



Shaped for the Future

Annual Report 2016

About AnnAik

Tracing its beginning to 1977, AnnAik Limited is today a manufacturer of forged steel flanges, and a distributor of over 10,000 stainless steel pipes, flanges, butt-welded fittings, low/high pressure fittings, valves, stub ends, and flat products. AnnAik also engages in providing environmental services in PRC and Singapore to governmental and commercial operators.

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

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

In 2005, the Group diversified into environmental business by securing contracts to build wastewater treatment plants in PRC. Today, the Group not only has six wastewater treatment plants in PRC under Build-Own-Transfer ("BOT") or Build-Own-Operate ("BOO") concept, we have also expanded our service offerings to include consulting services in water resource management to governmental and commercial operators in Singapore, as well as the construction and supply of rural wastewater treatment equipment in PRC.

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

Our Vision

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

This annual report has been prepared by the Company and its contents have been reviewed by the Company's Sponsor Hong Leong Finance Limited (the "**Sponsor**") for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"). The Sponsor has not independently verified the contents of this announcement.

This annual report has not been examined or approved by SGX-ST and the SGX-ST assume no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Mr Tang Yeng Yuen, Vice President, Head of Corporate Finance, Hong Leong Finance Limited, at 16 Raffles Quay, #40-01A Hong Leong Building, Singapore 048581, telephone: +65 6415-9886.

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Manufacturing

- Shinsei steel flanges
- Awarded ISO 9001:2008, TUV, CRN, ClassNK, SASOL certification and approval for international product standard compliance
- Serve a wide base of customers



Distribution

- Warehouse holds over 10,000 stainless steel pipes, flanges, butt-welded fittings, low/high pressure fittings, valves, stub ends, and flat products
- Awarded: ISO 9001:2008 standards for quality management operation as stainless steel producer and stockist
- Over 450 customers across the region



Environmental and Engineering Services

- Construct and operate industrial wastewater treatment plants in PRC
- Consulting service in water resource management, including governmental and commercial operators in Singapore
- Construct and supply rural wastewater treatment equipment in PRC

Message from Chairman

Dear Shareholders,

2016 had been a tumultuous year fraught with unexpected political and social episodes. The United Kingdom's unexpected Brexit decision and the results of the U.S presidential election had shrouded the world with clouds of uncertainties. The U.S and most of the developed economies achieved modest economic growth; and even China, one of the world's key growth engines recorded its slowest growth since 1990. Although the Singapore economy grew by 2% in 2016, the performance across business sectors was uneven.

Operating in a Volatile Market

As a result of the challenging economic environment, AnnAik had to confront weak market demand in an increasingly competitive market in 2016. These circumstances adversely impacted AnnAik's turnover, causing the turnover to decrease from \$53.07 million in 2015 to \$48.02 million in 2016. The decrease was partially offset by higher revenue from the Group's environmental business which secured new projects during the year.

Correspondingly, the Group recorded a loss attributed to owners of the Company at \$4.57 million for the financial year ended 31 December 2016. The loss was caused mainly by a write down of long-term available-for-sale financial assets for the Group's China Dalian Sicheng project investment which amounted to \$3.47 million. Excluding this impairment, the Group's operating loss is \$1.10 million due principally to a sharp downward market correction that negatively affected the



Notwithstanding the market conditions, the Group remains on track to transform our business from a product trader to a solution provider.





demand and selling price of steel piping products in both the distribution and manufacturing divisions, offsetting profit contributed by environmental business.

Strengthening Resilience

In anticipation of continued uncertainties in the global economy, the Group had implemented a focused cash flow monitoring mechanism as well as put in place various cost control measures since 2015. In 2016, the Group remained prudent. Apart from writing down the investment in China Dalian Sicheng project, the

Group also adopted a proactive approach towards lowering total liabilities of the Group. This led to a repayment in bills payable of \$0.83 million, trade payables of \$1.02 million, other payables of \$2.25 million and bank borrowings of \$9.89 million according to payment schedules.

During the year, the Group also imposed strict controls in inventories replenishment and tightened collection efforts in receivables. These measures generated positive cash flows for the Group, resulting in an increase in cash and cash equivalents from \$5.77 million in 2015 to \$6.22 million in 2016.

Embracing New Opportunities

In 2016, the Group's environmental business continued the momentum from 2015 to contribute positively to the Group's performance. The share of profit from an associate and a joint venture in the industrial and newly ventured rural wastewater environmental

business increased from \$0.864 million in 2015 to \$2.49 million in 2016 on the back of higher revenue and gross profit recorded. During the year, the Group also won new projects for our environmental business in Singapore.

Significantly, these various developments not only validated the Group's increasing emphasis in the environmental business during the year, but also hinted at the future potential of the business unit.

Staying on Track

2017 will likely be another challenging year. Although the world economy is expected to continue to grow moderately, the prospect for global trade suffered a major setback when the U.S pulled out of the Trans-Pacific Partnership. Geopolitical tensions and growing trade protectionism sentiments also continue to fuel a wide dispersion of various possible outcomes.

S\$
48.02
million
Turnover



Notwithstanding the market conditions, the Group remains on track to transform our business from a product trader to a solution provider. Through this change, we are empowered to capitalise on opportunities present in industries as they shift their focus from oil to gas, and waste to energy, solvents and water recovery. Notably, our prudent stance towards cash flow management will also enable the Group to take advantage of any arising opportunities present in the local and global markets.

Furthermore, in tandem with the strategy mapped out for a “Future Ready Singapore”, the Group looks to expand our presence beyond the shores of Singapore

by collaborating closely with various stakeholders, including our existing business partners, relevant government authorities and, most importantly, our customers. Recognising that the readiness of our workforce is also central to the long-term growth and sustainability of AnnAik, the Group will invest in the development of our people to ensure that they are well skilled to meet the challenges ahead.

Dividend

The Board of Directors is pleased to propose a first and final one-tier tax-exempt dividend of 0.2 cent per share for the year ended 31 December 2016. The dividend will be paid out to shareholders upon approval at the annual general meeting.

Our Heartfelt Appreciation

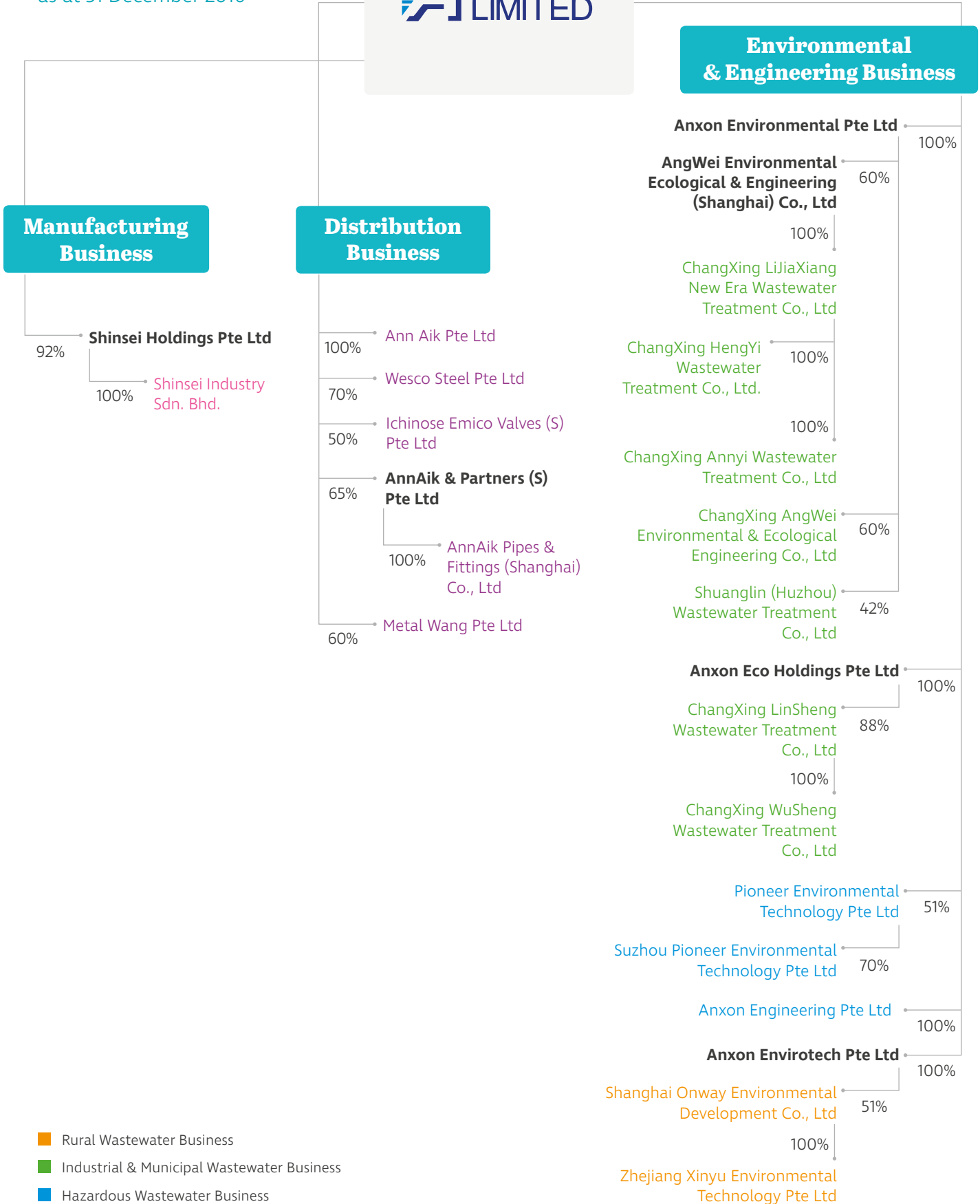
In many ways, 2016 was challenging. However, we are deeply grateful to the generous support of our shareholders, customers and business partners. Their continued partnership and trust in AnnAik fortifies our resolve to push through regardless of the difficulties confronting us. I am also humbled to work alongside a dedicated Board and passionate team. They have been instrumental in ensuring our future-readiness. Collectively, we are well positioned to create new opportunities and grow new strengths.

James Ow Chin Seng

Executive Chairman cum CEO

Group Structure

as at 31 December 2016



- Rural Wastewater Business
- Industrial & Municipal Wastewater Business
- Hazardous Wastewater Business

Board of Directors

Mr. Ow Chin Seng, PBM

Executive Chairman cum CEO

Date of appointment:

31 March 1990

Date of last re-election:

27 April 2015



Mr. Ow Chin Seng joined the Company in 1978. As Executive Chairman, Mr. Ow is primarily responsible for the business and strategic development of the Group. With over 38 years of experience in the hardware and steel industry, Mr. Ow has been instrumental in the strategic direction and development of the Group.

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

Mr. Koh Beng Leong

Executive Director

Date of appointment:

1 January 2011

Date of last re-election:

28 April 2016



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

Present directorship in listed companies: Sunlight Group Holdings Limited.

Past directorships held over preceding three years in listed companies: Nil



Dr. Yang Guo Ying

Executive Director

Date of appointment:

1 July 2013

Date of last re-election:

28 April 2016

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

Mr. Ng Kim Keang

*Executive Director cum
Chief Operating Officer*

Date of appointment:

3 January 2005

Date of last re-election:

27 April 2015



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

Mr. Ow Eei Meng Benjamin

Executive Director

Date of appointment:

1 March 2015

Date of last re-election:

27 April 2015

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



Board of Directors

Mr. Ang Mong Seng, BBM

Independent Director

Date of appointment:
31 July 2003
Date of last re-election:
27 April 2015



Mr. Ang Mong Seng is the former Member of Parliament for Hong Kah GRC (Bukit Gombak) and the Ex-Chairman of Hong Kah Town Council. Mr. Ang has more than 34 years of experience in estate management. He was the Chief Operating Officer of EM Services Pte Ltd from 2002 to 2011 and General Manager for Sembawang Town Council from 1988 to 1997. Mr. Ang holds a Bachelor of Arts from Nanyang University. He is currently serving as Independent Director for several public-listed companies in Singapore.

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

Past directorships held over preceding three years in listed companies: United Fibre System Limited and Ecowise Holdings Limited.

Mr. Lee Bon Leong, BBM, PBM, JP

Independent Director

Date of appointment:
31 July 2003
Date of last re-election:
28 April 2016



Mr. Lee Bon Leong is a Senior Partner in Lee Bon Leong & Co (Advocates & Solicitors). He has a Master of Laws degree from the University of Singapore.

