Where there is objective evidence of impairment, management applies judgements as to whether an impairment loss should be recorded as an expense. The amount of trade receivables from non-related parties past due but not impaired is $13,296,000 (2015: $16,544,000) [Note 27(b)(ii)].

## 3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

### (c) Estimated impairment of non-financial assets

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

The recoverable amount of goodwill has been determined based on the value-in-use of cash-generating units. These calculations require the use of estimates and assumptions (Note 18). Reasonably possible changes in the estimates and assumptions will not result in any significant adjustment to goodwill.

## 4. REVENUE AND OTHER GAINS

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Sale of goods | | |
| – Automotive and industrial products | **323,831** | 347,649 |
| – Alloy wheels | **141,738** | 151,525 |
| **Total sales** | **465,569** | 499,174 |
| Other gains: | | |
| – Rental income | **885** | 675 |
| – Gain on disposal of property, plant and equipment | **289** | 2,877 |
| – Interest income from banks | **288** | 350 |
| – Fair value gain on derivative financial instruments (Note 14) | **425** | 134 |
| – Other | **1,554** | 2,055 |
| **Total other gains** | **3,441** | 6,091 |
| | **469,010** | 505,265 |

## 5. EXPENSES BY NATURE

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Amortisation of intangible assets [Note 18(b)] | **62** | 62 |
| Depreciation of property, plant and equipment (Note 17) | **13,332** | 14,735 |
| Changes in inventories of raw materials, work-in-progress and finished goods | **(13,363)** | (6,024) |
| Purchases of raw materials, finished goods and consumables | **347,000** | 364,753 |
| Write-down of inventories | **1,996** | 1,682 |
| Carriage outwards | **8,567** | 9,759 |
| Transportation and travelling | **4,686** | 5,677 |
| Advertising and promotion | **4,234** | 5,869 |
| Commission charges | **4,355** | 4,061 |
| Employee compensation (Note 7) | **61,134** | 61,017 |
| Directors' fees | **292** | 405 |
| Staff termination arising from restructuring (Note 31) | **3,142** | – |
| Repair and maintenance | **1,332** | 1,190 |
| Rental on operating leases for premises | **7,022** | 7,619 |
| Research expense | **2,547** | 2,662 |
| Currency translation (gain)/loss – net | **(173)** | 8 |
| Others | **11,693** | 13,081 |
| Total cost of sales, distribution and administrative expenses | **457,858** | 486,556 |

## 6. FINANCE EXPENSES

| | Group 2016 $'000 | Group 2015 $'000 |
|---|---|---|
| Interest expense: | | |
| – Bank loans | **3,436** | 3,617 |
| – Bank overdrafts | **130** | 195 |
| – Trust receipts | **690** | 1,280 |
| – Finance leases | **41** | 161 |
| | **4,297** | 5,253 |

## 7. EMPLOYEE COMPENSATION

| | Group 2016 $'000 | Group 2015 $'000 |
|---|---|---|
| Wages and salaries | **54,429** | 53,923 |
| Termination benefits | **18** | 441 |
| Other long-term benefits | **(23)** | 63 |
| Employer's contribution to defined contribution plans including Central Provident Fund | **6,710** | 6,590 |
| | **61,134** | 61,017 |

## 8. INCOME TAX

### (a) Income tax expense

| | Group 2016 $'000 | Group 2015 $'000 |
|---|---|---|
| Tax expense attributable to profit is made up of: | | |
| Current income tax | | |
| – Singapore | **86** | 311 |
| – Foreign | **3,496** | 3,762 |
| | **3,582** | 4,073 |
| Deferred income tax [Note 8(c)] | **529** | 415 |
| | **4,111** | 4,488 |
| Under/(over) provision in previous financial years | | |
| – Current income tax [Note 8(b)] | **46** | 99 |
| – Deferred income tax [Note 8(c)] | **(260)** | 831 |
| | **3,897** | 5,418 |

## 8. INCOME TAX (CONTINUED)

### (a) Income tax expense (Continued)

The tax on the Group's profit differs from the theoretical amount that would arise using the Singapore standard rate of income tax as follows:

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Profit before income tax | **8,355** | 14,469 |
| Share of profit of an associated company, net of tax | **(1,500)** | (1,013) |
| Profit before tax and share of profit of an associated company | **6,855** | 13,456 |
| Tax calculated at a tax rate of 17% (2015: 17%) | **1,165** | 2,288 |
| Effects of: | | |
| – Singapore statutory stepped income exemption | **(26)** | (26) |
| – Effects of different tax rates in other countries | **376** | 899 |
| – Withholding tax | **100** | 97 |
| – Expenses not deductible for tax purposes | **848** | 2,396 |
| – Utilisation of previously unrecognised tax losses | **(586)** | (363) |
| – Income not subject to tax | **(358)** | (1,036) |
| – Tax losses for which no deferred income tax asset was recognised | **3,481** | 1,225 |
| – Effects of changes in tax rate | **22** | (27) |
| – Tax incentive | **(1,041)** | (1,036) |
| – Deferred tax liability on an associated company's unremitted profits | **158** | – |
| – Others | **(28)** | 71 |
| – Under provision of income tax in prior years | **46** | 99 |
| – (Over)/under provision of deferred income tax in prior years | **(260)** | 831 |
| Tax charge | **3,897** | 5,418 |

### (b) Movements in current income tax liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Beginning of financial year | **639** | 1,327 | **86** | – |
| Currency translation differences | **15** | (127) | **–** | – |
| Income tax paid | **(3,706)** | (4,733) | **(125)** | (56) |
| Tax expense on profit from the current financial year | **3,582** | 4,073 | **33** | 35 |
| Under provision in previous financial years [Note 8(a)] | **46** | 99 | **6** | 107 |
| End of financial year | **576** | 639 | **–** | 86 |

## 8. INCOME TAX (CONTINUED)

### (c) Deferred income taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the balance sheet as follows:

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| **Deferred income tax assets:** | | |
| – To be recovered within one year | **(1,414)** | (429) |
| – To be recovered after one year | **(1,881)** | (2,967) |
| | **(3,295)** | (3,396) |
| **Deferred income tax liabilities:** | | |
| – To be settled within one year | **230** | 822 |
| – To be settled after one year | **2,160** | 1,337 |
| | **2,390** | 2,159 |

Movement in deferred income tax account is as follows:

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Beginning of financial year | **(1,237)** | (2,313) |
| Currency translation differences | **63** | (170) |
| Charged to income statement [Note 8(a)] | **269** | 1,246 |
| End of financial year | **(905)** | (1,237) |

The movement in deferred income tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) is as follows:

**Group**

***Deferred income tax liabilities***

| | Accelerated tax depreciation | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Beginning of financial year | **2,159** | 2,276 |
| Currency translation differences | **(3)** | (154) |
| Charged to income statement | **234** | 37 |
| End of financial year | **2,390** | 2,159 |

## 8. INCOME TAX (CONTINUED)

### (c) Deferred income taxes (Continued)

***Deferred income tax assets***

| | Provisions $'000 | Excess of tax written-down value over net book value $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|
| **2016** | | | | |
| Beginning of financial year | **(2,195)** | **(953)** | **(248)** | **(3,396)** |
| Currency translation differences | **(7)** | **74** | **(1)** | **66** |
| (Credited)/charged to income statement | **(260)** | **286** | **9** | **35** |
| End of financial year | **(2,462)** | **(593)** | **(240)** | **(3,295)** |
| **2015** | | | | |
| Beginning of financial year | (2,351) | (1,662) | (576) | (4,589) |
| Currency translation differences | 36 | (30) | (22) | (16) |
| Charged to income statement | 120 | 739 | 350 | 1,209 |
| End of financial year | (2,195) | (953) | (248) | (3,396) |

The Group has unrecognised tax losses of $39,665,000 (2015: $29,488,000) and unrecognised tax credit of $33,000 (2015: Nil) at the balance sheet date which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirement by those companies with unrecognised tax losses in their respective countries of incorporation. The tax losses have no expiry date except for amounts of $35,057,000 (2015: $23,348,000) and $599,000 (2015: $154,000) which will expire between 2017 to 2021 and 2025 to 2026 (2015: 2016 to 2020 and 2025) respectively.

The cumulative retained earnings of $25,126,000 (2015: $24,022,000) for which deferred tax liabilities arising on temporary differences associated with overseas investments in subsidiaries have not been recognised as there are no current intention of remitting the retained earnings of these subsidiaries to the holding company in the foreseeable future.

**(d)** There is no tax (charge)/credit relating to each component of other comprehensive income.

## 9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| Net profit attributable to equity holders of the Company ($'000) | **3,694** | 8,250 |
| Weighted average number of ordinary shares in issue after share consolidation exercise (Note 22) for basic earnings per share ('000) [Note (a)] | **292,296** | 292,296 |
| Basic earnings per share | **1.26 cents** | 2.82 cents |

Diluted earnings per share is the same as basic earnings per share. There are no dilutive potential ordinary shares as there are no outstanding share options at the beginning and end of the financial year.

(a) The weighted average number of ordinary shares used for the calculation of earnings per share for financial year 2015 had been adjusted for the effect of the share consolidation.

## 10. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Cash at bank and on hand | **39,138** | 47,878 | **4,285** | 2,739 |
| Short-term bank deposits | **12,332** | 4,393 | **–** | – |
| | **51,470** | 52,271 | **4,285** | 2,739 |

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

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Cash and bank balances (as above) | **51,470** | 52,271 |
| Less: Bank overdrafts (Note 20) | **(1,084)** | (537) |
| Cash and cash equivalents per consolidated statement of cash flows | **50,386** | 51,734 |

## 11. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Trade receivables | | | | |
| – Non-related parties | **94,494** | 98,073 | **–** | – |
| – An associated company | **76** | 127 | **–** | – |
| | **94,570** | 98,200 | **–** | – |
| Less: Allowance for impairment of receivables – non-related parties | **(2,345)** | (2,969) | **–** | – |
| Trade receivables – net | **92,225** | 95,231 | **–** | – |
| Due from subsidiaries (non-trade) [Note (a)] | **–** | – | **32,628** | 38,661 |
| Other receivables | **2,363** | 2,566 | **–** | – |
| | **94,588** | 97,797 | **32,628** | 38,661 |

(a) The non-trade amounts due from subsidiaries are unsecured, interest-free and are repayable on demand.

## 12. INVENTORIES

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Materials and supplies | **7,901** | 6,187 |
| Work-in-progress | **3,174** | 3,016 |
| Finished goods | **101,862** | 117,096 |
| | **112,937** | 126,299 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 12. INVENTORIES (CONTINUED)

The cost of inventories recognised as an expense and included in "cost of sales" amounted to $333,637,000 (2015: $358,729,000).

The Group has written down inventories amounting to $1,996,000 (2015: $1,682,000) and the amount has been included in "cost of sales".

## 13. OTHER CURRENT ASSETS

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Prepayments | **11,267** | 8,695 | **9** | 10 |
| Deposits | **2,147** | 2,615 | **–** | – |
| | **13,414** | 11,310 | **9** | 10 |

## 14. DERIVATIVE FINANCIAL INSTRUMENTS

| | Contract notional amount | Group Fair value | |
|---|---|---|---|
| | | Asset | Liability |
| | $'000 | $'000 | $'000 |
| **2016** | | | |
| *Non-hedging instruments* | | | |
| – Currency forwards | **9,792** | **136** | – |
| Less: Current portion | | **(136)** | – |
| Non-current portion | | **–** | – |
| **2015** | | | |
| *Non-hedging instruments* | | | |
| – Cross-currency swap | 2,000 | – | 277 |
| – Currency forwards | 4,700 | – | 12 |
| Less: Current portion | | – | (289) |
| Non-current portion | | – | – |

| | Contract notional amount | Company | |
|---|---|---|---|
| **2016** | | | |
| *Non-hedging instruments* | | | |
| – Cross-currency swap | | **–** | **–** |
| Less: Current portion | | **–** | **–** |
| Non-current portion | | **–** | **–** |
| **2015** | | | |
| *Non-hedging instruments* | | | |
| – Cross-currency swap | 2,000 | – | 277 |
| Less: Current portion | | – | (277) |
| Non-current portion | | – | – |

The swap is a derivative financial instrument which is marked-to-market at each balance sheet date. As at 31 December 2016, a fair value gain of $425,000 (2015: gain of $134,000) (Note 4), has been recognised in profit and loss.

## 15. INVESTMENT IN AN ASSOCIATED COMPANY

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Carrying value of Group's investment in an associated company | **16,263** | 15,441 |

Set out below is the associated company of the Group as at 31 December 2016, which, in the opinion of the directors, is material to the Group. The associated company as listed below have share capital consisting solely of ordinary shares, which is held directly by the Group; the country of incorporation is also their principal place of business.

| Name | Principal activities | Country of business/ incorporation | Effective equity holding 2016 % | 2015 % |
|---|---|---|---|---|
| *Held by a subsidiary:* | | | | |
| O.Z. S.p.A* | Investment holding, manufacturer, importer, exporter and distributor of alloy wheels | Italy | **35.51** | 35.51 |

* Audited by Deloitte and Touche, Italy.

There are no contingent liabilities relating to the Group's interest in the associated company.

Set out below are the summarised financial information for O.Z. S.p.A.

**Summarised balance sheet**

| | **2016** | 2015 |
|---|---|---|
| | **$'000** | $'000 |
| Current assets | **45,957** | 36,829 |
| Current liabilities | **(21,451)** | (14,609) |
| Non-current assets | **27,010** | 27,418 |
| Non-current liabilities | **(5,718)** | (6,154) |
| **Net assets** | **45,798** | 43,484 |

**Summarised statement of comprehensive income**

| | **2016** | 2015 |
|---|---|---|
| | **$'000** | $'000 |
| Revenue | **79,002** | 69,687 |
| Expenses | | |
| Includes: | | |
| – Depreciation and amortisation | **(3,335)** | (2,864) |
| – Interest expense | **(98)** | (145) |
| **Profit before income tax** | **6,418** | 4,268 |
| Income tax expense | **(2,194)** | (1,415) |
| **Profit for the year and total comprehensive income** | **4,224** | 2,853 |
| **Dividends received from an associated company** | **270** | **224** |

## 15. INVESTMENT IN AN ASSOCIATED COMPANY (CONTINUED)

The information above reflects the amounts presented in the financial statements of the associated company (and not the Group's share of those amounts), adjusted for fair value adjustments made at the time of acquisition.

**Reconciliation of summarised financial information**

Reconciliation of the summarised financial information presented to the carrying amount of the Group's interest in associated company.

| | **2016** | 2015 |
|---|---|---|
| | **$'000** | $'000 |
| **Net assets** | | |
| Beginning of financial year | **43,484** | 43,898 |
| Profit for the year | **4,224** | 2,853 |
| Dividends paid during the year | **(760)** | (631) |
| Foreign exchange differences | **(1,150)** | (2,636) |
| End of financial year | **45,798** | 43,484 |
| Interest in an associated company | **16,263** | 15,441 |
| **Carrying value of Group's interest in an associated company** | **16,263** | 15,441 |

## 16. INVESTMENTS IN SUBSIDIARIES

| | **Company** | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| *Equity investment at cost* | | |
| Beginning and end of financial year | **100,122** | 100,122 |

## 16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The Group has the following subsidiaries as at 31 December 2016 and 2015:

| | Name of companies | Principal activities | Country of business/ incorporation | Proportion of ordinary shares directly held by parent | | Proportion of ordinary shares held by the Group | | Proportion of ordinary shares held by non-controlling interest | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | | | | **%** | % | **%** | % | **%** | % |
| *Held by the Company:* | | | | | | | | | |
| (a) | YHI Manufacturing (Singapore) Pte Ltd | Investment holding, importer, exporter and distributor of alloy wheels and related goods | Singapore | **100** | 100 | **100** | 100 | **–** | – |
| (a) | YHI Corporation (Singapore) Pte Ltd | Importer, exporter and distributor of tyres, alloy wheels and related goods and industrial batteries | Singapore | **100** | 100 | **100** | 100 | **–** | – |
| (b) | YHI (Malaysia) Sdn Bhd | Importer and distributor of tyres, alloy wheels and related goods and industrial batteries | Malaysia | **100** | 100 | **100** | 100 | **–** | – |
| (c) | YHI (China) Strategy Company Limited | Investment holding, trading of golf car accessories and related goods | Hong Kong | **100** | 100 | **100** | 100 | **–** | – |
| (c) | YHI (Hong Kong) Co., Limited | Importer, exporter and distributor of tyres, alloy wheels and related goods | Hong Kong | **100** | 100 | **100** | 100 | **–** | – |
| (d) | YHI International (Taiwan) Co., Ltd. | Manufacturing, distribution and export of alloy wheels | Taiwan | **100** | 100 | **100** | 100 | **–** | – |
| (e) | YHI (Australia) Pty Limited | Importer and distributor of tyres, alloy wheels and related goods | Australia | **80** | 80 | **80** | 80 | **20** | 20 |
| (f) | YHI (New Zealand) Limited | Importer and distributor of tyres, alloy wheels and related goods | New Zealand | **70** | 70 | **70** | 70 | **30** | 30 |
| (e) | YHI Power Pty Limited | Importer and distributor of industrial batteries | Australia | **80** | 80 | **80** | 80 | **20** | 20 |

## 16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

| | Name of companies | Principal activities | Country of business/ incorporation | Proportion of ordinary shares directly held by parent | | Proportion of ordinary shares held by the Group | | Proportion of ordinary shares held by non-controlling interest | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | **2016 %** | 2015 % | **2016 %** | 2015 % | **2016 %** | 2015 % |
| | *Held by the subsidiaries* | | | | | | | | |
| (g), (h) | YHI Manufacturing (Shanghai) Co., Ltd | Manufacturing, distribution and export of alloy wheels | People's Republic of China | **–** | – | **100** | 100 | **–** | – |
| (g) | YHI Precision Moulding (Shanghai) Co., Ltd* | Manufacturing and supply of alloy wheels moulds | People's Republic of China | **–** | – | **100** | 100 | **–** | – |
| (g), (h) | YHI Advanti Manufacturing (Suzhou) Co., Ltd | Manufacturing, distribution and export of alloy wheels | People's Republic of China | **–** | – | **100** | 100 | **–** | – |
| (b) | YHI Manufacturing (Malaysia) Sdn Bhd | Manufacturing, distribution and export of alloy wheels | Malaysia | **–** | – | **100** | 100 | **–** | – |
| (a) | YHI (America) Pte Ltd | Investment holding | Singapore | **–** | – | **100** | 100 | **–** | – |
| (m) | Pan-Mar Corporation D/B/A Konig (American) | Importer, exporter and distributor of tyres, alloy wheels and related goods | United States of America | **–** | – | **95** | 95 | **5** | 5 |
| (i) | YHI Corporation Japan Co., Ltd | Importer, exporter and distributor of alloy wheels and related goods | Japan | **–** | – | **90** | 90 | **10** | 10 |
| (j) | YHI Corporation (Thailand) Co., Ltd | Distribution of tyres, alloy wheels and related goods | Thailand | **–** | – | **49** | 49 | **51** | 51 |
| (b) | Evo-Trend Corporation (Malaysia) Sdn Bhd | Distribution of tyres, alloy wheels and related goods | Malaysia | **–** | – | **70** | 70 | **30** | 30 |

## 16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

| | Name of companies | Principal activities | Country of business/ incorporation | Proportion of ordinary shares directly held by parent | | Proportion of ordinary shares held by the Group | | Proportion of ordinary shares held by non-controlling interest | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | | | | **%** | % | **%** | % | **%** | % |
| *Held by the subsidiaries (Continued)* | | | | | | | | | |
| (k) | YHI Corporation (Guangzhou) Co., Ltd | Distribution of tyres, alloy wheels and related goods | People's Republic of China | **–** | – | **100** | 100 | **–** | – |
| (l) | YHI (Canada) Inc.* | Importer, exporter and distributor of tyres, alloy wheels and related goods | Canada | **–** | – | **100** | 100 | **–** | – |
| (m) | Advanti Racing USA, LLC | Importer, exporter and distributor of tyres, alloy wheels and related goods | United States of America | **–** | – | **86** | 86 | **14** | 14 |
| (n) | PT YHI Indonesia | Distribution of tyres, alloy wheels and related goods | Indonesia | **–** | – | **90** | 90 | **10** | 10 |
| (o) | YHI Corporation (B) Sdn Bhd | Distribution of tyres, alloy wheels and related goods | Negara Brunei Darussalam | **–** | – | **100** | 100 | **–** | – |
| (g) | YHI Corporation (Shanghai) Co., Ltd | Distribution of tyres, alloy wheels and related goods | People's Republic of China | **–** | – | **90** | 90 | **10** | 10 |
| (b) | YHI (East Malaysia) Sdn Bhd | Distribution of tyres, alloy wheels and related goods | Malaysia | **–** | – | **80** | 80 | **20** | 20 |
| (b) | YHI Power (Malaysia) Sdn Bhd (incorporated on 5 August 2016) | Distribution of tyres, alloy wheels and related goods | Malaysia | **–** | – | **100** | – | **100** | – |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

| | Name of companies | Principal activities | Country of business/ incorporation | Proportion of ordinary shares directly held by parent 2016 % | 2015 % | Proportion of ordinary shares held by the Group 2016 % | 2015 % | Proportion of ordinary shares held by non-controlling interest 2016 % | 2015 % |
|---|---|---|---|---|---|---|---|---|---|
| | *Held by the subsidiaries (Continued)* | | | | | | | | |
| (g) | YHI Advanti (Shanghai) Co., Ltd | Importer, exporter and distributor of alloy wheels and related goods | People's Republic of China | **–** | – | **100** | 100 | **–** | – |
| (b) | YHI Advanti Manufacturing (Malaysia) Sdn Bhd | Manufacturing, distribution and export of alloy wheels | Malaysia | **–** | – | **100** | 100 | **–** | – |
| (i) | YHI Corporation (Beijing) Co., Ltd | Distribution of alloy wheels and related goods | People's Republic of China | **–** | – | **100** | 100 | **–** | – |
| (p) | YHI (Vietnam) Co., Ltd | Distribution of tyres, alloy wheels and related goods | Vietnam | **–** | – | **85** | 85 | **15** | 15 |
| (q) | YHI (Philippines) Inc. | Distribution of tyres, alloy wheels and related goods | Philippines | **–** | – | **90** | 90 | **10** | 10 |