Mr. Lee has been appointed as a Justice of the Peace by the President of Singapore since November 1998 and serves as a member of the Board of Visiting Justices and the Board of Inspection. He had been a member of the Panel for the Disciplinary Committee of Enquiry, Public Service Commission. Mr. Lee is the Vice-Chairman and Trustee of the Inmates' Families Support Fund and Chairman of the Home Detention Advisory Committee 2. Mr. Lee was conferred the Public Service Star (BBM) award in 2012. In April 2016 Mr. Lee was appointed as Chairman of the Board of Visitors for the SCDF and SPF Detention Barracks.

Present directorship in listed companies: Asia Enterprises Holding Ltd and Megachem Ltd.

Past directorships held over preceding three years in listed companies: Nil

Dr. Choong Chow Siong*Independent Director*

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



Dr. Choong Chow Siong was an audit partner and has over 40 years of experience in financial audit. Dr. Choong is a Fellow Member of the Institute of Singapore Chartered Accountants (FCA, Singapore), and a Member of the Chartered Institute of Arbitrators (MCI Arb), UK. From 2009 to 2011, Dr. Choong also served on the Hot Review Panel of Institute of Certified Public Accountants of Singapore (ICPAS).

A co-author of the book entitled "Revenue Accounting and the 5R Revenue Theory for Management Reporting", published in 2001, Dr. Choong received an appreciation letter in relation to his research on revenue reporting and UK Revenue Recognition (FRS5 – G9 of Accounting Standards Board (ASB), UK, November 2003) from the Chairman of International Accounting Standards Board (IASB), UK in June 2004. The issue of new disclosure requirement in paragraph 113 of IFRS 15 "Revenue from contracts with customers" on new revenue reporting of IASB, UK and Financial Accounting Standards Board (FASB) USA on 28 May 2014 is consistent with Dr. Choong's 5R Revenue Theory (1991 & 2001).

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

Past directorships held over preceding three years in listed company: Nil

Mr. Daniel Lin Wei*Non-Executive Director*

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



Mr. Daniel Lin is currently an Executive Director of Singapore-listed company Viking Offshore & Marine Ltd. Mr. Lin also holds portfolios at Viking's wholly-owned subsidiaries, Viking Asset Management and Promoter Hydraulics Pte Ltd as Chief Executive Officer and Managing Director respectively. Prior to this, Mr. Lin was an Executive Director of Boutique Mergers & Acquisitions Advisory Firm Blue Ocean Capital Partners.

He graduated with an honours degree in law in 2007 from Bristol University, United Kingdom.

Present directorship in listed companies: Viking Offshore And Marine Limited.

Past directorships held over preceding three years in listed company: Nico Steel Holdings Limited.

Operation Review

2016 served up another difficult year for AnnAik. Unexpected world events and drastic changes in the business landscape had resulted in a general loss of confidence among businesses and contributed to subdued trade activities. Against this backdrop, the Group saw a moderate decrease of 9.51% in turnover for the financial year ended 31 December 2016. Consequently, the Group recorded a loss attributed to owners of the Company amounting to \$4.57 million which included a one off impairment made for the long-term available-for-sales financial assets amounting to S\$3.47 million.

Excluding the write-down of long-term available-for-sale financial assets for the investment in China Dalian Shicheng project, the Group's actual operating loss stood at \$1.10 million due principally

to a sharp downward market correction which negatively affected the demand and selling price of steel piping products for both the distribution and the manufacturing divisions, offsetting profit contributed by environmental business.

Distribution Business

In 2016, the Group's distribution business was adversely impacted by the weak market sentiments and lower project sales. Decreased trading activities for steel coils and sheets also contributed to lower revenue for the distribution business. The situation of the sluggish market was further aggravated by the lower selling price which arose from the downward market correction. Resultantly, the distribution business registered a decrease of 20.98% in turnover for the year.

Despite the challenging market conditions, the Group kept up

with our brand building efforts to ensure top of mind awareness among prospective customers. Through strengthening partnerships with existing customers and maintaining a proactive approach towards seeking out new business, the distribution business remains poised to take advantage of arising opportunities in the business landscape.

Manufacturing Business

Similarly, the Group's manufacturing business had to confront a tough operating environment. Weak market demand and suppressed selling price spilled over from 2015 and remained central to the weak performance of the manufacturing business in 2016.

Towards which, the various cost control measures implemented in 2015 continued to be effective in mitigating the negative impact of the environment on





the Group’s manufacturing business in 2016. In addition, a streamlined production output also ensured that slow-moving inventories do not exacerbate the operational challenges. As a result of these holistic measures, the net loss for the manufacturing business decreased in 2016 – on the back of write-back of inventories to net realisable value and lower impairment of plant and equipment.

Environmental Business

Building upon the strong growth momentum in 2015, the Group’s environmental business once again outperformed the distribution and the

manufacturing businesses in 2016. During the year, the revenue stream from our industrial wastewater business remained relatively stable with sustainable profit contributions to the Group; the newly ventured rural wastewater treatment business also uplifted the overall performance of the Group’s environmental business. Collectively, the environmental business achieved a share of profit amounting to \$2.49 million in 2016.

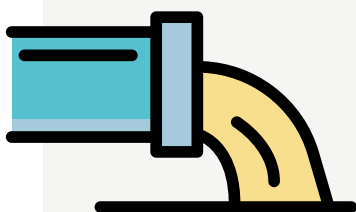
Outlook for 2017

For the coming year, the world economy is expected to sustain moderate growth. However, uncertainties from geopolitical

tensions and growing trade protectionism would remain a concern and threaten the recovery of the global economies.

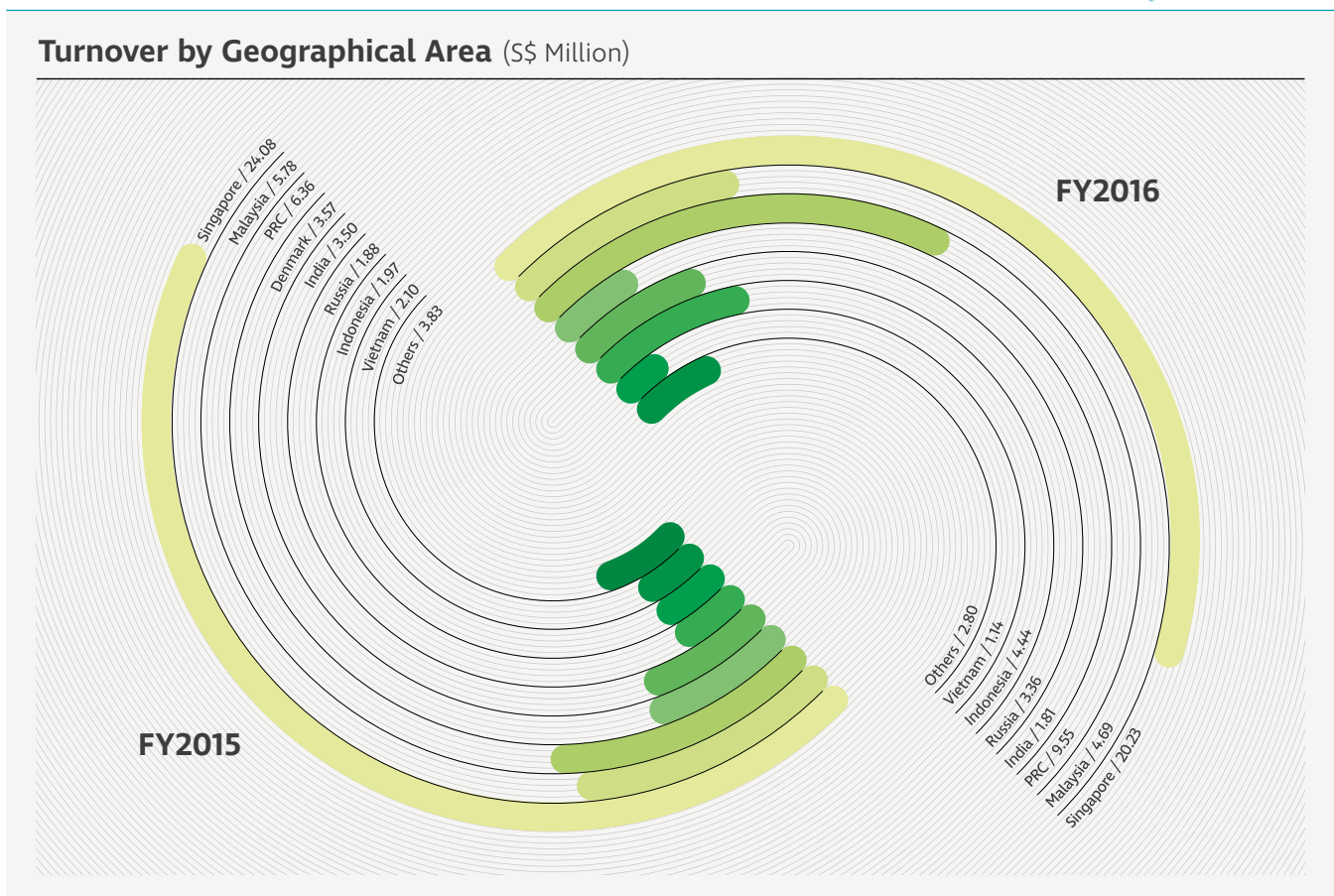
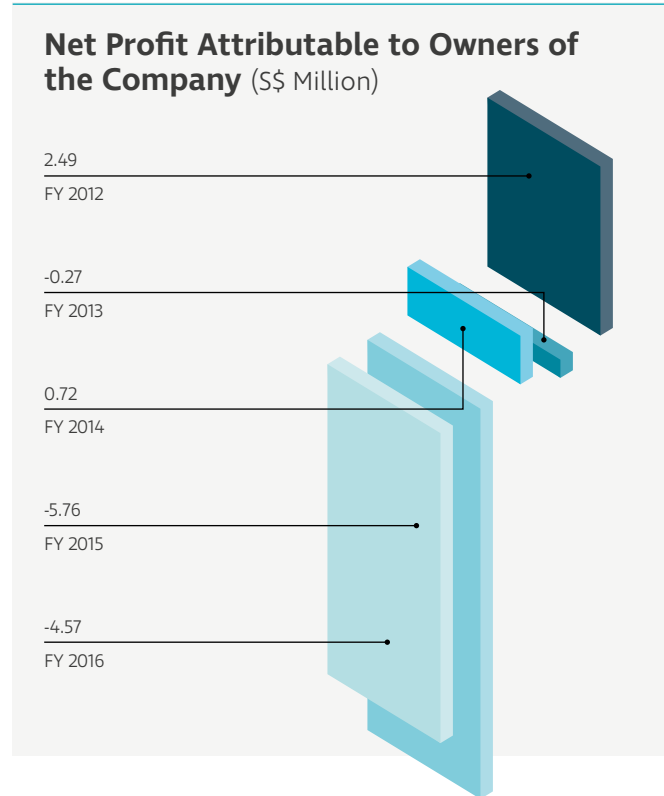
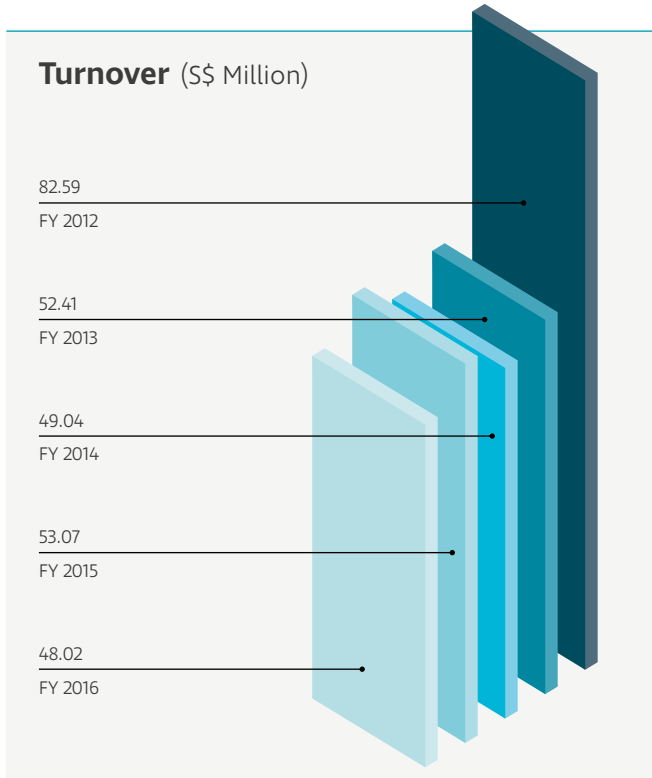
While it is inevitable that the market environment at large impacts the Group’s businesses, we will stay focused on transforming our business – from a product trader to a solution provider. This fundamental shift in our business focus is not only in alignment with the growing opportunities in the environmental business, but also reinforces the resilience of the Group through a diversified business portfolio.