(a) Audited by PricewaterhouseCoopers LLP, Singapore
(b) Audited by SE Lai CK Chartered Accountants, Malaysia
(c) Audited by Wilson Ho & Co. C.P.A., Hong Kong
(d) Audited by KPMG, Taiwan
(e) Audited by Lamb Lowe & Partners, Australia
(f) Audited by PricewaterhouseCoopers, New Zealand
(g) Audited by Shanghai Weizhong Yongguang Certified Public Accountants Co., Ltd for local statutory purposes
(h) Audited by PricewaterhouseCoopers network firms outside Singapore for the purposes of preparation of consolidated financial statements
(i) Not required to be audited under the laws of the country of incorporation
(j) YHI Corporation (Thailand) Co Ltd ("YHIT") is regarded as a subsidiary on the basis of majority representation on the board of directors of YHIT (i.e. de-facto control). Hence, the Group has power over the subsidiary, exposure to variable returns from its involvement with the subsidiary and has the ability to use its power over the subsidiary to affect its returns. This subsidiary is audited by Adisorn & Associates Ltd, Thailand
(k) Audited by Guangzhou Haizheng Public Accountants Co., Ltd for local statutory purposes. For the purpose of preparing the consolidated financial statements, these financial statements have been audited by Wilson Ho & Co. C.P.A., Hong Kong
(l) Audited by Henderson Tse Chartered Accountants, Canada
(m) Audited by Moss-Levy Hartzheim, LLP CAP's, United States of America
(n) Audited by KAP Suganda Akna Suhri & Rekan
(o) Audited by Lee & Raman (CPA), Brunei Darussalam
(p) Audited by Tin Viet Auditing and Consulting Company Limited
(q) Audited by Morfe, Ceneta & Co., Certified Public Accountants, Philippines
* Dormant

For the subsidiaries not audited by PricewaterhouseCoopers LLP, Singapore and its network firms, the Board of Directors and the Audit Committee are satisfied with the appointment of their auditors in accordance with Rule 716 of the Singapore Exchange Securities Trading Limited – Listing Rules.

## 16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

***Carrying value of non-controlling interests***

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| YHI (Australia) Pty Limited | **6,048** | 6,015 |
| YHI (New Zealand) Limited | **4,112** | 3,551 |
| Evo-Trend Corporation (Malaysia) Sdn Bhd | **2,214** | 2,300 |
| Other subsidiaries with immaterial non-controlling interests | **1,183** | 1,555 |
| | **13,557** | 13,421 |

***Summarised financial information of subsidiaries with material non-controlling interests***

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. These are presented before inter-company eliminations.

There were no transactions with non-controlling interests for the financial years ended 31 December 2016 and 2015.

***Summarised balance sheet***

| | YHI (New Zealand) Limited | | YHI (Australia) Pty Limited | | Evo-Trend Corporation (Malaysia) Sdn Bhd | |
|---|---|---|---|---|---|---|
| | 2016<br>$'000 | 2015<br>$'000 | 2016<br>$'000 | 2015<br>$'000 | 2016<br>$'000 | 2015<br>$'000 |
| **Current** | | | | | | |
| Assets | **23,587** | 21,887 | **30,113** | 39,144 | **7,373** | 7,682 |
| Liabilities | **(11,557)** | (11,487) | **(3,455)** | (13,500) | **(287)** | (332) |
| Total current net assets | **12,030** | 10,400 | **26,658** | 25,644 | **7,086** | 7,350 |
| **Non-current** | | | | | | |
| Assets | **1,675** | 1,384 | **3,790** | 4,642 | **313** | 337 |
| Liabilities | **–** | – | **(210)** | (277) | **(20)** | (20) |
| Total non-current net assets | **1,675** | 1,384 | **3,580** | 4,365 | **293** | 317 |
| **Net assets** | **13,705** | 11,784 | **30,238** | 30,009 | **7,379** | 7,667 |

***Summarised income statement***

| | YHI (New Zealand) Limited | | YHI (Australia) Pty Limited | | Evo-Trend Corporation (Malaysia) Sdn Bhd | |
|---|---|---|---|---|---|---|
| | 2016<br>$'000 | 2015<br>$'000 | 2016<br>$'000 | 2015<br>$'000 | 2016<br>$'000 | 2015<br>$'000 |
| Revenue | **45,060** | 41,131 | **57,018** | 67,328 | **10,489** | 11,895 |
| **Profit before income tax** | **2,869** | 2,465 | **429** | 1,273 | **1,984** | 2,372 |
| Income tax expense | **(838)** | (746) | **(129)** | (404) | **(477)** | (596) |
| **Profit for the year and total comprehensive income** | **2,031** | 1,719 | **300** | 869 | **1,507** | 1,776 |
| Total comprehensive income allocated to non-controlling interests | **609** | 516 | **60** | 174 | **452** | 533 |
| Dividends paid to non-controlling interests | **222** | 222 | **87** | 151 | **497** | 288 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

***Summarised cash flows***

| | YHI (New Zealand) Limited | | YHI (Australia) Pty Limited | | Evo-Trend Corporation (Malaysia) Sdn Bhd | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| Cash flows from operating activities | | | | | | |
| Cash generated from operations | **2,650** | 2,422 | **2,440** | (1,433) | **2,483** | 1,660 |
| Interest received | **–** | – | **1** | 4 | **75** | 103 |
| Income tax paid | **(809)** | (774) | **(171)** | (312) | **(514)** | (587) |
| **Net cash generated from/(used in) operating activities** | **1,841** | 1,648 | **2,270** | (1,741) | **2,044** | 1,176 |
| **Net cash used in investing activities** | **(316)** | (200) | **(1,181)** | (161) | **(45)** | (217) |
| **Net cash used in financing activities** | **(1,658)** | (2,819) | **(1,074)** | (1,391) | **(1,626)** | (959) |
| **Net (decrease)/increase in cash and cash equivalents** | **(133)** | (1,371) | **15** | (3,293) | **373** | – |
| Cash and cash equivalents at beginning of the year | **802** | 2,308 | **1,658** | 5,171 | **4,248** | 4,890 |
| Exchange gains/(losses) on cash and cash equivalents | **28** | (135) | **20** | (220) | **(70)** | (642) |
| **Cash and cash equivalents at end of the year** | **697** | 802 | **1,693** | 1,658 | **4,551** | 4,248 |

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Freehold land $'000 | Buildings on freehold land $'000 | Leasehold properties $'000 | Office equipment, plant and machinery $'000 | Motor vehicles $'000 | Renovation $'000 | Computers $'000 | Furniture and fittings $'000 | Construction in-progress $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Group | | | | | | | | | | |
| **2016** | | | | | | | | | | |
| *Cost* | | | | | | | | | | |
| Beginning of financial year | 2,390 | 3,248 | 74,049 | 123,481 | 8,398 | 1,280 | 4,475 | 1,753 | 6,918 | 225,992 |
| Currency translation differences | – | (59) | (1,330) | (3,437) | 2 | 7 | (65) | (5) | (250) | (5,138) |
| Additions | – | – | 5,220 | 6,417 | 511 | 132 | 238 | 67 | (5,465) | 7,121 |
| Disposals | – | (276) | (153) | (3,964) | (1,149) | (6) | (393) | (45) | – | (5,986) |
| End of financial year | 2,390 | 2,913 | 77,786 | 122,497 | 7,762 | 1,413 | 4,255 | 1,770 | 1,203 | 221,989 |
| *Accumulated depreciation and impairment loss* | | | | | | | | | | |
| Beginning of financial year | – | 473 | 13,952 | 86,339 | 4,432 | 772 | 3,636 | 1,201 | – | 110,805 |
| Currency translation differences | – | (2) | (276) | (2,691) | (8) | 7 | (61) | (5) | – | (3,036) |
| Depreciation | – | 36 | 2,161 | 9,421 | 1,076 | 73 | 413 | 152 | – | 13,332 |
| Disposals | – | – | (152) | (3,461) | (964) | (2) | (372) | (39) | – | (4,990) |
| End of financial year | – | 507 | 15,685 | 89,608 | 4,536 | 850 | 3,616 | 1,309 | – | 116,111 |
| **Net book value** | | | | | | | | | | |
| **End of financial year** | **2,390** | **2,406** | **62,101** | **32,889** | **3,226** | **563** | **639** | **461** | **1,203** | **105,878** |

# NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Freehold land $'000 | Buildings on freehold land $'000 | Leasehold properties $'000 | Office equipment, plant and machinery $'000 | Motor vehicles $'000 | Renovation $'000 | Computers $'000 | Furniture and fittings $'000 | Construction in-progress $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Group | | | | | | | | | | |
| **2015** | | | | | | | | | | |
| *Cost* | | | | | | | | | | |
| Beginning of financial year | 2,376 | 3,984 | 74,770 | 124,303 | 8,048 | 1,194 | 4,150 | 1,772 | 115 | 220,712 |
| Currency translation differences | 14 | (736) | (931) | (2,631) | (258) | (52) | (85) | (62) | 1 | (4,740) |
| Additions | – | – | 210 | 3,097 | 1,391 | 138 | 507 | 60 | 6,802 | 12,205 |
| Disposals | – | – | – | (1,288) | (783) | – | (97) | (17) | – | (2,185) |
| End of financial year | 2,390 | 3,248 | 74,049 | 123,481 | 8,398 | 1,280 | 4,475 | 1,753 | 6,918 | 225,992 |
| *Accumulated depreciation and impairment loss* | | | | | | | | | | |
| Beginning of financial year | – | 479 | 11,892 | 77,808 | 4,075 | 729 | 3,321 | 1,092 | – | 99,396 |
| Currency translation differences | – | (51) | (75) | (1,806) | (138) | (25) | (73) | (40) | – | (2,208) |
| Depreciation | – | 45 | 2,135 | 10,742 | 1,114 | 68 | 475 | 156 | – | 14,735 |
| Disposals | – | – | – | (405) | (619) | – | (87) | (7) | – | (1,118) |
| End of financial year | – | 473 | 13,952 | 86,339 | 4,432 | 772 | 3,636 | 1,201 | – | 110,805 |
| **Net book value** | | | | | | | | | | |
| **End of financial year** | **2,390** | **2,775** | **60,097** | **37,142** | **3,966** | **508** | **839** | **552** | **6,918** | **115,187** |

## 17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| Company | Motor vehicles | |
|---|---|---|
| | **2016** | 2015 |
| **2016** | **$'000** | $'000 |
| *Cost* | | |
| Beginning of financial year | **600** | 600 |
| Disposals | **(250)** | – |
| End of financial year | **350** | 600 |
| *Accumulated depreciation* | | |
| Beginning of financial year | **372** | 302 |
| Depreciation charge | **70** | 70 |
| Disposals | **(250)** | – |
| End of financial year | **192** | 372 |
| **Net book value** | | |
| **End of financial year** | **158** | 228 |

(a) The carrying amounts of motor vehicles, and office equipment, plant and machinery held under finance leases are $121,000 (2015: $754,000) and $18,000 (2015: $251,000) respectively at the balance sheet date.