Leveraging the strategy mapped out for a “Future Ready Singapore”, the Group will also keep an active lookout for opportunities to expand our presence beyond the shores of Singapore through close collaborations with various stakeholders such as our existing business partners, relevant government authorities and, most importantly, our customers.



Building upon the strong growth momentum in 2015, the Group’s environmental business once again outperformed the distribution and the manufacturing businesses in 2016.

Financial Highlights



Corporate Governance Report

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

This report outline the corporate governance framework and practices of the Company with specific reference made to the principles and guidelines of the Singapore Code of Corporate Governance 2012 (the “**Code**”).

BOARD MATTERS

The Board’s Conduct of Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.

The responsibilities of the Board include the following:-

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

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

All Directors objectively discharge their duties and responsibilities at all times as fiduciaries in the interest of the Company.

Board Processes

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

To ensure that specific issues are subject to considerations and review before the Board makes its decisions, the Board is supported by the 3 Board committees, namely, the Audit Committee (“**AC**”), Nominating Committee (“**NC**”) and Remuneration Committee (“**RC**”), responsible for making recommendations to the Board. These Board committees operate within clearly defined terms of reference and play an important role in ensuring good corporate governance in the Company and within the Group. The terms of reference will be reviewed by the Board committees on a regular basis to enhance the effectiveness of these Board committees. The minutes of all Board and Board committees meetings, which provide a fair and accurate record of the discussion and key deliberations and decisions taken during the meetings, are circulated to the Board and Board committees. The roles and responsibilities of these Board committees are provided for in the latter sections of this report on Corporate Governance.

Corporate Governance Report

During the financial year ended 31 December 2016, the Board held a total of 4 meetings to review the Group's business operation and financial performance. The Board also approves transactions through circular resolutions, which are circulated to the Board together with all relevant information relating to the proposed transaction.

The agenda for meetings is prepared in consultation with the Executive Chairman, the Executive Directors and/or the Chairman of the Board committees. The agenda and documents are circulated in advance of the schedule meetings.

The frequency of meetings and the attendance of each Director at every Board and Board committee meeting for the financial year ended 31 December 2016 are disclosed in the table reflected below:-

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

Name of Directors	Board		Audit Committee		Nominating Committee		Remuneration Committee	
	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended
Mr Ow Chin Seng	4	4	2	2*	2	2	2	-
Mr Koh Beng Leong	4	4	2	2*	2	-	2	-
Mr Ng Kim Keang	4	4	2	2*	2	-	2	-
Mr Ow Eei Meng, Benjamin	4	4	2	2*	2	-	2	-
Dr Yang Guo Ying	4	4	2	2*	2	-	2	-
Mr Daniel Lin Wei	4	2	2	2*	2	-	2	-
Mr Ang Mong Seng	4	4	2	2	2	2	2	2
Mr Lee Bon Leong	4	4	2	2	2	2	2	2
Dr Choong Chow Siong	4	4	2	2	2	2	2	2

Notes:-

* Attendance by invitation

The Directors were appointed based on their experience, stature and potential to contribute to the proper guidance of the Group and its businesses. As such, we believe that each individual Director's contributions can be reflected in ways other than the reporting of attendances at Board meetings and/or Board Committees meetings.

Director Orientation and Training

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

The aim of the orientation program is to give directors a better understanding of the Company's businesses and allow them to assimilate into their new roles. New Director is also informed about matters such as the Code of Dealing in the Company's securities. Changes to regulations and accounting standards are monitored closely by the Management. In order to keep pace with such regulatory changes, the Company provides opportunities for ongoing training on Board processes and best practices as well as updates on changes in legislation and financial reporting standard, regulations and guidelines from SGX-ST that affect the Company and/or the directors in discharging their duties effectively. There is no new Director appointed on Board during the year.

New releases issued by the SGX-ST and Accounting and Corporate Regulatory Authority ("**ACRA**"), which are relevant to the Directors are circulated to the Board. The Company Secretary also informs the Directors of upcoming conferences and seminars relevant to their roles as Directors of the Company. The External Auditors would update the AC and the Board on new and revised financial reporting standards annually.

Corporate Governance Report

Board Composition and Guidance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

As at the date of this report, the Board comprises nine Directors, five of whom are Executive Directors, one Non-Executive Director and three Independent Directors. Their collective experience and contributions are valuable to the Group. The Directors as at the date of this report are listed as follows:-

Executive Directors

Mr Ow Chin Seng, PBM	Executive Chairman cum Chief Executive Officer
Mr Ng Kim Keang	Executive Director
Mr Koh Beng Leong	Executive Director
Dr Yang Guo Ying	Executive Director
Mr Ow Eei Meng, Benjamin	Executive Director

Non-Executive Director

Mr Daniel Lin Wei	Non-Executive Director
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Independent Directors

Mr Ang Mong Seng, BBM	Independent Director
Mr Lee Bon Leong, PBM, BBM, JP	Independent Director
Dr Choong Chow Siong	Independent Director

The Board has adopted the Code's criteria of an Independent Director in its review that all Independent Directors have satisfied the criteria of independence. In line with Guideline 2.1, the Independent Directors of the Company make up at least one-third of the Board. Having reviewed its size, the Board is of the view that:-

- a) the current arrangement is adequate given that the Independent Directors form at least one-third of the Board composition; and
- b) the composition of Directors as a whole provides core competencies necessary to meet the Group's requirements with an appropriate balance and diversity of skills, experiences and knowledge, taking into account the following:-
 - (i) the nature and scope of the Group's operations; and
 - (ii) the Independent Directors are respected individuals from different backgrounds whose core competencies, qualifications, skills and experience are extensive and complementary.

The independence of each Director is reviewed annually by the NC in accordance with the Code's definition of independence. Each Independent Director is required to complete a 'Confirmation of Independence' form to confirm his independence. The said form, which was drawn up based on the definitions and guidelines set forth in Guideline 2.3 in the Code and the Guidebook for AC in Singapore issued by the AC Guidance Committee, requires each Director to assess whether he considers himself independent despite not having any of the relationships defined in the Code. The NC has reviewed the forms completed by each Independent Director and is satisfied that the present size of the Board is effective for the decision making. The composition of the Board is reviewed at least annually by the NC to ensure that there is an appropriate mix of expertise and experience to enable the Management to benefit from a diverse perspective of issues that are brought before the Board.

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

Corporate Governance Report

All appointments and re-elections of Directors are reviewed and recommended by the NC to the Board. The independence of each Independent Director is reviewed by the NC and the Board annually in accordance with the guidelines of the Code.

The Board considers an Independent Director as one who has no relationship with the Company, its related corporations or its officers, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement with a view to the best interests of the Company.

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

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

Although all the Directors have an equal responsibility for the Group's operations, the Independent Directors play an important role (i) in ensuring that the strategies proposed by the Management are constructively challenged and developed by taking into account the long-term interests of the shareholders and (ii) in reviewing the performance of Management in meeting agreed goals and objectives and monitoring the performance reporting. The Independent Directors are encouraged to meet, without the presence of Management in order to facilitate a more effective check on Management.

Profiles of the Directors are found on page 6 to 9 of this Annual Report.

To-date, none of the Independent Directors of the Company has been appointed as Director of the Company's principal subsidiary, which is based in Singapore.

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.

The roles of Chairman and Chief Executive Officer ("**CEO**") are assumed by Mr Ow Chin Seng ("**Mr Ow**"). As the CEO, he is responsible for the day-to-day operations of the Group. He plays an instrumental role in charting the direction and strategic development of the Group and formulates business strategies, the development of the Group and promoting high standards of corporate governance.

As Chairman, he leads the Board and is responsible for the effective working of the Board including:-

- scheduling of meetings (with the assistance of the Company Secretary) to enable the Board to perform its duties while not interfering with the flow of the Group's operations;
- setting the meeting agenda of the Board;
- ensuring that Board meetings are held when necessary;
- facilitating contributions from the Independent Directors and encouraging constructive relationships between the Directors;
- exercising control over the quality, quantity and timeliness of information flow between the Management and the Board;
- ensuring and fostering constructive and effective communication with shareholders;

Corporate Governance Report

- promoting a culture of openness and debate at the Board; and
- promoting high standards of corporate governance with full support from the Directors and Management.

Although the roles and responsibilities of both the Chairman and CEO are vested in Mr Ow, major decisions are made in consultation with the Board. The Independent Directors currently form one-third of the Board and exercise objective judgement on corporate matters impartially, thus ensuring a balance of power and authority. The Board is of the opinion that the process of decision making by the Board has a strong independent element and provides for collective decisions without any individual or small group of individuals dominating the Board's decision making.

As the above practice is a deviation from the principles 2.2 and 3.3 and pursuant to the recommendations by the Code, the Board is considering re-constitution of the Board members and/or appointing the lead independent Director to be in line with the Code.

Board Membership

Principle 4: There should be a formal and transparent process for the appointment and re-appointment of Directors to the Board.

The Board established the NC which comprises of 4 Directors, a majority of whom, including Chairman, are Independent Directors. The NC is chaired by an Independent Director, Mr Lee Bon Leong. The other NC members are Dr Choong Chow Siong, Mr Ang Mong Seng and Mr Ow Chin Seng. The NC Chairman is also a Director who has no relationship with the Company, its related corporations, its 10% shareholders or its officer and is not directly associated with 10% shareholders.

The NC is regulated by its terms of reference and its key responsibilities include:-

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

All Directors submit themselves for re-nomination and re-election at regular intervals of at least once every three years. In accordance to Regulation 115 of the Company's Constitution, it requires one-third of the Board to retire and submit themselves for re-election by shareholders at each Annual General Meeting ("AGM"). In addition, Regulation 119 of the Company's Constitution provides that every new Director must retire and submit themselves for re-election at the next AGM of the Company following his appointment during the year. A retiring Director is eligible for re-election at the meeting at which he retires.

The NC held 2 meetings during the financial year. The NC has reviewed the independence of Mr Ang Mong Seng, Mr Lee Bon Leong and Dr Choong Chow Siong in accordance with the Code's definition of independence and is satisfied that there are no relationship which would deem any of them not to be independent.

Currently, the Company does not have any alternate Director.

The NC decides how the Board's performance is evaluated and proposes objective performance criteria, subject to the approval of the Board, which addresses how the Board has enhanced long-term shareholders' value. The Board also implemented a process to be carried out by the NC to evaluate the effectiveness of the Board as a whole and its Board committees annually.

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Despite some of the Directors having multiple Board representations, the NC has reviewed the Directorships of the Directors and is satisfied that these Directors are able to, and have adequately carried out their duties as Directors of the Company after taking into the consideration the number of listed company board representations and other principal commitments of these Directors. Currently, the NC and Board do not determine the maximum number of listed Board representations which any Director may hold. The NC and Board are of the view that there should be no restriction to the number of Board representation of each Director and such multiple Board representation do not hinder them from carrying out their duties as Director.

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

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

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

The NC is of the opinion that the independence of the Non-Executive Directors is maintained and that each Director has contributed to the effectiveness of the Board as a whole and its Board committees. In this regard, the NC has recommended and the Board has approved the re-election of Mr Ow Chin Seng, Dr Chong Chow Siong and Mr Daniel Lin Wei, to be put forward for re-election at the forthcoming AGM of the Company. Dr Choong Chow Siong has indicated his intention to retire from the Board and not seek for re-election at the forthcoming AGM of the Company.

Board Performance

Principle 5: There should be a formal annual assessment of the effectiveness of the Board as a whole and its Board Committees and the contribution by each Director to the effectiveness of the Board.

In line with the principles of good corporate governance, the Board has implemented a process to be carried out by the NC to evaluate the effectiveness of the Board as a whole and its Board Committees annually. The performance criteria for the Board evaluation includes an evaluation of the size and composition of the Board, the Board's access to information, accountability, board processes, board performance in relation to discharging its principal responsibilities, communication with the Management and standards of conduct of the Directors. This encourages constructive feedback from the Board and leads to enhance its performance over time.

The NC has decided unanimously that the Directors will not be evaluated individually but factor taken into consideration for re-nomination are the extent of their contribution to the Group and/or levels of participation in various Board committees and attendance of Board meetings.

In assessing the Board's performance as a whole and its Board Committees, both quantitative and qualitative criteria are considered. Such criteria include consideration of the Company's share price performance over a five-year period vis-à-vis the Singapore Straits Times Index and the achievement of strategic objectives.

The NC, in considering the re-appointment of any Director, evaluates the performance of the Director. The NC had also implemented a process to be carried out by the NC to assess the effectiveness of the Board Committees annually. The NC has recommended that the members of the respective Board Committees complete the evaluation form adopted by the NC. The results of the Board and Board Committees assessments are reviewed and discussed by the NC and, any recommendation and suggestion arising from the evaluation exercise are circulated to the Board for consideration of the appropriate measures to be taken.

Selected performance criteria will not change from year to year unless they are deemed necessary and the Board is able to justify the changes.

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Board Committees

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

Nominating Committee

Mr Lee Bon Leong	(Chairman)
Dr Choong Chow Siong	(Member)
Mr Ang Mong Seng	(Member)
Mr Ow Chin Seng	(Member)

Remuneration Committee

Mr Ang Mong Seng	(Chairman)
Mr Lee Bon Leong	(Member)
Dr Choong Chow Siong	(Member)

Audit Committee

Dr Choong Chow Siong	(Chairman)
Mr Lee Bon Leong	(Member)
Mr Ang Mong Seng	(Member)

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

The NC, in considering the re-nomination and re-election of any Director, had considered factors including their performance in the Board as a whole, its Board Committees and individual performance including his attendance, preparedness, participation and contributions in the proceedings of the meetings.

Access to Information

Principle 6: In order to fulfil their responsibilities, Directors should be provided with complete, adequate and timely information prior to Board Meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

To assist the Board to fulfil its responsibilities, the members of the Board are provided with relevant materials on budgets, forecasts, internal financial statements, material events and transactions complete with background and explanations in a form and quality appropriate to facilitate the Board to make an informed decision prior to each Board meeting. In respect of budgets, any material variance between the projections and actual results would be disclosed and explained during the meeting. Directors are also informed of any significant developments or events relating to the Group.

As a general rule, board papers are sent to Directors at least three days in advance in order for the Directors to be adequately prepared for the meeting. In addition, the Independent Directors have separate and independent access to the Group's senior management and the advice and services of the Company Secretary who provides the Directors with regular updates on the requirements of the Companies Act and all the rules and regulations of the SGX-ST. The decision to appoint or remove the Company Secretary is made by the Board as a whole.

The Company Secretary or her representatives attend all Board and Board Committee meetings, and assists the Chairman of the Board and Board Committees in ensuring that the relevant procedures are followed and reviewed such that the Board and Board Committees function effectively. She also ensures that the requirements of the Singapore Companies Act and all other rules and regulations of the SGX-ST are complied with.

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REMUNERATION MATTERS

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his own remuneration.

The Group's remuneration policy is to provide remuneration packages at market rates which reward successful performance and attract, retain and motivate Directors and key management personnel.

The RC comprises 3 Directors, all of whom are independent. The RC is chaired by an Independent Director, Mr Ang Mong Seng. The other RC members are Mr Lee Bon Leong and Dr Choong Chow Siong. In discharging their duties, the RC members have access to advice from the internal human resources personnel, and if required, advice from external experts.

The RC reviews and recommends to the Board a framework for the remuneration packages of the Executive Directors and executive officers and development in the Group with the goal of building capable and committed management teams.

The RC is regulated by its terms of reference and its key functions include but not limited to:-

- a) annual review of the remuneration of each of the Directors and executive officers;
- b) recommendations to the Board on a framework of remuneration of the Directors and executive officers;
- c) determination of specific remuneration packages for the Directors, executive officers and associates of controlling shareholders; and
- d) implement and administer Share Option Scheme.

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

Each member of the RC will abstain from reviewing and approving his own remuneration and the remuneration packages of persons related to him. The Group has and will continue to disclose in the Annual Report the total remuneration paid to the Directors. The RC meets twice during the financial year which was in February and August 2016 respectively.

The RC, in considering the remuneration of all Directors, has not sought external advice nor appointed remuneration consultants.

In reviewing the service agreements of the Executive Directors and key management personnel of the Company, the RC will review the Company's obligations arising in the event of termination of these service agreements, to ensure that such service agreements contain fair and reasonable termination clauses which are not overly generous. The RC aims to be fair and avoids rewarding poor performance.

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

Level and Mix of Remuneration

Principle 8: The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the Directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

The Executive Directors do not receive Directors' fees and are paid in accordance to their Service Agreements with the Company. In setting the remuneration packages of the Executive Directors, the Company takes into account the performance of the Group and that of the Executive Directors which are aligned with long term interest and risk policies of the Group. For FY2016, the Executive Directors and key management personnel have met the relevant performance conditions.

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The Independent Directors are paid Directors' fees taking into account factors including but not limited to the effort and time spent and the scope of responsibilities of these Directors. Non-Executive and Independent Directors should not be over-compensated to the extent that their independence may be compromised and no Director is involved in deciding his own remuneration. The Directors' fees are recommended by the RC and submitted to the Board for endorsement. Directors' fees are recommended by the Board for approval at the Company's AGM.

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

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

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

Disclosure on Remuneration

Principle 9: Each company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to Directors and key management personnel, and performance.

The level and mix of remuneration of each Director and top 7 key management personnel (who are not Directors and those who were in service for the year ended 31 December 2016) are as follows:-

Name of Director	Remuneration paid / payable in FY2016					Breakdown of the Directors' Remuneration				
	Up To	\$250,001	\$500,001	\$750,001	\$1,000,001	Salary	Fee	Bonus	Other	Total
	\$250,000	to \$500,000	to \$750,000	to \$1,000,000	to \$1,250,000	& CPF %	%	%	Benefits %	%
Mr Ow Chin Seng	-	X	-	-	-	91	2	4	3	100
Mr Ng Kim Keang	-	X	-	-	-	80	0	3	17	100
Mr Koh Beng Leong ⁽¹⁾	X	-	-	-	-	78	0	3	19	100
Dr Yang Guo Ying	X	-	-	-	-	83	0	3	14	100
Mr Ow Eei Meng, Benjamin ⁽²⁾	X	-	-	-	-	80	0	3	17	100
Mr Daniel Lin Wei	X	-	-	-	-	0	100	0	0	100
Mr Ang Mong Seng	X	-	-	-	-	0	100	0	0	100
Mr Lee Bon Leong	X	-	-	-	-	0	100	0	0	100
Dr Choong Chow Siong	X	-	-	-	-	0	100	0	0	100

Notes:-

⁽¹⁾ Mr Koh Beng Leong is the nephew of Mr Ow Chin Seng.

⁽²⁾ Mr Ow Eei Meng, Benjamin is the son of Mr Ow Chin Seng and cousin of Mr Koh Beng Leong.

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Name of Key Management Personnel	Remuneration paid / payable in FY2016					Breakdown of the Executives' Remuneration				
	Up To \$250,000	\$250,001 to \$500,000	\$500,001 to \$750,000	\$750,001 to \$1,000,000	\$1,000,001 to \$1,250,000	Salary & CPF %	Fee %	Bonus %	Other Benefits %	Total %
Mdm Low Kheng ⁽¹⁾	X	-	-	-	-	93	0	4	3	100
Mr Lim Khan Choon	X	-	-	-	-	96	0	4	0	100
Mr Ow Eei Phurn, Benedict ⁽²⁾	X	-	-	-	-	63	0	2	35	100
Mr Terence Sim Soo Yong	X	-	-	-	-	85	0	7	8	100
Mr Peh Choon Chieh ⁽³⁾	X	-	-	-	-	90	0	3	7	100
Mr Alex Kuah Wei Keong	X	-	-	-	-	82	0	3	15	100
Mr Tay Chee Seng	X	-	-	-	-	91	0	3	6	100

Notes:-

- (1) Mdm Low Kheng is the wife of Mr Ow Chin Seng, mother of Mr Ow Eei Meng, Benjamin and auntie of Mr Koh Beng Leong.
 (2) Mr Ow Eei Phurn, Benedict is the son of Mr Ow Chin Seng, brother of Mr Ow Eei Meng, Benjamin and cousin of Mr Koh Beng Leong.
 (3) Mr Peh Choon Chieh is the nephew of Mr Ow Chin Seng, cousin of Mr Ow Eei Meng, Benjamin and Mr Koh Beng Leong.

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

The annual aggregate amount of the total remuneration paid to top 7 key management personnel (who are not Directors or the CEO) for FY2016 is approximately S\$919,000.

The annual aggregate amount of the termination, retirement and post-employment benefits granted to Directors and the Group CEO under their current contracts of employment or appointment (as the case may be) as at FY2016 is approximately S\$799,000.

The Board believes that it is for the benefit of the Company and the Group that the remuneration of Directors be kept confidential, due to its sensitive nature.

Save as disclosed, there is no employee (who is not Director) whose remuneration exceeds S\$50,000 during FY2016 and is immediate family member of a Director or the CEO.

The Company has adopted the AnnAik Employee Share Option Scheme 2013 (the "ESOS"), which was approved by the shareholders at an Extraordinary General Meeting held on 18 September 2013, as part of a compensation plan to motivate Directors and employees of the Group to greater dedication, loyalty and higher standards of performance. The ESOS Committee members consist of Mr Ang Mong Seng, Mr Lee Bon Leong and Dr Choong Chow Siong. Further details are found on pages 32 and 33 of this Annual Report.

ACCOUNTABILITY AND AUDIT

Accountability

Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

The Board understands its accountability to the shareholders on the Group's position, performance and progress. The Board reviews and approves the financial results as well as any announcements before its release. The objectives of the presentation of the annual Audited Financial Statements, half-year and full-year results to its shareholders are to provide the shareholders with a balanced and understandable assessment and explanation of the Group's financial performance and position and prospects.

Corporate Governance Report

The Management provides the Board with a continual flow of relevant information on a timely basis in order that it may effectively discharge its duties. The Management understands its role to provide all members of the Board with appropriate management reports in a balanced and understandable assessment of the Group's performance, position and prospects.

Financial reports and other price-sensitive information are disseminated to shareholders through announcements via SGXNET, press release and/or posted on the Company's website. The Company's Annual Report is sent to all shareholders and accessible on the Company's website.

The Board is updated with significant events that have occurred or material to the Group during the year. The Management provides the Board with financial updates on the performance and position of the Group to keep Board members informed and updated on a monthly basis in order that it may effectively discharge their duties.

All the Directors and executive officers of the Company have signed undertaking letters pursuant to Rule 720(1) and Appendix 7H of the Listing Manual Section B: Rules of Catalist of Singapore Exchange Securities Trading Limited ("**SGX-ST**").

Risk Management and Internal Controls

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that the Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the Company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

The Board recognises the importance of sound internal controls and risk management practices to good corporate governance. The Board affirms its overall responsibility for the Group's systems of internal controls and risk management, and for reviewing the adequacy and effectiveness of those systems on an annual basis. The internal control and risk management functions are performed by the Group's key management personnel and reported to the AC for review.

It should be noted, in the opinion of the Board, that such system is designed to manage rather than to eliminate the risk of failure to achieve business objectives, and that it can provide only reasonable, and not absolute, assurance against material misstatement of loss, and include the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risk. The Board notes all internal control systems contain inherent limitations and no system of internal controls could provide absolute assurance against the occurrence of material errors, poor judgment in decision-making, human error losses, fraud or other irregularities.

The Group had appointed UHY Lee Seng Chan & Co as the independent Internal Auditors of the Group to review the effectiveness of the Group's internal controls in light of the size and complexity of the Group's operations. Relying on the reports from the independent Internal Auditors, management letter issued by the External Auditors (to the extent as required by them to form an audit opinion on the statutory financial statements) and the representation letters from the Management, the AC will carry out assessments of the effectiveness of key internal controls during the year. Any material non-compliance or weaknesses in internal controls or recommendations from the independent Internal Auditors and External Auditors to further improve the internal controls will be reported to the AC. The AC will follow up on the actions taken by the Management and on the recommendations made by both the independent Internal Auditors and External Auditors.

For FY2016, the Board has received assurances from the CEO and the CFO of the Company that:-

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

Based on the various management controls put in place, representation letter from the Management and periodic reviews by the Management, the Board with the concurrence of the AC is of the opinion that the Group's system of internal controls and risk management procedures in addressing financial, operational, compliance and information technology controls, and risk management systems maintained by the Group during the year are adequate and effective as at 31 December 2016.

Corporate Governance Report

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

Audit Committee

Principle 12: The Board should establish an AC with written terms of reference which clearly set out its authority and duties.

The AC comprises 3 Directors, all of whom are independent. The AC is chaired by Dr Choong Chow Siong, The other Board members are Mr Lee Bon Leong and Mr Ang Mong Seng. All of the members of the AC are knowledgeable and familiar with financial, corporate governance and regulatory disclosure requirements. The Board believes that they possess the necessary qualifications and experiences in discharging their duties as a member of the AC.