(b) Bank borrowings (Note 20) are secured on property, plant and equipment of the Group with carrying amounts as follows:

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Freehold land | **789** | 794 |
| Buildings on freehold land | **925** | 967 |
| Leasehold properties | **24,610** | 25,652 |
| Plant and machinery | **1,068** | 8,452 |
| Other equipment | **1,967** | 2,560 |
| | **29,359** | 38,425 |

(c) Impairment of property, plant and equipment

During the financial year ended 31 December 2016, plant and machineries and leasehold property (comprising land and building) of YHIMS of $9,100,000 and $11,600,000 respectively were subjected to impairment test. Indicator of impairment exists for these assets as YHIMS's production had stopped on 30 December 2016 (Note 31). The recoverable amount of these assets were determined based on fair value less cost to sell.

## 17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(c) Impairment of property, plant and equipment (Continued)

For the plant and machineries, the fair values were assessed by an independent external valuer using replacement cost method. Under this valuation technique, the valuer applied judgement and estimation in deriving at the replacement cost based on information gathered from the market. The valuer also considered adjustments to the replacement costs to factor in the remaining useful lives of these plant and machineries.

For the leasehold property, management made reference to sale prices of comparable plots for its fair value. Management applied judgement on the comparability of those plots and made adjustments on those sale prices for remaining land tenure.

No impairment were required as the fair value less cost to sell for these assets were higher than their book values as at 31 December 2016.

## 18. INTANGIBLE ASSETS

**Composition:**

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Goodwill arising on consolidation [Note (a)] | **1,681** | 1,676 |
| Trademark [Note (b)] | **1,302** | 1,364 |
| Computer software licence [Note (c)] | **1,218** | 336 |
| | **4,201** | 3,376 |

Amortisation expense is included in the "Administrative expenses" on the Consolidated Income Statement.

**(a) Goodwill arising on consolidation**

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| *Cost* | | |
| Beginning of financial year | **2,446** | 2,455 |
| Currency translation differences | **5** | (9) |
| End of financial year | **2,451** | 2,446 |
| *Accumulated impairment* | | |
| Beginning and end of financial year | **770** | 770 |
| *Net book value* | **1,681** | 1,676 |

## 18. INTANGIBLE ASSETS (CONTINUED)

***Impairment tests for goodwill***

Goodwill is allocated to the Group's cash generating units ("CGUs") identified according to countries of operation and business segments.

A segment-level summary of the goodwill allocation is as follows:

| | Distribution of automotive products and industrial products | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Singapore | **881** | 881 |
| Malaysia | **505** | 505 |
| China/Hong Kong | **59** | 59 |
| New Zealand | **236** | 231 |
| | **1,681** | 1,676 |

The recoverable amount of a CGU was determined based on value-in-use. Cash flow projections used in the value-in-use calculations were based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period were extrapolated using the estimated growth rates stated below. The growth rate did not exceed the long-term average growth rate for the automotive business in which the CGU operates.

***Key assumptions used for value-in-use calculations:***

| | Distribution of automotive products and industrial products | | | |
|---|---|---|---|---|
| | **2016** | | 2015 | |
| | **Singapore** | **Malaysia** | Singapore | Malaysia |
| Terminal growth rate | **3%** | 3% | **3%** | 3% |
| Pre-tax discount rate | **9.4%** | 11.8% | **9.4%** | 12.5% |

These assumptions were used for the analysis of each CGU within the business segment. Management determined average growth rates used were consistent with forecasts for the relevant countries' inflationary or gross domestic product growth rate. The discount rate used was pre-tax and reflected specific risks relating to the segment.

### (b) Trademark

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| *Cost* | | |
| Beginning and end of financial year | **1,861** | 1,861 |
| *Accumulated amortisation* | | |
| Beginning of financial year | **497** | 435 |
| Amortisation charge (Note 5) | **62** | 62 |
| End of financial year | **559** | 497 |
| *Net book value* | **1,302** | 1,364 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 18. INTANGIBLE ASSETS (CONTINUED)

### (c) Computer software licence

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| *Cost* | | |
| Beginning of financial year | **336** | 336 |
| Additions | **882** | – |
| End of financial year | **1,218** | 336 |
| *Accumulated amortisation* | | |
| Beginning and end of financial year | **–** | – |
| Net book value | **1,218** | 336 |

There is no amortisation expense for the year as the computer software licence has yet to be put in use.

## 19. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Trade payables to | | | | |
| – Non-related parties | **22,789** | 16,582 | **–** | – |
| – An associated company | **7** | 99 | **–** | – |
| | **22,796** | 16,681 | **–** | – |
| Due to directors (non-trade) [Note (a)] | **400** | 700 | **400** | 700 |
| Accrued operating expenses | **7,260** | 9,454 | **463** | 578 |
| Provision for employees leave benefits [Note (b)] | **2,150** | 1,470 | **–** | – |
| Provision for staff termination arising from restructuring [Note 31] | **2,700** | – | **–** | – |
| Other payables | **7,523** | 6,319 | **10** | 122 |
| Advance payments received | **1,849** | 1,183 | **–** | – |
| | **44,678** | 35,807 | **873** | 1,400 |

(a) This amount relates primarily to performance bonus payable to the Executive Directors of the Company based on the results of the financial year ended pursuant to the service agreements between the Executive Directors and the Company.

(b) The non-current portion of employees leave benefits amount to $277,000 (2015: $256,000).

## 20. BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$'000** | $'000 | **$'000** | $'000 |
| *Current* | | | | |
| Current portion of long-term bank loans | **6,246** | 9,946 | **600** | 4,400 |
| Short-term bank loans | **49,056** | 55,194 | **–** | – |
| Trust receipt loans | **20,407** | 31,875 | **–** | – |
| Bank overdrafts (Note 10) | **1,084** | 537 | **–** | – |
| Finance lease liabilities (Note 21) | **65** | 619 | **–** | – |
| | **76,858** | 98,171 | **600** | 4,400 |
| *Non-current* | | | | |
| Long-term bank loans | **21,506** | 27,958 | **–** | 600 |
| Finance lease liabilities (Note 21) | **11** | 141 | **–** | – |
| | **21,517** | 28,099 | **–** | 600 |
| Total borrowings | **98,375** | 126,270 | **600** | 5,000 |

**Security granted**

Certain borrowings granted to the Group are guaranteed by the Company and secured on the following:

(i) Borrowings of $5,053,000 (2015: $5,189,000) are secured over a first legal charge on plant and machinery of certain subsidiaries [Note 17(b)];

(ii) Borrowings of $40,254,000 (2015: $61,090,000) are secured over a fixed and floating charge on all the assets of certain subsidiaries; and

(iii) Borrowings of $4,193,000 (2015: $3,924,000) are secured over banker's guarantees, up to $6.2 million (2015: $7.2 million), given as security to other financial institutions which granted banking facilities to certain subsidiaries. The banker's guarantees are in turn secured by a fixed and floating charge on all the assets of a subsidiary referred to in paragraph (ii) above.

Finance lease liabilities are secured by the rights to the leased property, plant and equipment [Note 17(a)], which will revert back to the lessor in the event of default by the Group.

## 21. FINANCE LEASE LIABILITIES

The Group leases certain property, plant and equipment from non-related parties under finance leases.

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Minimum lease payments due: | | |
| – Not later than one year | **67** | 656 |
| – Between two and five years | **11** | 144 |
| | **78** | 800 |
| Less: Future finance charges | **(2)** | (40) |
| Present value of finance lease liabilities | **76** | 760 |

## 21. FINANCE LEASE LIABILITIES (CONTINUED)

The present values of finance lease liabilities are analysed as follows:

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Not later than one year (Note 20) | **65** | 619 |
| Between one and five years (Note 20) | **11** | 141 |
| | **76** | 760 |

## 22. SHARE CAPITAL

The share capital of the Company and the Group comprises fully paid-up 292,296,000 (2015: 584,592,000) ordinary shares with no par value, amounting to a total of $77,001,000 (2015: $77,001,000).

The Company has completed its share consolidation exercise effective on 19 January 2016 and every two (2) existing shares has been consolidated to constitute one (1) consolidated share. The issued share capital of the Company now comprises 292,296,000 consolidated shares.

## 23. OTHER RESERVES

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| (a) Composition: | | |
| General reserve | **7,032** | 7,451 |
| Currency translation reserve | **(24,733)** | (21,870) |
| Transactions with non-controlling interests | **(2,210)** | (2,210) |
| | **(19,911)** | (16,629) |

Other reserves are non-distributable.

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| (b) Movements: | | |
| ***(i) General reserve*** | | |
| Beginning of financial year | **7,451** | 7,504 |
| Currency translation differences | **(577)** | (180) |
| Transfer from retained profits | **158** | 127 |
| End of financial year | **7,032** | 7,451 |
| ***(ii) Currency translation reserve*** | | |
| Beginning of financial year | **(21,870)** | (12,411) |
| Currency translation differences | **(2,863)** | (9,459) |
| End of financial year | **(24,733)** | (21,870) |
| ***(iii) Transactions with non-controlling interests*** | | |
| Beginning and end of financial year | **(2,210)** | (2,210) |

## 23. OTHER RESERVES (CONTINUED)

***General reserve fund***

Subsidiaries established in the People's Republic of China (the "PRC Subsidiaries") are required to maintain certain statutory reserves by transferring from their profit after taxation in accordance with the relevant laws and regulations and, if applicable, Articles of Association of the PRC Subsidiaries, before any dividend is declared and paid.

The PRC Subsidiaries are required to transfer at least 10% of their profit after taxation calculated in accordance with the PRC Accounting Standards and Systems, to the general reserve fund until the balance reaches 50% of their respective registered capital, where further transfers will be at their directors' recommendation. The general reserve fund can only be used to make up prior year losses or to increase share capital, provided that the fund does not fall below 25% of the registered capital.