The AC functions under its terms of reference which set out its responsibilities as follows:-

- review of the audit plans and reports from the External and Internal Auditors;
- review of the co-operation given by the Group's officers to the External and Internal Auditors;
- review of the consolidated financial statements of the Group and the financial statements of the Company before their submission to the Board;
- review of the independence and objectivity of the External Auditors and nomination of the External Auditors for reappointment;
- review of all interested person transactions, if any, to ensure that they comply with the approved internal control procedures and have been conducted on an arms' length and normal commercial terms and are not prejudicial to the interests of the shareholders of the Company;
- meeting with the External Auditors without the presence of management annually, to discuss any problems and concerns they may have;
- review the adequacy and effectiveness of the Company's risk management and internal control systems (including financial, operational, compliance and information technology controls) and to report to the Board annually;
- undertake such other functions and duties as may be required by the relevant laws or provisions of the SGX-ST Catalyst Rules (as may be amended from time to time) and as may be requested by the Board; and
- review the Company's procedures for whistle-blowing policy endorsed by the AC by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control, or any other matters.

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

It has been proposed that the AC will meet at least two times a year and as frequently as is required. In FY2016, the AC has met two times to review and approve the Group's half yearly announcement of FY2016 unaudited results, full year announcement of FY2016 unaudited results and approval of audit planning memorandum for statutory audit in FY2016.

The AC has reviewed all non-audit services provided by the auditors and they would not, in the AC's opinion, affect the independence of the external auditors. The aggregate amount of fees paid or payable to auditors for the financial year ended 31 December 2016, audit service fees amount to S\$254,000 and non-audit service fees amount to S\$19,000.

The AC has full access to and cooperation of the management, Internal and External Auditors. It also has full discretion to invite any Director or executive officer to attend the meetings and has been given reasonable resources to enable it to discharge its functions.

Pursuant to Rule 712 and Rule 716 of the SGX-ST Catalyst Rules, the Board and AC are satisfied that the appointment of different auditing firms for its subsidiaries would not compromise the standard and effectiveness of the audit of the Company. The details of the auditors are outlined in Notes 14 to 16 of the financial statements.

Corporate Governance Report

In July 2010, the SGX-ST and ACRA launched the "Guidance to Audit Committees on Evaluation of Quality of Work performed by External Auditors" which aims to facilitate the AC in evaluating the external auditors. Accordingly, the AC had evaluated the performance of the External Auditors based on the key indicators of audit quality set out in the Guidance such as performance, adequacy of resources and experience of their audit engagement partner and auditing team assigned to the Group's audit, the size and complexity of the Group.

In addition, in October 2015, with the support from SGX-ST and Singapore Institute of Directors, ACRA had introduced the "Audit Quality Indicators ("AQIs") Disclosure Framework to assist the ACs in evaluating the re-appointment of External Auditors based on eight (8) quality markers that correlate closely with audit quality. Accordingly, the AC had evaluated the External Auditors based on the eight (8) AQIs at engagement and/or firm-level.

Changes to accounting standards and accounting issues which have a direct impact on the financial statements were reported to the AC, and highlighted by the External Auditor in their meetings with the AC. No former partner or Director of the Company's existing auditing firm has acted as a member of the AC.

The AC also meets with the Internal and External Auditors separately without the presence of the Management at least once a year. For FY2016, the AC met once with the EA and IA without the presence of the Management on 26 February 2016.

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

Whistle-blowing policy

The Company has put in place a whistle-blowing policy in order to develop a culture of openness, accountability and integrity. The policy encourages employees and external parties to raise concerns, in confidence, about possible irregularities to Dr Choong Chow Siong, the Chairman of the AC. It aims to provide an avenue to employees and external parties to raise concerns and offer reassurance that they will be protected from reprisals or victimisation for whistle-blowing in good faith within the limits of the law. There were no whistle-blowing matters noted during the year.

The Board noted that no incidents in relation to whistle-blowing matters have been raised during the year by any staff to indicate possible improprieties in matters of financial reporting, financial control, or any other matters.

Internal Audit

Principle 13: The Company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

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

The scope of internal audit is to:-

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

The AC reviews the scope of work deliverables by the Internal Auditor on a regular basis, including overseeing and monitoring the implementation of the improvements required on internal control weaknesses identified. The AC has the responsibility to review the adequacy and effectiveness of the internal audit function on an annual basis, review the internal audit program and ensure co-ordination between Internal Auditors, External Auditors and management, and ensure that the Internal Auditors meet or exceed the standards set by nationally or internationally recognised professional bodies. The AC also reviews and approves the hiring, removal and evaluates its outsourced Internal Auditors.

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The AC met up with the Internal Auditors separately at least once a year without the presence of Management. The Internal Auditors are provided with unfettered access to the Group's properties, information and records for performing their internal audit review.

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

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

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Shareholder Rights

Principle 14: Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

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

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

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

In view of the above, all shareholders are given an opportunity to participate effectively and vote at the general meetings.

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

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

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

Communication with shareholders

Principle 15: Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

The Company recognises the importance of actively engaging with stakeholders to promote effective and fair communication.

Corporate Governance Report

The Board also acknowledges its obligation to furnish timely information to shareholders and ensures that full disclosure of material information to comply with statutory requirements and the SGX-ST Catalyst Rules is made. Any price sensitive information will be publicly released on SGXNet first before being announced to any group of investors or analysts.

To keep all stakeholders of the Company updated on the latest announcements, press releases, and stock details of the Company, stakeholders have 24-hour access to the Company's website (www.annaik.com).

Investor Related Services	kking@annaik.com
Product Related Services	peh@annaik.com
Environmental Related Services	raymondyang@annaik.com
Sales Related Services	sales@annaik.com

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

Conduct of shareholder meetings

Principle 16: Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

Our shareholders are encouraged to attend the general meetings of shareholders to ensure a high level of accountability and to be updated on the Company's strategies and goals. Notices of general meetings are dispatched to shareholders, together with explanatory notes or a circular on items of special business (if necessary), at least 14 clear calendar days before the meeting for ordinary resolutions and/or 21 clear calendar days before the meeting for special resolutions. The Board welcomes the views of shareholders who wish to raise issues concerning the Company, either informally or formally before or during these general meetings. The Chairman of the AC, NC and RC are normally present and available to address questions relating to the work of their respective committees at general meetings. Furthermore, the External Auditors are present to assist our Board in addressing any relevant queries by our shareholders.

The Company's Constitution allows corporations and members of the Company to appoint one (1) or two (2) proxies to attend and vote at general meetings. A Relevant Intermediary¹ may appoint more than 2 proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified). An investor who holds shares under the Central Provident Fund Investment Scheme ("**CPF Investor**") and/or the Supplementary Retirement Scheme ("**SRS Investors**") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.

The Board also notes that there should be separate resolutions on each substantially separate issue that may be tabled at the general meeting.

¹ A Relevant Intermediary is:-

- a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or
- b) a person holding a capital markets services license to provide custodial services for securities under the Securities and Futures Act (Cap. 289) and who holds shares in that capacity; or
- c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

Corporate Governance Report

The Company prepares minutes of general meetings incorporating the substantial and relevant comments or queries from shareholders that is relevant to the agenda of the meeting and responses from the Board and the Management. Such minutes are available to shareholders upon request.

Resolutions are put to vote by poll and the detailed results of each resolution are announced via SGXNet after the general meetings.

DEALINGS IN SECURITIES

The Company has adopted an Internal Code of Best Practices on Securities Transactions to Directors and key employees (including employees with access to price-sensitive information to the Company's shares) of the Group setting out the code of conduct on transactions in the Company's shares by these persons in compliance with the Rule 1204(19) of the SGX-ST Catalist Rules.

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

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

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

The Company has complied with Listing Rule 1204(19) of the SGX-ST Catalist Rules.

INTERESTED PERSON TRANSACTIONS ("IPT")

The Group has adopted an internal policy in respect of any transactions with interested person within the definition of Chapter 9 of the Listing Manual of SGX-ST and has set out procedures for review and approval of all interested person transactions. There were no interested party transactions equal to or exceeding S\$100,000 in aggregate between the Company and any of its interested persons (namely, directors, executive directors or controlling shareholders of the Group or the associates of such directors, executive officers or controlling shareholders) subsisting for the financial year ended 31 December 2016.

RISK MANAGEMENT

The Group regularly reviews and improves its business and operational activities to identify areas of significant business risks as well as to take appropriate measures to control and mitigate these risks. The Group reviews all significant control policies and procedures and highlights all significant matters to the AC and the Board. The financial risk management objectives and policies are outlined in [Note 39] to the financial statements.

MATERIAL CONTRACTS

There is no material contracts entered into by the Group involving the interests of any Director or controlling shareholder, which are either still subsisting at the end of the financial year or if not then subsisting, entered into since the end of the previous financial year.

NON-SPONSOR FEES

With reference to Rule 1204(21) of the SGX-ST Catalist Rules, there were no non-sponsor fees paid to the sponsor, Hong Leong Finance Limited for FY2016.

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Directors' Statement

The directors are pleased to present their statement to the members together with the audited consolidated financial statements of AnnAik Limited (the "Company") and its subsidiaries (collectively, the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2016.

1. OPINION OF THE DIRECTORS

In the opinion of the directors,

- (a) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and of the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date; 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.

2. DIRECTORS

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

Ow Chin Seng (Executive Chairman/Chief Executive Officer)
Ng Kim Keang
Koh Beng Leong
Dr Yang Guo Ying
Ow Eei Meng, Benjamin
Ang Mong Seng
Lee Bon Leong
Dr Choong Chow Siong
Lin Wei, Daniel

3. ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Except as described in paragraph five below, neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objectives is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' Statement

4. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

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

Name of director	Direct interest		Deemed interest	
	At beginning of financial year	At the end of financial year	At beginning of financial year	At the end of financial year
AnnAik Limited				
Ordinary shares				
Ow Chin Seng	69,894,258	72,382,958	8,274,924	8,274,924
Ng Kim Keang	1,441,000	1,441,000	–	–
Koh Beng Leong	12,000	12,000	–	–
Dr Yang Guo Ying	36,000	36,000	–	–
Ow Eei Meng, Benjamin	–	–	2,919,400	2,919,400
Ang Mong Seng	720,000	720,000	–	–
Lee Bon Leong	3,142,000	3,142,000	120,000	120,000
Dr Choong Chow Siong	480,000	480,000	–	–
Options to subscribe for ordinary shares under the AnnAik Share Option Scheme				
Ow Chin Seng	2,890,000	2,890,000	1,330,000	1,330,000
Ng Kim Keang	5,070,000	3,450,000	–	–
Koh Beng Leong	1,050,000	1,050,000	–	–
Dr Yang Guo Ying	1,600,000	1,600,000	–	–
Ang Mong Seng	180,000	180,000	–	–
Lee Bon Leong	180,000	180,000	–	–
Dr Choong Chow Siong	180,000	180,000	–	–
Lin Wei, Daniel	93,000	93,000	–	–

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

There was no change in any of the above-mentioned interest in the Company between the end of the financial year and 21 January 2017.

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

Directors' Statement

5. OPTIONS

In 2013, the Company had adopted the AnnAik Employee Share Option Scheme 2013 ("Share Option Scheme") which was approved by the shareholders of the Company at an Extraordinary General Meeting held on 18 September 2013. The Share Option Scheme was administered by the Remuneration Committee comprising Ang Mong Seng, Lee Bon Leong and Dr Choong Chow Siong.

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

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

As at 31 December 2016, the details of the share options held by the directors of the Company under the Share Option Scheme are as follows:

Name of director	Aggregate options granted since commencement of the Scheme to	Aggregate options exercised since commencement of the Scheme to	Aggregate options cancelled/ lapsed since commencement of the Scheme to	Aggregate options outstanding as at
	31.12.2016	31.12.2016	31.12.2016	31.12.2016
	'000	'000	'000	'000
Ow Chin Seng	4,090	(1,200)	–	2,890
Ng Kim Keang	5,670	(600)	(1,620)	3,450
Koh Beng Leong	1,050	–	–	1,050
Dr Yang Guo Ying	1,600	–	–	1,600
Ang Mong Seng	1,680	(360)	(1,140)	180
Lee Bon Leong	1,680	(360)	(1,140)	180
Dr Choong Chow Siong	1,680	(360)	(1,140)	180
Lin Wei, Daniel	93	–	–	93

There were no options granted and no shares of the Company issued by virtue of the exercise of an option to take up unissued shares during the financial years ended 31 December 2016 and 2015.