## 24. RETAINED PROFITS

(a) Retained profits of the Group are distributable except for accumulated share of retained profits of associated company amounting to $7,102,000 (2015: $5,916,000). Retained profits of the Company are distributable.

(b) Movement in retained profits for the Company is as follows:

| | Company | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Beginning of financial year | **57,996** | 53,111 |
| Net profit | **4,882** | 8,393 |
| Dividends paid (Note 25) | **(4,150)** | (3,508) |
| End of financial year | **58,728** | 57,996 |

## 25. DIVIDENDS

| | Group and Company | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| *Ordinary dividends paid or proposed* | | |
| Final exempt dividend paid in respect of the previous financial year of 1.42 cents (2015: 0.60 cents) per share | **4,150** | 3,508 |

At the Annual General Meeting to be held on 26 April 2017, a final exempt dividend of 0.64 cents per share amounting to a total of $1,871,000 will be recommended. These financial statements do not reflect this dividend, which will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2017.

## 26. COMMITMENTS

### (a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements are as follows:

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Intangible asset – computer software | **539** | – |
| Property, plant and equipment | **230** | – |
| | **769** | – |

### (b) Operating lease arrangements – where the Group is a lessee

The Group leases premises from non-related parties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future minimum lease payables under non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities, are as follows:

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Not later than one year | **5,895** | 6,048 |
| Between one and five years | **11,691** | 8,875 |
| Later than five years | **9,437** | 8,178 |
| | **27,023** | 23,101 |

Included in the above are the Group's lease commitments in respect of leases of land up to 30 September 2040 for a monthly rental payment of $32,736. Since 1 October 2014, the 2 lots of lands are subject to annual revision based on market rate, capped at 10% increase for a 4 year period. Thereafter, the annual revision will be to market rate but the increase, if any, shall not exceed 5.5% of the land rent for each immediate preceding year.

## 27. FINANCIAL RISK MANAGEMENT

***Financial risk factors***

The Group's activities expose it to market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance. The Group's risk management policies and guidelines are set to monitor and control the potential material adverse impact of these exposures. The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group.

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Market risk

#### *(i) Currency risk*

The Group operates principally in Asia-Pacific with dominant operations in Singapore, Australia, New Zealand, Malaysia and the People's Republic of China. Entities in the Group regularly transact in currencies other than their respective functional currencies ("foreign currencies").

Currency risk arises within entities in the Group when transactions are denominated in foreign currencies such as the United States Dollar ("USD"), Renminbi ("RMB"), Malaysian Ringgit ("MYR"), Australian Dollar ("AUD") and New Zealand Dollar ("NZD"). To manage the currency risk, individual Group entities enter into currency forwards or cross-currency swaps, where appropriate. As at 31 December 2016, the Group entered into currency forwards to manage currency risk from its foreign currency denominated sales in respect of which firm commitment existed at the balance sheet date as well as purchases in foreign currencies (2015: S$ bank borrowings obtained which has been swapped to US$ via a currency swap) (Note 14). The Group's exposures to foreign currencies are primarily managed through matching financial assets and financial liabilities denominated in foreign currencies. The Group does not utilise currency forwards or other arrangements for trading or speculative purposes.

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

| | USD<br>$'000 | RMB<br>$'000 | AUD<br>$'000 | MYR<br>$'000 | NZD<br>$'000 |
|---|---|---|---|---|---|
| **2016** | | | | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 9,164 | 9,687 | 1,918 | 16,829 | 676 |
| Trade and other receivables | 11,497 | 26,583 | 12,673 | 3,536 | 6,627 |
| Inter-company balances | 26,822 | 34,869 | 2,522 | 21,875 | 469 |
| Other current assets | 711 | 279 | 575 | 395 | 19 |
| | 48,194 | 71,418 | 17,688 | 42,635 | 7,791 |
| **Financial liabilities** | | | | | |
| Borrowings | 22,358 | 19,228 | 1,443 | 61 | 6,214 |
| Inter-company balances | 26,822 | 34,869 | 2,522 | 21,875 | 469 |
| Trade and other payables | 5,465 | 13,816 | 4,090 | 3,828 | 3,483 |
| | 54,645 | 67,913 | 8,055 | 25,764 | 10,166 |
| **Net financial (liabilities)/ assets** | (6,451) | 3,505 | 9,633 | 16,871 | (2,375) |
| Currency forwards | 365 | – | 272 | – | – |
| Net financial liabilities/ (assets) denominated in the respective entities' functional currencies | 12,262 | (5,423) | (7,197) | (10,741) | 3,687 |
| **Currency exposure on financial assets/ (liabilities)** | **6,176** | **(1,918)** | **2,708** | **6,130** | **1,312** |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Market risk (Continued)

#### (i) *Currency risk* (Continued)

| | USD $'000 | RMB $'000 | AUD $'000 | MYR $'000 | NZD $'000 |
|---|---|---|---|---|---|
| 2015 | | | | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 12,379 | 12,210 | 1,952 | 9,726 | 783 |
| Trade and other receivables | 19,035 | 22,089 | 15,486 | 2,021 | 6,261 |
| Inter-company balances | 34,636 | 30,932 | 3,905 | 20,179 | 414 |
| Other current assets | 913 | 357 | 574 | 384 | 51 |
| | 66,963 | 65,588 | 21,917 | 32,310 | 7,509 |
| **Financial liabilities** | | | | | |
| Borrowings | 22,714 | 13,092 | 13,108 | 2,929 | 6,861 |
| Derivative financial instruments | 283 | – | – | – | – |
| Inter-company balances | 34,636 | 30,932 | 3,905 | 20,179 | 414 |
| Trade and other payables | 4,222 | 11,084 | 3,450 | 2,923 | 3,096 |
| | 61,855 | 55,108 | 20,463 | 26,031 | 10,371 |
| **Net financial assets/ (liabilities)** | 5,108 | 10,480 | 1,454 | 6,279 | (2,862) |
| Currency swap | 283 | – | – | – | – |
| Net financial liabilities/ (assets) denominated in the respective entities' functional currencies | 12,213 | (8,951) | 2,590 | (68) | 3,237 |
| **Currency exposure on financial assets** | 17,604 | 1,529 | 4,044 | 6,211 | 375 |

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

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | USD $'000 | AUD $'000 | USD $'000 | AUD $'000 |
| **Financial assets** | | | | |
| Cash and cash equivalents | **154** | **–** | 172 | – |
| Trade and other receivables | **1,451** | **2,447** | 6,293 | 3,747 |
| | **1,605** | **2,447** | 6,465 | 3,747 |
| **Financial liabilities** | | | | |
| Borrowings | **–** | **–** | – | – |
| Trade and other payables | **–** | **–** | – | – |
| | **–** | **–** | – | – |
| **Net financial assets** | **1,605** | **2,447** | 6,465 | 3,747 |
| Currency swap | **–** | **–** | (2,277) | – |
| Net financial assets denominated in functional currency | **–** | **–** | – | – |
| **Currency exposure on financial assets** | **1,605** | **2,447** | 4,188 | 3,747 |

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Market risk (Continued)

#### (i) *Currency risk* (Continued)

If the USD, RMB, AUD, MYR and NZD change against the SGD by 0.5% (2015: 8.5%), 5.8% (2015: 7.1%), 0.6% (2015: 9.6%), 5.7% (2015: 8.8%) and 0.1% (2015: 8.6%) respectively with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset position will be as follows:

| | (Decrease)/increase | |
|---|---|---|
| | **2016 Profit after tax $'000** | 2015 Profit after tax $'000 |
| Group | | |
| USD against SGD | | |
| – Strengthened | **26** | 1,242 |
| – Weakened | **(26)** | (1,242) |
| RMB against SGD | | |
| – Strengthened | **(92)** | 90 |
| – Weakened | **92** | (90) |
| AUD against SGD | | |
| – Strengthened | **13** | 322 |
| – Weakened | **(13)** | (322) |
| MYR against SGD | | |
| – Strengthened | **290** | 454 |
| – Weakened | **(290)** | (454) |
| NZD against SGD | | |
| – Strengthened | **1** | 27 |
| – Weakened | **(1)** | (27) |
| Company | | |
| USD against SGD | | |
| – Strengthened | **7** | 295 |
| – Weakened | **(7)** | (295) |
| AUD against SGD | | |
| – Strengthened | **12** | 299 |
| – Weakened | **(12)** | (299) |

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Market risk (Continued)

#### *(ii) Cash flow and fair value interest rate risks*

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. As the Group has no significant interest-bearing assets, the Group's income is substantially independent of changes in market interest rates.

The Group's policy is to maintain 60% to 80% of its borrowings in short-term or fixed rate instruments. The Group's exposure to cash flow interest rate risks arises mainly from variable-rate borrowings. The Company does not have significant exposure to cash flow interest rate risks. The Group manages these cash flow interest rate risks by reviewing the floating rates periodically.

The Group's borrowings at variable rates on which effective hedges have not been entered into are denominated mainly in USD, AUD, RMB and MYR. If the USD, AUD, RMB and MYR interest rates increase/decrease by 0.4% (2015: 0.9%) with all other variables including tax rate being held constant, the profit after tax will be lower/higher by $14,000 (2015: 28,000), $13,000 (2015: $95,000), $86,000 (2015: $181,000) and $39,000 (2015: $102,000) respectively as a result of higher/lower interest expense on these borrowings.

### (b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The major classes of financial assets of the Group and of the Company are bank deposits and trade receivables. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit history, and obtaining sufficient collateral 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 respective Heads of the various subsidiaries based on ongoing credit evaluation. The counterparty's payment profile and credit exposure are continuously monitored at the entity level by the respective management and at the Group level by the Head of Finance.

As the Group and 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 balance sheet, except as follows:

| | Company | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Corporate guarantees provided to banks on subsidiaries' loans | **98,359** | 120,510 |

The Company's investment holding activities do not expose it to significant credit risk.

The trade receivables at the Group comprise 3 debtors (2015: 2 debtors) that individually represent 3-16% (2015: 3-13%) of trade receivables.

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Credit risk (Continued)

The credit risk for net trade receivables based on the information provided to key management is as follows:

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| By geographical areas | | |
| Singapore | **13,215** | 12,339 |
| Malaysia | **3,272** | 2,041 |
| Taiwan | **3,275** | 3,187 |
| Australia | **12,632** | 15,416 |
| New Zealand | **6,626** | 6,254 |
| United States | **6,553** | 11,734 |
| United Kingdom | **609** | 796 |
| Italy | **344** | 28 |
| Indonesia | **3,540** | 2,687 |
| Sweden | **2,031** | 1,652 |
| People's Republic of China | **23,153** | 20,857 |
| Other countries | **16,975** | 18,240 |
| | **92,225** | 95,231 |
| By types of customers | | |
| Non-related parties | **92,149** | 95,104 |
| A related party | **76** | 127 |
| | **92,225** | 95,231 |

#### *(i) Financial assets that are neither past due nor impaired*

Bank deposits that are neither past due nor impaired are mainly deposits with banks with high credit-ratings assigned by international credit-rating agencies. Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

The Group and Company do not have any receivables that would have been past due or impaired if the terms were not re-negotiated during the financial year.

#### *(ii) Financial assets that are past due and/or impaired*

There is no other class of financial assets that is past due and/or impaired except for trade receivables.

The age analysis of trade receivables from non-related parties past due but not impaired is as follows:

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Past due one month | **5,753** | 4,033 |
| Past due two months | **3,275** | 2,383 |
| Past due over two months | **4,268** | 10,128 |
| | **13,296** | 16,544 |

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Credit risk (Continued)

The carrying amount of trade receivables from non-related parties individually determined to be impaired and the movement in the related allowance for impairment are as follows:

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Not past due | **157** | 158 |
| Past due less than one month | **88** | 19 |
| Past due one month | **77** | 73 |
| Past due two months | **92** | 292 |
| Past due over two months | **1,931** | 2,427 |
| | **2,345** | 2,969 |
| Less: Allowance for impairment | **(2,345)** | (2,969) |
| | **–** | – |

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Beginning of financial year | **2,969** | 3,157 |
| Currency translation differences | **94** | (84) |
| Allowance made | **923** | 976 |
| Allowance utilised | **(1,310)** | (744) |
| Allowance written back | **(331)** | (336) |
| End of financial year | **2,345** | 2,969 |

The impaired trade receivables are long outstanding and are not expected to be recovered.

### (c) Liquidity risk

The Group and Company manage liquidity risk by maintaining sufficient cash and other financial assets to enable them to meet their normal operating commitments and having an adequate amount of committed credit facilities. At the balance sheet date, assets held by the Group and Company for managing liquidity risk included cash and short-term bank deposits as disclosed in Note 10.

The table below analyses the maturity profile of the Group's and Company's financial liabilities based on contractual undiscounted cash flows.

| | **Less than 1 year** | **Between 1 and 5 years** | **Over 5 years** |
|---|---|---|---|
| | **$'000** | **$'000** | **$'000** |
| Group | | | |
| **2016** | | | |
| Trade and other payables | **38,725** | **–** | **–** |
| Borrowings | **78,069** | **22,996** | **686** |
| | **116,794** | **22,996** | **686** |
| **2015** | | | |
| Trade and other payables | 33,154 | – | – |
| Borrowings | 99,182 | 26,895 | 3,494 |
| | 132,336 | 26,895 | 3,494 |

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk (Continued)

| | Less than 1 year $'000 | Between 1 and 5 years $'000 | Over 5 years $'000 |
|---|---|---|---|
| Company | | | |
| **2016** | | | |
| Trade and other payables | **873** | **–** | **–** |
| Borrowings | **606** | **–** | **–** |
| Financial guarantee | **98,359** | **–** | **–** |
| | **99,838** | **–** | **–** |
| **2015** | | | |
| Trade and other payables | 1,400 | – | – |
| Borrowings | 4,505 | 606 | – |
| Financial guarantee | 120,510 | – | – |
| | 126,415 | 606 | – |

The table below analyses the derivative financial instruments of the Group and the Company for which the contractual maturity is essential for an understanding of the timing of the cash flows into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Less than 1 year $'000 | Between 1 and 5 years $'000 |
|---|---|---|
| Group | | |
| **2016** | | |
| Gross settled currency forwards | | |
| – Receipts | **9,928** | **–** |
| – Payments | **(9,792)** | **–** |
| Group and Company | | |
| **2015** | | |
| Gross settled currency swaps | | |
| – Receipts | 2,011 | – |
| – Payments | (2,284) | – |

### (d) Capital risk

The Group's objectives when managing capital are to safeguard the Group'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 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.

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (d) Capital risk (Continued)

Management monitors capital based on a net gearing ratio. The Group's and Company's strategies, which were unchanged from 2015, are to maintain net gearing ratios within 30% to 50% and maximum 30% respectively.

The net gearing ratio is calculated as net debt divided by total capital and reserves attributable to equity holders of the Company. Net debt is calculated as borrowings less cash and cash equivalents.

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Net debt | **46,905** | 73,999 | **(3,685)** | 2,261 |
| Total capital and reserves attributable to equity holders | **242,512** | 246,408 | **135,729** | 134,997 |
| Net gearing ratio | **19%** | 30% | **NM** | 2% |

NM – Not meaningful

Financial covenants relating to the Group's and Company's borrowings include consolidated tangible networth, debt service coverage ratio, net debt to earnings before interest, taxes, depreciation and amortisation ratio and gearing ratio.

The Group and the Company are in compliance with all externally imposed capital requirements for the financial years ended 31 December 2016 and 2015.

### (e) Fair value measurements

The following table presents the assets and liabilities measured at fair value and classified by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

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

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| | **$'000** | **$'000** | **$'000** |
| Group | | | |
| **As at 31 December 2016** | | | |
| Derivative financial instruments | | | |
| – Asset | **–** | **136** | **136** |
| – Liability | **–** | **–** | **–** |
| **As at 31 December 2015** | | | |
| Derivative financial instruments | | | |
| – Asset | – | – | – |
| – Liability | – | 289 | 289 |

## 27. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (e) Fair value measurements (Continued)

| | Level 1 $'000 | Level 2 $'000 | Total $'000 |
|---|---|---|---|
| Company | | | |
| **As at 31 December 2016** | | | |
| Derivative financial instruments | | | |
| – Asset | **–** | **–** | **–** |
| – Liability | **–** | **–** | **–** |
| **As at 31 December 2015** | | | |
| Derivative financial instruments | | | |
| – Asset | – | – | – |
| – Liability | – | 277 | 277 |

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value of current and non-current borrowings approximates their carrying amount.

### (f) Financial instruments by category

The carrying amount of the different categories of financial instruments is as disclosed on the face of the balance sheet and in Note 14 to the financial statements, except for the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 $'000** | 2015 $'000 | **2016 $'000** | 2015 $'000 |
| Loan and receivables | **148,205** | 152,683 | **36,913** | 41,400 |
| Financial liabilities at amortised cost | **137,099** | 159,424 | **1,473** | 6,400 |

## 28. IMMEDIATE AND ULTIMATE HOLDING CORPORATION

The immediate holding corporation is YHI Holdings Pte Ltd, incorporated in Singapore. The ultimate controlling party is Mr Tay Tian Hoe Richard.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 29. RELATED PARTY TRANSACTIONS

In addition to the 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 |
| Sales of goods to an associated company | **8,877** | 7,503 |
| Purchases of goods from an associated company | **(465)** | (396) |

Outstanding balances as at 31 December 2016, arising from sale/purchase of goods to/from associated company, are unsecured, receivable/payable within 12 months from balance sheet date and are set out in Notes 11 and 19 respectively.

### (b) Key management personnel compensation

Key management personnel compensation is as follows:

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Salaries and other short-term employee benefits | **3,949** | 4,120 |
| Employer's contribution to defined contribution plans, including Central Provident Fund | **56** | 65 |
| | **4,005** | 4,185 |

Included in the above was total compensation to directors of the Company amounted to $1,360,000 (2015: $1,792,000).

## 30. SEGMENT INFORMATION

The Group has determined the operating segments based on the reports reviewed by senior management that are used to make strategic decisions.

Management manages and monitors the business segments as follows:

- Manufacturing
  - Regional areas include North East Asia and ASEAN which are engaged in the manufacturing of alloy wheels.
- Distribution
  - Regional areas include North East Asia and ASEAN and Oceania regions which are engaged in the distribution of automotive and industrial products.

## 30. SEGMENT INFORMATION (CONTINUED)

The segment information provided to senior management for the reportable segments for the year ended 31 December 2016 is as follows:

| | Manufacturing segment | | | Distribution segment | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Segment Group** | **North East Asia $'000** | **ASEAN $'000** | **Sub-total $'000** | **North East Asia $'000** | **ASEAN $'000** | **Oceania $'000** | **Others $'000** | **Sub-total $'000** | **Total $'000** |
| **Sales** | | | | | | | | | |
| Total segment sales | 106,658 | 67,084 | 173,742 | 39,673 | 135,631 | 130,348 | 18,179 | 323,831 | 497,573 |
| Inter-segment sales | (14,257) | (17,747) | (32,004) | – | – | – | – | – | (32,004) |
| Sales to external parties | 92,401 | 49,337 | 141,738 | 39,673 | 135,631 | 130,348 | 18,179 | 323,831 | 465,569 |
| **Segment result** | (4,522) | 3,915 | (607) | (1,088) | 4,729 | 5,966 | (1,820) | 7,787 | 7,180 |
| Other gains | | | | | | | | | 3,441 |
| Unallocated cost | | | | | | | | | 531 |
| | | | | | | | | | 11,152 |
| Finance expenses | | | | | | | | | (4,297) |
| Share of profit of an associated company | – | 1,500 | 1,500 | – | – | – | – | – | 1,500 |
| **Profit before income tax** | | | | | | | | | 8,355 |
| Income tax expense | | | | | | | | | (3,897) |
| **Net profit** | | | | | | | | | **4,458** |
| **Segment assets** | 98,746 | 65,261 | 164,007 | 26,895 | 110,684 | 71,440 | 13,391 | 222,410 | 386,417 |
| Segment assets includes: | | | | | | | | | |
| Investment in an associated company | – | 16,263 | 16,263 | – | – | – | – | – | 16,263 |
| Additions to: | | | | | | | | | |
| – Property, plant and equipment | 4,357 | 998 | 5,355 | 165 | 979 | 620 | 2 | 1,766 | 7,121 |
| – Intangible assets | – | – | – | – | 882 | – | – | 882 | 882 |
| **Segment liabilities** | (17,070) | (3,410) | (20,480) | (4,709) | (10,009) | (9,547) | (254) | (24,519) | (44,999) |

## 30. SEGMENT INFORMATION (CONTINUED)

The segment information provided to senior management for the reportable segments for the year ended 31 December 2015 is as follows:

| Segment Group | Manufacturing segment North East Asia $'000 | Manufacturing segment ASEAN $'000 | Manufacturing segment Sub-total $'000 | Distribution segment North East Asia $'000 | Distribution segment ASEAN $'000 | Distribution segment Oceania $'000 | Distribution segment Others $'000 | Distribution segment Sub-total $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Sales** | | | | | | | | | |
| Total segment sales | 123,096 | 72,053 | 195,149 | 37,900 | 143,324 | 132,832 | 33,593 | 347,649 | 542,798 |
| Inter-segment sales | (25,151) | (18,473) | (43,624) | – | – | – | – | – | (43,624) |
| Sales to external parties | 97,945 | 53,580 | 151,525 | 37,900 | 143,324 | 132,832 | 33,593 | 347,649 | 499,174 |
| **Segment result** | 925 | 536 | 1,461 | 60 | 7,484 | 4,360 | (694) | 11,210 | 12,671 |
| Other gains | | | | | | | | | 6,091 |
| Unallocated costs | | | | | | | | | (53) |
| | | | | | | | | | 18,709 |
| Finance expenses | | | | | | | | | (5,253) |
| Share of profit of an associated company | – | 1,013 | 1,013 | – | – | – | – | – | 1,013 |
| **Profit before income tax** | | | | | | | | | 14,469 |
| Income tax expense | | | | | | | | | (5,418) |
| **Net profit** | | | | | | | | | 9,051 |
| **Segment assets** | 109,247 | 67,334 | 176,581 | 22,990 | 117,036 | 78,493 | 22,188 | 240,707 | 417,288 |
| Segment assets includes: | | | | | | | | | |
| Investment in an associated company | – | 15,441 | 15,441 | – | – | – | – | – | 15,441 |
| Additions to: | | | | | | | | | |
| – Property, plant and equipment | 9,128 | 428 | 9,556 | 83 | 1,607 | 859 | 100 | 2,649 | 12,205 |
| **Segment liabilities** | (12,175) | (2,519) | (14,694) | (2,823) | (9,736) | (8,272) | (593) | (21,424) | (36,118) |

Sales between segments are carried out at market terms. The revenue from external parties reported to senior management is measured in a manner consistent with that in profit or loss.