Directors' Statement

5. OPTIONS (CONT'D)

Details of the options to subscribe for ordinary shares of the Company pursuant to the employee share option plans as at 31 December 2016 are as follows:

Date of grant	Balance at 1.1.2016 '000	Exercised '000	Cancelled/ Lapsed '000	Balance at 31.12.2016 '000	Exercise price per option \$	Exercise period
30.6.2006	1,644	–	(1,644)	–	0.092	1.7.2008 - 30.6.2016
30.4.2007	2,580	–	(25)	2,555	0.240	1.5.2009 - 30.4.2017
14.6.2007	1,560	–	–	1,560	0.280	15.6.2009 - 14.6.2017
23.5.2008	1,530	–	(50)	1,480	0.200	24.5.2010 - 23.5.2018
16.10.2013	11,857	–	(168)	11,689	0.083	17.10.2015 - 15.10.2023
16.10.2013	633	–	–	633	0.083	17.10.2015 - 15.10.2018
	<u>19,804</u>	<u>–</u>	<u>(1,887)</u>	<u>17,917</u>		

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

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

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

6. AUDIT COMMITTEE

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

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

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

- Reviewed the audit plans of the internal and external auditors of the Group and the Company, and reviewed the internal auditor's evaluation of the adequacy of the Company's system of internal accounting controls and the assistance given by the Group and the Company's management to the external and internal auditors.
- Reviewed the half yearly and annual financial statements and the auditor's report on the annual financial statements of the Group and the Company before their submission to the board of directors.

Directors' Statement

6. AUDIT COMMITTEE (CONT'D)

- Reviewed effectiveness of the Group and the Company's material internal controls, including financial, operational, compliance and information technology controls and risk management via reviews carried out by the internal auditor.
- Met with the external auditor, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC.
- Reviewed legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators.
- Reviewed the cost effectiveness and the independence and objectivity of the external auditor.
- Reviewed the nature and extent of non-audit services provided by the external auditor.
- Recommended to the board of directors the external auditor to be nominated, approved the compensation of the external auditor, and reviewed the scope and results of the audit.
- Reported actions and minutes of the AC to the board of directors with such recommendations as the AC considered appropriate.
- Reviewed interested person transactions in accordance with the requirements of the Singapore Exchange Securities Trading Limited's Listing Manual.

The AC, having reviewed all non-audit services provided by the external auditor to the Group, is satisfied that the nature and extent of such services would not affect the independence of the external auditor. The AC has also conducted a review of interested person transactions.

The AC convened two meetings during the year with full attendance from all members. The AC has also met with internal and external auditors, without the presence of the Company's management, at least once a year.

Further details regarding the AC are disclosed in the Report on Corporate Governance.

7. AUDITORS

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

On behalf of the board of directors:

Koh Beng Leong
Director

Ng Kim Keang
Director

Singapore

30 March 2017

Independent Auditor's Report

To the Members of AnnAik Limited

Report on the financial statements

We have audited the financial statements of AnnAik Limited (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 2016, the statements of changes in equity of the Group and the Company and the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion

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

Basis for Opinion

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

Key Audit Matters

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

We have fulfilled our responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Write down of inventories to net realisable value

As at 31 December 2016, the Group's inventory balance amounted to \$21,636,000, representing 48% of the total current assets of the consolidated balance sheet. During the current financial year, the Group has made allowance for slow-moving inventories amounting to \$86,000 and has written back an amount of \$401,000, pertaining to inventories previously written down to net realisable value.

The Group is exposed to risk of slow-moving inventory as a result of volatility in selling prices of steel products. Significant judgement is required in the estimation of net realisable value and allowance for slow moving inventories. Such estimation is subject to factors such as volatility in the steel price, current and expected future market demand and pricing competition. As such, we determined that this is a key audit matter.

Independent Auditor's Report

To the Members of AnnAik Limited

Key Audit Matters (cont'd)

Write down of inventories to net realisable value (cont'd)

As part of our audit, we attended inventory counts at all material inventory locations and observed management's process in identifying slow moving items. In addition, we evaluated the Group's processes and controls relating to sale and purchase of inventories. We also evaluated management's assumptions and estimates used to determine the write down amount through testing of the reliability of the sales movement reports, reviewing historical sales patterns and reading correspondence with customers on demands for inventories. Further, we performed testing on a sample of items to assess the cost and the estimation of net realisable value of inventory at those locations. Finally, we reviewed the accuracy and adequacy of the disclosures on the write down amount, and considered the sensitivity analysis in Notes 3.2(d) of the financial statements.

Impairment assessment of trade receivables

Management's impairment assessment of trade receivables has been determined to be a key audit matter because trade receivable balances are significant to the Group as they represent 21% of the total current assets of the Group. During the year, allowance for doubtful debt recognised in the profit or loss amounted to \$20,000.

The collectability of trade receivables is a key element of the Group's working capital management, which is managed on an ongoing basis by management. The determination as to whether a trade receivable is collectable involves management judgement and accordingly, we have identified this as a key audit matter. Specific factors management considers include the age of the balance, location of customers, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of customers. Management uses this information to determine whether an allowance for impairment is required.

We evaluated the Group's processes and controls relating to the monitoring of trade receivables and review of credit risks arising from transactions with customers. In addition, our audit procedures included, amongst others, on a sample basis, obtaining trade receivable confirmations and evidence of receipts from the trade receivables subsequent to the year end. We also evaluated management's assumptions and estimates used to determine the trade receivables impairment amount through testing of the accuracy of the ageing of the trade receivables, analyses of ageing profile of the trade receivables to identify collection risks; and assessment of significant overdue individual trade receivables via obtaining evidence of receipts from the trade receivables subsequent to the year end, reviewing historical payment patterns and correspondence with customers on expected settlement dates. We assessed the adequacy of the disclosures on the trade receivables, considered the sensitivity analyses and the related credit risk and liquidity risk in Note 3.2(c) and Note 39 to the consolidated financial statements respectively.

Impairment assessment of property, plant and equipment

As at 31 December 2016, the Group's property, plant and equipment balance amounted to \$29,702,000, representing 50% of the total non-current assets of the consolidated balance sheet. The property, plant and equipment is mainly deployed in the steel related business segments, including the distribution and manufacturing segments. The weak economic environment and the depressed steel price have affected the performance of the steel business segment and gives rise to a heightened risk of impairment to the plant and machineries of the Group. Based on the outcome of impairment test carried out by management, an impairment loss of \$362,000 has been recognised on plant and machineries during the year.

As part of the impairment assessment, the carrying value of the plant and machineries is compared to the recoverable amount. These assets are reviewed, either on a stand-alone basis or as part of a wider cash-generating unit ("CGU"), for impairment using the higher of the value-in-use or fair value less costs to sell model. For steel distribution business segment, the assessment was performed based on value-in-use model where management's assumptions and judgement are used in estimating the underlying cash flow forecasts. For the steel manufacturing business segment, the assessment was performed based on fair value less cost to sell, where management has used the expertise of an external valuer to assess the fair value of the plant and machineries. As the impairment assessment required significant management's estimates and judgement in determining the recoverable amount, we have determined this as a key audit matter.

Independent Auditor's Report

To the Members of AnnAik Limited

Key Audit Matters (cont'd)

Impairment assessment of property, plant and equipment (cont'd)

Our audit procedures included, amongst others, evaluating the assumptions and methodologies used by the Group in estimating the recoverable amount. The value-in-use calculations involve the use of cash flow projections approved by management and the application of suitable discount rates. The cash flow projections included key assumptions of future revenues, profitability and related growth expectations. We checked that the cash flows were based on approved management budgets that reflected business plans, and evaluated management's forecasting process by comparing previous forecasts to actual results. We evaluated the assumptions used by comparing them to historical data as well as recent trends and market and economic outlooks. On the discount rates applied to determine present values, we have evaluated the rates by considering the key elements and risks of the respective cash flow projections, and making comparison to external observable data. For recoverable value assessment based on fair value less cost to sell, we have assessed the reliability of fair value less cost to disposal assessed by the external valuer, notably through considering the independence, reputation and competency of the external valuer, reviewing their scope of service and assessing the reasonableness of the valuation methodology and assumptions used. Finally, we reviewed the accuracy and adequacy of the disclosures on the impairment test in Note 10 to the financial statements.

Other Information

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

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

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

Responsibilities of Management and Directors for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Independent Auditor's Report

To the Members of AnnAik Limited

Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

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 AnnAik 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 Andrew Tan Chwee Peng.

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore
30 March 2017

Consolidated Income Statement

For the financial year ended 31 December 2016

	Note	2016 \$'000	Group 2015 \$'000
Revenue	4	48,022	53,071
Cost of sales		(39,891)	(43,914)
Gross profit		8,131	9,157
Other income	5	1,113	1,454
Distribution expenses		(1,659)	(1,971)
Administrative expenses		(8,271)	(10,393)
Other operating expenses		(4,560)	(3,359)
Share of result of an associate		315	228
Share of result of a joint venture		2,174	636
Finance costs	6	(1,035)	(1,331)
Loss before tax	7	(3,792)	(5,579)
Income tax expense	8	(518)	(436)
Loss for the year		(4,310)	(6,015)
Attributable to:			
Owners of the Company		(4,568)	(5,756)
Non-controlling interests		258	(259)
		(4,310)	(6,015)
Loss per share (cents):			
Basic and diluted	9	(1.83)	(2.31)

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

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2016

	Group	
	2016	2015
	\$'000	\$'000
Loss for the year	(4,310)	(6,015)
Other comprehensive income:		
<u>Items that may be reclassified subsequently to profit or loss</u>		
- Exchange differences on translation of foreign operations	(620)	626
Other comprehensive income for the year, net of tax	(620)	626
Total comprehensive income for the year	(4,930)	(5,389)
Total comprehensive income attributable to:		
Owners of the Company	(5,019)	(5,222)
Non-controlling interests	89	(167)
	(4,930)	(5,389)

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

Balance Sheets

As at 31 December 2016

	Note	Group		Company	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Non-current assets					
Property, plant and equipment	10	29,702	30,481	–	–
Prepaid land rental	11	297	320	–	–
Goodwill	12	497	497	–	–
Intangible assets	13	20,593	16,811	3,054	3,393
Investment in subsidiaries	14	–	–	21,164	25,666
Investment in an associate	15	3,207	3,026	–	–
Investment in a joint venture	16	3,842	1,733	–	–
Available-for-sale financial assets	17	–	3,467	–	3,467
Club membership	18	190	190	190	190
Refundable deposits	19	892	935	–	–
Other receivables	21	–	6,973	–	6,973
Financial derivative assets	22	–	81	–	–
Amounts due from subsidiaries	23	–	–	8,261	8,116
		59,220	64,514	32,669	47,805
Current assets					
Prepaid land rental	11	7	7	–	–
Inventories	20	21,636	27,423	–	–
Prepayments		112	235	22	2
Trade and other receivables	21	14,890	16,855	2,018	597
Finance derivative assets	22	–	5	–	–
Amounts due from subsidiaries, an associate and a joint venture	23	709	518	13,117	13,001
Cash and bank balances	24	7,369	5,966	1,556	2,032
		44,723	51,009	16,713	15,632
Total assets		103,943	115,523	49,382	63,437
Current liabilities					
Amounts due to subsidiaries, an associate and a joint venture	23	3,157	850	521	572
Trade payables	25	1,973	2,992	–	–
Other payables and accruals	26	4,042	4,655	1,666	882
Loans and borrowings	27	14,085	19,119	–	3,500
Provision for income tax		393	408	–	–
		23,650	28,024	2,187	4,954
Net current assets		21,073	22,985	14,526	10,678

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

Balance Sheets

As at 31 December 2016

	Note	Group		Company	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Non-current liabilities					
Other payables and accruals	26	618	2,101	618	2,101
Loans and borrowings	27	17,629	18,350	–	1,500
Government grants	28	1,933	2,100	–	–
Deferred tax liabilities	29	408	392	–	–
Finance derivative liabilities	22	48	–	–	–
		20,636	22,943	618	3,601
Total liabilities		44,286	50,967	2,805	8,555
Net assets		59,657	64,556	46,577	54,882
Equity attributable to equity holders of the Company					
Share capital	30	36,131	36,131	36,131	36,131
Foreign currency translation reserve	31	691	1,142	–	–
Statutory reserve fund	32	44	44	–	–
Employee share option reserve	33	1,280	1,485	1,280	1,485
Retained earnings		15,962	20,325	9,166	17,266
		54,108	59,127	46,577	54,882
Non-controlling interests		5,549	5,429	–	–
Total equity		59,657	64,556	46,577	54,882
Total equity and liabilities		103,943	115,523	49,382	63,437