Senior management assesses the performance of the operating segments based on segment result. This measurement basis excludes other gains and other unallocated costs. Finance expenses are not allocated to segments, as this type of activity is driven by the Group's treasury, which manages the cash position of the Group.

### (a) Reconciliations

#### (i) Segment assets

The amounts provided to senior management 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, senior management monitors the property, plant and equipment, intangible assets, inventories, receivables and operating cash attributable to each segment. All assets are allocated to reportable segments other than deferred income tax assets, derivative financial instruments, short-term bank deposits and transferable club membership.

## 30. SEGMENT INFORMATION (CONTINUED)

### (a) Reconciliations (Continued)

#### (i) Segment assets (Continued)

Segment assets are reconciled to total assets as follows:

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Segment assets for reportable segments | **373,026** | 395,100 |
| Other segment assets | **13,391** | 22,188 |
| Unallocated: | | |
| Deferred income tax assets | **3,295** | 3,396 |
| Derivative financial instrument | **136** | – |
| Short-term bank deposits | **12,334** | 4,393 |
| Transferable club membership, at cost | **227** | 227 |
| | **402,409** | 425,304 |

#### (ii) Segment liabilities

The amounts provided to senior management 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, deferred tax liabilities, borrowings and derivative financial instruments.

Segment liabilities are reconciled to total liabilities as follows:

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Segment liabilities for reportable segments | **44,745** | 35,525 |
| Other segment liabilities | **254** | 593 |
| Unallocated: | | |
| Income tax liabilities | **576** | 639 |
| Deferred income tax liabilities | **2,390** | 2,159 |
| Borrowings | **98,375** | 126,270 |
| Derivative financial instruments | **–** | 289 |
| | **146,340** | 165,475 |

## 30. SEGMENT INFORMATION (CONTINUED)

### (b) Revenue from major products and services

Revenues from external customers are derived mainly from distribution of automotive and industrial products and manufacturing of alloy wheels. Breakdown of the revenue is as follows:

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Distribution of automotive and industrial products | **323,831** | 347,649 |
| Manufacturing of alloy wheels | **141,738** | 151,525 |
| | **465,569** | 499,174 |

### (c) Geographical information

The Group operates in the following geographic areas:

| | Sales* Group | | Non-current assets Group | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Singapore | **59,674** | 86,658 | **46,488** | 35,449 |
| Malaysia | **95,968** | 79,690 | **23,721** | 25,788 |
| China/Hong Kong | **114,993** | 114,509 | **44,934** | 59,508 |
| Taiwan | **15,146** | 17,897 | **3,553** | 3,606 |
| Australia | **85,308** | 95,381 | **4,283** | 4,802 |
| New Zealand | **45,040** | 41,131 | **1,538** | 1,384 |
| Other countries | **49,440** | 63,908 | **1,825** | 3,467 |
| | **465,569** | 499,174 | **126,342** | 134,004 |

* Sales are attributed to countries on the basis of the Group's subsidiaries locations.

There are no revenues derived from transactions with a single external customer that amounted to 10% or more of the Group's revenue (2015: 10%).

## 31. CONSOLIDATION OF SHANGHAI FACTORY INTO SUZHOU FACTORY

On 30 December 2016, the Group had decided to stop production in its Shanghai factory in YHI Manufacturing (Shanghai) Co., Ltd ("YHIMS") and to consolidate its Shanghai operations into the Suzhou factory in YHI Advanti Manufacturing (Suzhou) Co., Ltd, (the "Restructuring"). Machineries in the Shanghai factory will be moved to factories in Suzhou and Malaysia. As at the date of these financial statements, the Group is yet to determine the future use for YHIMS' leasehold property.

The Group recorded a total of $3,142,000 (Note 5) in 2016 for the compensation to employees where the Group had planned for their termination as part of the Restructuring plan. A total of $2,700,000 of the compensation remains to be paid as at 31 December 2016 (Note 19).

## 32. NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Group's accounting periods beginning on or after 1 January 2017 and which the Group has not early adopted:

- Amendments to FRS 7 *Cash flow statements (Disclosure Initiative)* (effective for annual periods beginning on or after 1 January 2017)

  The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This includes changes arising from:

  – Cash flows, such as drawdown and repayment of borrowings; and

  – Non-cash changes, such as acquisitions, disposals and unrealised exchange differences

  The amendment will not result in any changes to the Group's accounting policies but will require more disclosures in the financial statements.

- FRS 115 *Revenue from contracts with customers* (effective for annual periods beginning on or after 1 January 2018)

  This is the converged standard on revenue recognition. It replaces FRS 11 Construction contracts, FRS 18 Revenue, and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of FRS 115 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

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

  – Step 2: Identify the performance obligations in the contract

  – Step 3: Determine the transaction price

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

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

  FRS 115 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

  This amendment is not expected to have any significant impact on the financial statements of the Group, other than the need for the Group to include in the financial statements cohesive set of disclosures as required under FRS 115.

## 32. NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

- FRS 109 *Financial instruments* (effective for annual periods beginning on or after 1 January 2018)

  The complete version of FRS 109 replaces most of the guidance in FRS 39. FRS 109 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income (OCI) and fair value through Profit or Loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in FRS 39.

  For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. FRS 109 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under FRS 39.

  This amendment is not expected to have any significant impact on the financial statements of the Group.

- FRS 116 *Leases (effective for annual periods beginning on or after 1 January 2019)*

  FRS 116 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not change significantly.

  The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of $27,023,000 [Note 26(b)]. However, the Group has yet to determine to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

  Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under FRS 116.

## 33. AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of YHI International Limited on 24 March 2017.

# STATISTICS OF SHAREHOLDINGS

AS AT 10 MARCH 2017

## ANALYSIS OF SHAREHOLDINGS

| | |
|---|---|
| Number of shares | 292,295,811 |
| Class of shares | Ordinary shares |
| Voting rights | One vote per share |

| SIZE OF SHAREHOLDINGS | NO. OF SHAREHOLDERS | % | NO. OF SHARES | % |
|---|---|---|---|---|
| 1 – 99 | 14 | 0.81 | 460 | 0.00 |
| 100 – 1,000 | 129 | 7.50 | 57,323 | 0.02 |
| 1,001 – 10,000 | 811 | 47.13 | 4,510,941 | 1.54 |
| 10,001 – 1,000,000 | 753 | 43.75 | 41,604,774 | 14.24 |
| 1,000,001 and above | 14 | 0.81 | 246,122,313 | 84.20 |
| **TOTAL** | **1,721** | **100.00** | **292,295,811** | **100.00** |

| PUBLIC SHAREHOLDERS | No of shares | % |
|---|---|---|
| Non-public shareholders | 184,535,313 | 63.13% |
| Public shareholders | 107,760,498 | 36.87% |
| | 292,295,811 | 100.00% |

Pursuant to Rule 723 of the Listing Manual of the SGX-ST, it is confirmed that at least 10% of the issued ordinary shares of the Company is at all times held by the public.

## SUBSTANTIAL SHAREHOLDERS

| | No. of Shares | | |
|---|---|---|---|
| | Direct Interest | Deemed Interest | % |
| YHI Holdings Pte Ltd | 128,021,860 | – | 43.80 |
| Tay Tian Hoe Richard[(1)] | – | 139,958,860 | 47.88 |
| Tay Tiang Guan[(2)] | – | 44,576,453 | 15.25 |
| Tay Soek Eng Margaret[(3)] | – | 128,021,860 | 43.80 |

**Notes**

(1) Mr Tay Tian Hoe Richard is deemed to have an interest in the following shares by virtue of section 7 of the Companies Act, Cap. 50 (the 'Act'):

| | |
|---|---|
| Shares held in the name of YHI Holdings Pte Ltd | 128,021,860 |
| Shares held in the name of his nominees | 11,937,000 |
| | 139,958,860 |

(2) Mr Tay Tiang Guan is deemed to have an interest in 44,576,453 shares held in the name of his nominees by virtue of Section 7 of the Act.

(3) Mdm Tay Soek Eng Margaret is deemed to have an interest in 128,021,860 shares held in the name of YHI Holdings Pte Ltd by virtue of Section 7 of the Act.

# STATISTICS OF SHAREHOLDINGS

AS AT 10 MARCH 2017

## TWENTY LARGEST SHAREHOLDERS AS AT 10 MARCH 2017

| | NAME OF SHAREHOLDER | NO. OF SHARES | % OF SHAREHOLDINGS |
|---|---|---|---|
| 1 | YHI HOLDINGS PTE LTD | 128,021,860 | 43.80 |
| 2 | CITIBANK NOMINEES SINGAPORE PTE LTD | 76,316,653 | 26.11 |
| 3 | DBS VICKERS SECURITIES (SINGAPORE) PTE LTD | 9,954,500 | 3.41 |
| 4 | HSBC (SINGAPORE) NOMINEES PTE LTD | 7,846,500 | 2.68 |
| 5 | DB NOMINEES (S) PTE LTD | 6,730,500 | 2.30 |
| 6 | DBS NOMINEES PTE LTD | 5,221,850 | 1.79 |
| 7 | ORIX INVESTMENT AND MANAGEMENT | 2,400,000 | 0.82 |
| 8 | ANG KONG MENG | 1,722,450 | 0.59 |
| 9 | PHILLIP SECURITIES PTE LTD | 1,603,400 | 0.55 |
| 10 | LIM MEE HWA | 1,500,000 | 0.51 |
| 11 | TAN YONG CHIANG OR TAN HUI LIANG | 1,256,000 | 0.43 |
| 12 | LEE WOON KIAT | 1,223,600 | 0.42 |
| 13 | TAN KIM KOON | 1,200,000 | 0.41 |
| 14 | HONG LEONG FINANCE NOMINEES PTE LTD | 1,125,000 | 0.38 |
| 15 | KOO CHOON POI @ KOH CHOON PUI | 960,000 | 0.33 |
| 16 | LEE LING LING | 867,500 | 0.30 |
| 17 | UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED | 768,300 | 0.26 |
| 18 | LAM LAI CHENG | 750,000 | 0.26 |
| 19 | LIM HUA TIONG | 579,500 | 0.20 |
| 20 | ANG JUI KHOON | 552,550 | 0.19 |
| | **Total (Top 20 number of shares):** | **250,600,163** | **85.74** |

# NOTICE OF ANNUAL GENERAL MEETING

**YHI INTERNATIONAL LIMITED**
(Incorporated in the Republic of Singapore – Company Registration No. 200007455H)

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of YHI International Limited (the "Company") will be held at 2 Pandan Road, Singapore 609254 on Wednesday, 26 April 2017 at 9.30 a.m. for the following purposes:

## AS ORDINARY BUSINESS

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

2. To declare a first and final tax exempt dividend of 0.64 Singapore cents per ordinary share for the financial year ended 31 December 2016 (2015: 1.42 Singapore cents). **(Resolution 2)**

3. To re-elect the following Directors retiring pursuant to Article 107 of the Company's Constitution:

   Mr Yuen Sou Wai **(Resolution 3)**
   Mr Phua Tin How **(Resolution 4)**

   *Mr Yuen Sou Wai will, upon re-election as a Director of the Company, remain as a member of the Audit Committee, Remuneration Committee and Nominating Committee and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.*

   *Mr Phua Tin How will, upon re-election as a Director of the Company, remain as a member of the Audit Committee, Remuneration Committee and Chairman of the Nominating Committee and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.*

4. To approve the payment of Directors' fees of S$192,500 for the financial year ended 31 December 2016 (2015: S$192,500). **(Resolution 5)**

5. To re-appoint PricewaterhouseCoopers LLP, Certified Public Accountants as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 6)**

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

## AS SPECIAL BUSINESS

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

7. **Authority to allot and issue shares in the capital of the Company ("Shares") – Share Issue Mandate**

   "That, pursuant to Section 161 of the Companies Act, Chapter 50 (the "**Act**") and Rule 806 of the Listing Manual (the "**Listing Manual**") of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), authority be and is hereby given to the Directors of the Company to:

# NOTICE OF
# ANNUAL GENERAL MEETING

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

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

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company shall in their absolute discretion deem fit; and

(B) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue Shares in pursuance of any Instrument 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) and convertible securities to be issued pursuant to this Resolution shall not exceed fifty per cent. (50%) of the total number of issued Shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of Shares and convertible securities to be issued other than on a pro-rata basis to the shareholders of the Company shall not exceed twenty per cent. (20%) of the total number of issued Shares (excluding treasury shares) in the capital of the Company (as at the time of passing of this Resolution);

(2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of Shares and convertible securities that may be issued under sub-paragraph (1) above on a pro-rata basis, the total number of issued Shares (excluding treasury shares) in the capital of the Company shall be based on the total number of issued Shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

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

(b) new Shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution, provided the options or awards were granted in compliance with the rules of the Listing Manual of the SGX-ST; and

(c) any subsequent bonus issue, consolidation or subdivision of Shares.

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST as amended from time to time (unless such compliance has been waived by the SGX-ST) and the Articles; and

(4) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting is required by law to be held, whichever is the earlier."
*[See Explanatory Note (i)]* **(Resolution 7)**

By Order of the Board

Gn Jong Yuh Gwendolyn
Company Secretary

Singapore, 3 April 2017

**Explanatory Notes:**

(i) The Ordinary Resolution 7 proposed in item 7 above, if passed, will empower the Directors of the Company to issue Shares, make or grant instruments convertible into Shares and to issue Shares pursuant to such instruments, up to a number not exceeding, in total, 50% of the total number of issued Shares (excluding treasury shares) in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to shareholders.

(ii) For determining the aggregate number of Shares that may be issued on a pro-rata basis, the total number of issued Shares (excluding treasury shares) will be calculated based on the total number of issued Shares (excluding treasury shares) in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new Shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of Shares. In determining the 20% which may be issued other than on a pro-rata basis, the total number of issued Shares (excluding treasury shares) will be calculated based on the total number of issued Shares (excluding treasury shares) in the capital of he Company at the time the Ordinary Resolution 7 is passed.

**Notes:**

1. Except for a member who is a Relevant Intermediary as defined under Section 181(6) of the Companies Act, Chapter 50 (the "**Act**"), a member is entitled to appoint not more than two proxies to attend, speak and vote at the Annual General Meeting ("**AGM**"). Where a member appoints more than one proxy, the proportion of his concerned shareholding to be represented by each proxy shall be specified in the proxy form.

2. Pursuant to Section 181(1C) of the Act, a member who is a Relevant Intermediary is entitled to appoint more than two proxies to attend, speak and vote at the AGM, 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 number and class of shares in relation to which each proxy has been appointed shall be specified in the proxy form.

# NOTICE OF ANNUAL GENERAL MEETING

3. The instrument appointing a proxy or proxies must be deposited at registered office of the Company at **No. 2 Pandan Road, Singapore 609254**, or the registered office of the Company's share registrar, Tricor Barbinder Share Registration Services (as the case may be) at **80 Robinson Road #11-02, Singapore 068898**, not less than **48 hours** before the time set for the AGM.

4. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or duly authorised officer.

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

6. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the AGM, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

7. An investor who buys shares using CPF monies ("CPF Investor") and/or SRS monies ("SRS Investor") (as may be applicable) may attend and cast his vote(s) at the AGM in person. CPF and SRS Investors who are unable to attend the AGM but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the AGM to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the AGM.

# YHI INTERNATIONAL LIMITED

(Incorporated in Singapore with limited liability)
(Company Registration Number: 200007455H)

**IMPORTANT:**

1. Pursuant to Section 181(1C) of the Companies Act, Chapter 50 (the "**Act**"), Relevant Intermediaries may appoint more than two proxies to attend, speak and vote at the Annual General Meeting.
2. For investors who have used their CPF/SRS monies to buy shares in the Company, this proxy form is not valid for use and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors are requested to contact their respective Agent Banks for any queries they may have with regard to their appointment as proxies or the appointment of their Agent Banks as proxies for the Annual General Meeting.

# PROXY FORM

(Please see notes overleaf before completing this Proxy Form)

I/We, ____________________ (name) ____________________ (NRIC/passport)

of ________________________________________ (address)

being a member/members* of YHI International Limited (the "**Company**"), hereby appoint:

| Name | NRIC/Passport No. | Proportion of Shareholding | |
|---|---|---|---|
| | | No. of Shares | % |
| Address | | | |

and/or*

| Name | NRIC/Passport No. | Proportion of Shareholding | |
|---|---|---|---|
| | | No. of Shares | % |
| Address | | | |

or failing him/her*, the Chairman of the Meeting (defined below), as my/our* proxy/proxies* to vote for me/us* on my/our* behalf at the Annual General Meeting ("**Meeting**") of the Company to be held at 2 Pandan Road, Singapore 609254 on Wednesday, 26 April 2017 at 9.30 a.m. and at any adjournment thereof.

I/We* direct my/our* proxy/proxies* to vote for or against the Resolutions proposed at the AGM as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the AGM and at any adjournment thereof, the proxy/proxies* will vote or abstain from voting at his/her* discretion.

**(Please indicate your vote "For" or "Against" with a tick [√] within the box provided.)**

| No. | Resolutions relating to: | For | Against |
|---|---|---|---|
| 1. | Directors' Statement and Audited Financial Statements for the financial year ended 31 December 2016 (Ordinary Resolution) | | |
| 2. | Payment of proposed first and final dividend of 0.64 Singapore cents per ordinary share (Ordinary Resolution) | | |
| 3. | Re-election of Mr Yuen Sou Wai as Director of the Company (Ordinary Resolution) | | |
| 4. | Re-election of Mr Phua Tin How as Director of the Company (Ordinary Resolution) | | |
| 5. | Approval of Directors' fees amounting to S$192,500 for the financial year ended 31 December 2016 (2015: S$192,500) (Ordinary Resolution) | | |
| 6. | Re-appointment of PricewaterhouseCoopers LLP, Certified Public Accountants as Auditors and to authorise the Directors to fix their remuneration (Ordinary Resolution) | | |
| 7. | Authority to allot and issue shares in the capital of the Company ("Shares") – Share Issue Mandate (Ordinary Resolution) | | |

Dated this __________ day of ______________ 2017

| Total Number of Shares Held |
|---|
| |

________________________________________

Signature of Shareholder(s)
or, Common Seal of Corporate Shareholder

**IMPORTANT: PLEASE READ NOTES OVERLEAF**

**NOTES:**

1. Except for a member who is a Relevant Intermediary as defined under Section 181(6) of the Companies Act, Chapter 50 (the "**Act**"), a member is entitled to appoint not more than two proxies to attend, speak and vote at the Annual General Meeting ("**AGM**"). Where a member appoints more than one proxy, the proportion of his concerned shareholding to be represented by each proxy shall be specified in the proxy form.

2. Pursuant to Section 181(1C) of the Act, a member who is a Relevant Intermediary is entitled to appoint more than two proxies to attend, speak and vote at the AGM, 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 number and class of shares in relation to which each proxy has been appointed shall be specified in the proxy form.

3. A proxy need not be a member of the Company.

4. 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 81SF of the Securities and Futures Act, Chapter 289 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 that number of shares. If the member has shares entered against his name in the Depository Register and registered in his name in the Register of Members, 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.

5. The instrument appointing a proxy or proxies must be deposited at registered office of the Company at **No. 2 Pandan Road, Singapore 609254**, or the registered office of the Company's share registrar, Tricor Barbinder Share Registration Services (as the case may be) at **80 Robinson Road #11-02, Singapore 068898**, not less than **48 hours** before the time set for the AGM.

6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or duly authorised officer.

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

8. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the AGM, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

9. An investor who buys shares using CPF monies ("CPF Investor") and/or SRS monies ("SRS Investor") (as may be applicable) may attend and cast his vote(s) at the AGM in person. CPF and SRS Investors who are unable to attend the AGM but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the AGM to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the AGM.

**GENERAL:**

The Company shall be entitled to reject an instrument of proxy which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the instrument of proxy. In addition, in the case of shares entered in the Depository Register, the Company may reject an instrument of proxy if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the AGM.

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.

**PERSONAL DATA PRIVACY:**

By submitting a proxy form appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM 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 AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any AGM 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.

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友发国际有限公司
YHI INTERNATIONAL LIMITED
Since 1948

Listed on the mainboard of the Singapore Exchange
Company Registration Number 200007455H

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Website: www.yhi.com.sg