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

Statements of Changes in Equity

For the financial year ended 31 December 2016

	Share capital (Note 30) \$'000	Foreign currency translation reserve (Note 31) \$'000	Statutory reserve fund (Note 32) \$'000	Employee share option reserve (Note 33) \$'000	Retained earnings \$'000	Attributable to owners of the Company \$'000	Non-controlling interests \$'000	Total equity \$'000
Group 2016								
Balance at 1 January 2016	36,131	1,142	44	1,485	20,325	59,127	5,429	64,556
Total comprehensive income for the year	-	(451)	-	-	(4,568)	(5,019)	89	(4,930)
<u>Contribution by and distributions to owners</u>								
- Expiry of share options	-	-	-	(205)	205	-	-	-
- Capital contributions from non-controlling interests	-	-	-	-	-	-	31	31
Total transactions with owners via their capacity as owners	-	-	-	(205)	205	-	31	31
Balance at 31 December 2016	36,131	691	44	1,280	15,962	54,108	5,549	59,657
2015								
Balance at 1 January 2015	36,131	608	44	1,216	26,537	64,536	5,169	69,705
Total comprehensive income for the year	-	534	-	-	(5,756)	(5,222)	(167)	(5,389)
<u>Contribution by and distributions to owners</u>								
- Expiry of share options	-	-	-	(42)	42	-	-	-
- Grant of equity-settled share options to employees	-	-	-	311	-	311	-	311
- Dividends paid on ordinary shares (Note 34)	-	-	-	-	(498)	(498)	-	(498)
- Capital contributions from non-controlling interests	-	-	-	-	-	-	427	427
Total transactions with owners via their capacity as owners	-	-	-	269	(456)	(187)	427	240
Balance at 31 December 2015	36,131	1,142	44	1,485	20,325	59,127	5,429	64,556

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

Statements of Changes in Equity

For the financial year ended 31 December 2016

	Share capital (Note 30) \$'000	Employee share option reserve (Note 33) \$'000	Retained earnings \$'000	Total equity \$'000
Company				
2016				
At 1 January 2016	36,131	1,485	17,266	54,882
Total comprehensive income for the year	–	–	(8,305)	(8,305)
<u>Contribution by and distributions to owners</u>				
- Expiry of share options	–	(205)	205	–
Total transactions with owners via their capacity as owners	–	(205)	205	–
At 31 December 2016	36,131	1,280	9,166	46,577
2015				
At 1 January 2015	36,131	1,216	20,237	57,584
Total comprehensive income for the year	–	–	(2,515)	(2,515)
<u>Contribution by and distributions to owners</u>				
- Expiry of share options	–	(42)	42	–
- Grant of equity-settled share options to employees	–	311	–	311
- Dividends paid on ordinary shares (Note 34)	–	–	(498)	(498)
Total transactions with owners via their capacity as owners	–	269	(456)	(187)
At 31 December 2015	36,131	1,485	17,266	54,882

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

Consolidated Cash Flow Statement

For the financial year ended 31 December 2016

	Note	Group 2016 \$'000	Group 2015 \$'000
Cash flows from operating activities :			
Loss before tax		(3,792)	(5,579)
Adjustments for :			
Allowance for doubtful trade receivables	7	20	373
Allowance for doubtful receivables (non-trade)	7	170	239
Allowance for slow moving inventories	7	86	119
Amortisation of intangible assets	7	947	880
Amortisation of prepaid land rental	7	7	7
Amortisation of government grant	5	(73)	(79)
Bad debts written off	7	16	132
Depreciation of property, plant and equipment	7	1,464	1,507
Fair value loss/(gain) on derivative of financial assets (unrealised)	7	134	(86)
Finance costs	6	1,035	1,331
Gain on disposal of available-for-sale financial assets	5	–	(28)
Impairment of available-for-sale financial assets	7	3,467	2,200
Impairment of plant and equipment	7	362	783
Interest income	5	(211)	(295)
Loss on disposal of plant and equipment	7	9	17
(Reversal of write down)/write down of inventories to net realisable value	7	(401)	622
Share-based payment expenses	7	–	311
Share of result of an associate		(315)	(228)
Share of result of a joint venture		(2,174)	(636)
Unrealised foreign exchange (gain)/loss		(51)	531
Write back of over-accrual of project costs	5	–	196
Operating profit before working capital changes		700	2,317
<u>(Increase)/decrease in:</u>			
Trade receivables		3,442	(144)
Other receivables		3,578	877
Inventories		6,102	4,355
<u>Increase/(decrease) in:</u>			
Trade payables		(1,019)	600
Other payables		(2,254)	274
Bills payables		(834)	(10,753)
Cash generated from/(used in) operations		9,715	(2,474)
Interest paid		(877)	(1,174)
Interest income received		211	295
Income taxes paid		(517)	(327)
Net cash flows generated from/(used in) operating activities		8,532	(3,680)

Consolidated Cash Flow Statement

For the financial year ended 31 December 2016

	Note	Group	
		2016 \$'000	2015 \$'000
Cash flows from investing activities :			
Proceeds from disposal of property, plant and equipment		31	25
Proceeds from disposal of available-for-sale financial assets	A	1,505	3,010
Decrease in amount due from an associate		518	49
Placement of fixed deposit, pledged	24	(1,000)	–
Increase in amount due from a joint venture		(709)	–
Decrease in amounts due from related parties		392	338
Purchase of property, plant and equipment	10	(769)	(1,045)
Additions to intangible assets	13	(5,323)	(3,639)
Investment in a joint venture	16	–	(1,097)
Net cash flows used in investing activities		(5,355)	(2,359)
Cash flows from financing activities :			
Proceeds from loans and borrowings		5,093	8,595
Repayment of loans and borrowings		(9,892)	(4,273)
Contribution from non-controlling interests	14b, 14c	31	457
Repayment of obligations under finance leases		(227)	(351)
Dividends paid	34	–	(498)
Increase in amount due to an associate		420	–
Increase in amount due to a joint venture		1,887	850
Net cash flows (used in)/generated from financing activities		(2,688)	4,780
Net increase/(decrease) in cash and cash equivalents		489	(1,259)
Cash and cash equivalents at beginning of year		5,770	6,970
Effect of exchange rate changes on the balance of cash held in foreign currencies		(44)	59
Cash and cash equivalents at end of year (Note 24)		6,215	5,770

Note A: Proceeds from disposal of available-for-sale financial assets

On 30 November 2014, the Company entered into a Share Sale and Purchase Agreement ("SSPA") to sell its remaining equity interest in its available-for-sales financial assets, namely Shinsei Company (S) Pte. Ltd. ("Shinsei Singapore") and Both-Well Holdings (S) Pte Ltd Both-Well Singapore, for purchase considerations of \$2,294,000 and \$2,221,000, respectively. The disposal transaction was completed in 2015. In accordance with the SSPA, the parties agreed that the purchase consideration of \$4,515,000 to be settled via 3 equal annual instalments. Sale proceeds amounting to \$3,010,000 was received in 2015 whereas the remaining balance of \$1,505,000 (Note 21) was received during the year.

Note B: Contributions from non-controlling interests

In the previous financial year, the non-controlling interests increased their share of investments in the subsidiaries by \$427,000. The cash contribution paid by the non-controlling interests amounted to \$457,000, where this included an amount of \$30,000 relating to non-controlling interests' increase in investment two financial years ago.

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

1. CORPORATE INFORMATION

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

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

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

The principal activities of the subsidiaries, an associate and a joint venture are disclosed in Notes 14, 15 and 16 to the financial statements respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

The Accounting Standards Council announced on 29 May 2014 that Singapore incorporated companies listed on the Singapore Exchange will apply a new financial reporting framework identical to the International Financial Reporting Standards. The Group will adopt the new financial reporting framework on 1 January 2018.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards which are effective for annual financial periods beginning on or after 1 January 2016. The adoption of these standards did not have any material effect on the financial performance or position of the Group and the Company.

Notes to the Financial Statements

For the financial year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Standards issued but not yet effective

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

<i>Description</i>	<i>Effective for annual periods beginning on or after</i>
Amendments to FRS 7 <i>Disclosure Initiative</i>	1 January 2017
FRS 109 <i>Financial Instruments</i>	1 January 2018
FRS 115 <i>Revenue from Contracts with Customers</i>	1 January 2018
FRS 116 <i>Leases</i>	1 January 2019

Except for FRS 109, FRS 115 and FRS 116, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of FRS 109, FRS 115 and FRS 116 is described below.

FRS 109 *Financial Instruments*

FRS 109 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in FRS 109 are based on an expected credit loss model and replace the FRS 39 incurred loss model. Based on preliminary assessment, except for the classification of the financial assets, management has assessed that the adoption of FRS 109 is not likely to have significant impact to the consolidated financial statements in the initial year of adoption.

FRS 115 *Revenue from Contracts with Customers*

FRS 115 establishes a five-step model to account for revenue arising from contracts with customers. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under FRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

During 2016, the Group performed a preliminary assessment of FRS 115 which is subject to changes arising from a more detailed ongoing analysis. The Group is involved in manufacturing and sale of steel-related products and environmental business. The Group currently recognises a provision for the net margin arising from expected returns. Under FRS 115, an entity estimates the transaction price and recognises revenue based on the amounts to which the entity expects to be entitled through the end of the return period, and recognises such amount of expected returns as a refund liability, representing its obligation to return the customer's consideration. The Group expects to recognise a liability for the refund obligation and an asset for the right to recover the returned goods under FRS 115.

Notes to the Financial Statements

For the financial year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

FRS 115 Revenue from Contracts with Customers (cont'd)

Transition

The following practical expedients are available when applying FRS 115 retrospectively.

- For completed contracts, an entity need not restate contracts that begin and end with the same annual reporting period or are completed contracts at the beginning of the earliest period presented.
- For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating the variable consideration amounts in the comparative reporting periods; and
- For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract for those contract modifications. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:
 - identifying the satisfied and unsatisfied performance obligations;
 - determining the transaction price; and
 - allocating the transaction price to the satisfied and unsatisfied performance obligations.
- For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue.

The Group will continue to review its sales arrangements and will continue to evaluate the impact from the adoption of FRS115.

FRS 116 Leases

FRS 116 requires lessees to recognise most leases on balance sheets to reflect the rights to use the leased assets and the associated obligations for lease payments as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemption for lessees – leases of 'low value' assets and short-term leases. The new standard is effective for annual periods beginning on or after 1 January 2019.

The Group is currently assessing the impact of the new standard and plans to adopt the new standard on the required effective date. The Group expects the adoption of the new standard will result in increase in total assets and total liabilities, EBITDA and gearing ratio.

Notes to the Financial Statements

For the financial year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 Basis of consolidation and business combinations

(a) Basis of consolidation

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

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

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

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

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

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

(b) Business combinations and goodwill

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

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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

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

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

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

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

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

2.5 Transactions with non-controlling interests

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

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

2.6 Foreign currency

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.6 Foreign currency (cont'd)

(a) *Transactions and balances*

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

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

(b) *Consolidated financial statements*

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

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

2.7 Subsidiaries

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

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

2.8 Joint arrangements

A joint arrangement is a contractual arrangement whereby two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint arrangement is classified either as joint operation or joint venture, based on the rights and obligations of the parties to the arrangement.

To the extent the joint arrangement provides the Group with rights to the assets and obligations for the liabilities relating to the arrangement, the arrangement is a joint operation. To the extent the joint arrangement provides the Group with rights to the net assets of the arrangement, the arrangement is a joint venture.

The Group's joint arrangement has been determined to be a joint venture, where the Group recognises its interest in a joint venture as an investment and accounts for the investment using the equity method. The accounting policy for investment in joint venture is set out in Note 2.9.

Notes to the Financial Statements

For the financial year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.9 Joint venture and associate

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

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

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

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

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

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

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

2.10 Property, plant and equipment

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

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.10 Property, plant and equipment (cont'd)

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

Freehold building	-	44 years
Leasehold building	-	lease terms of 30 years
Plant and equipment	-	5 to 10 years
Motor vehicles	-	5 to 8 years
Furniture, renovation, fixtures and equipment	-	5 to 10 years

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

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

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

2.11 Intangible assets

(a) Goodwill

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

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

(b) Other intangible assets

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.11 Intangible assets (cont'd)

(b) Other intangible assets (cont'd)

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

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

Patent rights

The patent rights relate to purchase of the rights to use the Biological Trickling Filter patent in relation to rural wastewater treatment. The rights is amortised on a straight-line basis over the remaining contractual life of 11 years, from the date of purchase of such rights until 31 March 2026.

Service concession arrangements

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

Technical know-how

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

Club membership

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

2.12 Impairment of non-financial assets

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

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.12 Impairment of non-financial assets (cont'd)

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

2.13 Financial instruments

(a) Financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

(i) Loans and receivables

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

(ii) Available-for-sale financial assets

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

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.13 Financial instruments (cont'd)

(a) *Financial assets (cont'd)*

De-recognition

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

(b) *Financial liabilities*

Initial recognition and measurement

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

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

Subsequent measurement

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

De-recognition

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

(c) *Offsetting of financial instruments*

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.14 Impairment of financial assets

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

(a) *Financial assets carried at amortised cost*

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

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

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

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

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

(b) *Financial assets carried at cost*

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

(c) *Available-for-sale financial assets*

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.14 Impairment of financial assets (cont'd)

(c) Available-for-sale financial assets (cont'd)

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

2.15 Cash and cash equivalents

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

2.16 Inventories

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

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

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

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

2.17 Segment reporting

For management purposes, the Group is organised into business segment. A business segment is a distinguishable component of the Group that is engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The operating business segments are managed separately by the general managers in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 38, including the factors to identify the reportable segments and the measurement basis of segment information.

2.18 Prepaid land rental

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.19 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

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

Deferred consideration payable

Deferred consideration arises when settlement of all or any part of the purchase cost of an asset is deferred. It is stated at fair value at the date of purchase, which is determined by discounting the future cash flows to present value at that date. Interest is imputed on the fair value of non-interest bearing deferred consideration at the discount rate and expensed within finance cost. At the end of each reporting period, deferred consideration comprises the remaining deferred consideration valued at acquisition plus interest imputed on such amounts from date of purchase to the end of the reporting period. Subsequent changes to the fair value of the deferred consideration are recognised in the profit or loss.

2.20 Government grants

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

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

Government grant shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Grants related to income may be presented as a credit in profit or loss, either separately or under a general heading such as "Other income". Alternatively, they are deducted in reporting the related expenses.

2.21 Financial guarantee

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.22 Borrowing costs

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

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

2.23 Employee benefits

(a) *Defined contribution plans*

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

(b) *Employee leave entitlement*

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

(c) *Employee share option plans*

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.24 Leases

As lessee

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

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

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

2.25 Revenue

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

(a) *Sale of goods*

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

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

(b) *Service income from environmental business*

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

(c) *Interest income*

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

(d) *Dividend income*

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.26 Taxes

(a) *Current income tax*

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

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

(b) *Deferred tax*

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associate and joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associate and joint venture, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Notes to the Financial Statements

For the financial year ended 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.26 Taxes (cont'd)

(b) *Deferred tax (cont'd)*

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

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

(c) *Value added tax ("VAT") and Goods and Services Tax ("GST")*

Revenues, expenses and assets are recognised net of the amount of VAT/GST except:

- Where the VAT/GST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT/GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of VAT/GST included.

2.27 Share capital and share issuance expenses

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

2.28 Contingencies

A contingent liability is:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - (ii) The amount of the obligation cannot be measured with sufficient reliability.

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

3.1 Judgements made in applying accounting policies

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

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

The Group's operations in the PRC are governed by the legal system of the PRC. The PRC legal system is a codified system with written laws, regulations, rules and other regulatory documents. In the prior years, by virtue of ownership agreements entered with certain PRC individuals which resulted in changes to the Group's entity interest in its two subsidiaries and an associate of the Group based in PRC, the business registration files of these subsidiaries and associate have not been amended accordingly to reflect the current shareholding structure. Management effected and completed the amendment of the business registration file for one of the subsidiaries in 2011.

In the previous years, management has obtained legal advice that the current business registrations of the other subsidiary and the associate do not expose the Group to any non-compliance with the PRC legal system. The established understanding has been confirmed with legal practitioner on an annual basis. Accordingly, the non-controlling interests and the investment in an associate are accounted for based on the equity interest in the concerned PRC entities taking into account the ownership agreements entered with the certain PRC individuals.

The non-controlling interests of subsidiaries and investment in associate attributable to the PRC individuals are \$362,000 (2015: \$360,000) and \$2,138,000 (2015: \$2,018,000) respectively.

(b) *Income taxes*

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D)

3.1 Judgements made in applying accounting policies (cont'd)

(c) Determination of control and joint control

Determining if an investor has power requires judgment and taking into account all facts and circumstances.

Investment in Ichinose Emico Valves (S) Pte Ltd

The Group has a 50% direct equity interest in an entity, Ichinose Emico Valves (S) Pte Ltd ("Ichinose"), where the remaining 50% equity interest is equally held by two other unrelated parties. It is important to consider that the Group holds a large part of the votes, albeit not majority. There is no other single shareholder that holds more than the Group's voting interest in the investment. Further, it is noted that the relevant activities for the investment are decided by the board of directors, which is formed by two members appointed by the Group and remaining two from the other two shareholders. The Group's representative shall be appointed as chairman of board meetings and will be given a casting vote in the case of equality of votes. The quorum can be achieved through the attendance of 2 directors. Accordingly, management has determined that Ichinose is a subsidiary of the Group in view of the shareholder's rights and demonstration of control over the decisions of the relevant activities of the investment. Management has accounted for the investment in Ichinose as a subsidiary in accordance with Note 2.4 to the financial statements.

Investment in Shanghai Onway Environmental Development Co Ltd

The Group has a 51% direct equity interest in Shanghai Onway Environmental Development Co Ltd ("Shanghai Onway") where the remaining 49% is held by another party. Under the joint venture agreement, the board of directors will at all times comprise three representatives from the Group and two representatives from the other joint venture partner. However, the quorum requires at least four members of the board to be present and hence, the Group is unable to form quorum on its own. Management has determined that the Group possesses joint control over the arrangement as decisions about the relevant activities require unanimous consent of representatives appointed by the Group and the venture partner in the management of Shanghai Onway. Accordingly, management has accounted for the Group's investment in Shanghai Onway as joint venture in accordance with Note 2.9 to the financial statements.

3.2 Key sources of estimation uncertainty

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

(a) Impairment of goodwill

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

To determine whether there is an impairment of goodwill at the end of the reporting period, it is necessary to compare the carrying value of goodwill with the recoverable amount from the cash-generating unit to which the goodwill is allocated. The recoverable amount represents the present value of the estimated future cash flows expected to arise from the cash-generating unit. The key assumptions applied in the determination of the value in use including a sensitivity analysis, are disclosed and further explained in Note 12.

Notes to the Financial Statements

For the financial year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D)

3.2 Key sources of estimation uncertainty (cont'd)

(b) *Impairment of property, plant and equipment*

As disclosed in Note 10 to the financial statements, the recoverable amount of the Group's certain plant and machinery used in steel manufacturing business segment is determined based on fair value less cost of disposal approach, using depreciated replacement cost model. The key assumptions are disclosed in Note 10 to the financial statements.

(c) *Impairment of trade receivables*

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

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's trade receivables at the end of the reporting period is disclosed in Note 21 to the financial statements. If the present value of estimated future cash flows decrease by 3% from management's estimates, the Group's allowance for doubtful trade receivables will increase by \$287,000 (2015: increase by \$392,000).

(d) *Allowances for inventories*

Inventories are stated at the lower of cost and net realisable value. In assessing the allowance for inventories, the Group takes into account the historical obsolescence and slow-moving experiences and future demand of their product. The carrying amount of inventories is disclosed in Note 20 of the financial statements.

Based on management's estimate, inventories are fully provided for obsolescence if there are no sale movements within 4 years. At the end of the reporting period, an allowance for inventory obsolescence of \$897,000 (2015: \$811,000) has been made. If full allowance is to be made for inventories without sale movement within 3 years, the Group's allowance for inventory obsolescence will increase by \$332,000 (2015: \$274,000).

(e) *Useful lives of property, plant and equipment*

The cost of property, plant and equipment is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these assets to be within 5 to 44 years. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore, future depreciation charges could be revised. The carrying amounts of the Company's and Group's property, plant and equipment as at 31 December 2016 were disclosed in Note 10. A 5% difference in the expected useful lives of these assets from management's estimates would result in approximately decrease of \$61,000 (2015: \$62,000) in the Group's loss after tax.

Notes to the Financial Statements

For the financial year ended 31 December 2016

4. REVENUE

	Group	
	2016	2015
	\$'000	\$'000
Sale of goods	38,961	46,747
Environmental service income ⁽¹⁾	9,061	6,324
	48,022	53,071

⁽¹⁾ Amount includes revenue amounting to \$5,323,000 (2015: \$2,149,000) relating to services for the construction of assets being operated under service concession rights arrangement as described in Note 13 and Note 42.

5. OTHER INCOME

	Note	Group	
		2016	2015
		\$'000	\$'000
Amortisation of government grant	28	73	79
Interest income arising from loans to related parties		211	295
Gain on derivative instruments (unrealised)	22	–	86
Gain on disposal of available-for-sale financial assets, due to purchase consideration adjustment		–	28
Income from government subsidy	A	472	404
Management fee income charged to external parties		62	–
Management fee income from related parties		39	39
Net foreign exchange gain		41	231
Rental income		86	6
Write-back of over-accrual of project costs		–	196
Others		129	90
		1,113	1,454

Note A

Government subsidy includes:

- Grant income received from government by the subsidiaries operating wastewater plants in the PRC;
- Productivity and Innovation Credit ("PIC") cash payout for qualifying costs incurred; and
- Special Employment Credit ("SEC") subsidy for hiring Singaporeans aged above 50.

Notes to the Financial Statements

For the financial year ended 31 December 2016

6. FINANCE COSTS

	Group	
	2016	2015
	\$'000	\$'000
Interest expense on:		
- Accretion of interests on deferred consideration payable (Note 26)	158	157
- Bank loans and bank overdrafts	868	1,156
- Finance leases	9	18
	1,035	1,331

7. LOSS BEFORE TAX

Loss before tax is stated after charging/(crediting):

		Group	
	Note	2016	2015
		\$'000	\$'000
Allowance for doubtful debts (trade)	21	20	373
Allowance for doubtful debts (non-trade)	21	170	239
Allowance for slow moving inventories	20	86	119
Amortisation of intangible assets	13	947	880
Amortisation of prepaid land rental	11	7	7
Bad debts written off		16	132
Depreciation of property, plant and equipment	10	1,464	1,507
Directors' fees paid to the directors of the Company		143	186
Employee benefits expense	A	6,008	7,234
Fair value loss/(gain) on derivative instrument (unrealised)	22	134	(86)
Impairment of available-for-sale financial assets	17	3,467	2,200
Impairment of plant and equipment	10	362	783
Legal and professional fee		65	363
Loss on disposal of plant and equipment		9	17
Property tax		257	283
Rental expenses		435	443
Repair and maintenance expenses		208	204
(Reversal of write down)/write down of inventories to net realisable value	20	(401)	622
Audit fees:			
- Paid to auditors of the Company		134	139
- Paid to other auditors*		120	110
Non-audit fees:			
- Paid to auditors of the Company		13	45
- Paid to other auditors		6	7
		6	7

* Includes EY member firms outside Singapore.

Notes to the Financial Statements

For the financial year ended 31 December 2016

7. LOSS BEFORE TAX (CONT'D)

Note A Employee benefits expense

	Group	
	2016	2015
	\$'000	\$'000
Employee benefit expense (including directors):		
Salaries, bonuses and other benefits	5,433	6,277
Defined contribution plans	575	646
Share-based payments	–	311
	6,008	7,234

Presented in the consolidated statement of comprehensive income as:

	Group	
	2016	2015
	\$'000	\$'000
Cost of sales	1,053	1,549
Administrative expenses	4,027	4,711
Distribution expenses	928	974
	6,008	7,234

8. INCOME TAX EXPENSE

Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

	Group	
	2016	2015
	\$'000	\$'000
Consolidated income statement		
<i>Current taxation:</i>		
- Current income taxation	360	362
- Under/(over)-provision in respect of prior years	129	(61)
	489	301
<i>Deferred taxation (Note 29):</i>		
- Origination and reversal of temporary differences	29	189
- Over-provision in respect of prior years	–	(54)
	29	135
Income tax expense recognised in the profit or loss	518	436

Notes to the Financial Statements

For the financial year ended 31 December 2016

8. INCOME TAX EXPENSE (CONT'D)

Reconciliation between tax expense and accounting loss

A reconciliation between the tax expense and the product of accounting loss multiplied by the applicable corporate tax rate for the years ended 31 December 2016 and 2015 is as follows:

	Group	
	2016	2015
	\$'000	\$'000
Loss before income tax	(3,792)	(5,579)
Income tax calculated at 17% (2015: 17%)	(645)	(948)
Tax adjustments:		
Effect of different tax rates of subsidiaries operating in other tax jurisdictions	(10)	(72)
Non-deductible expenses	1,124	808
Income not subject to taxation	(90)	(178)
Effect of partial tax exemption	(25)	(15)
Tax effect of share of results of an associate and joint venture	(423)	(147)
Effect of unutilised tax losses not recognised as deferred tax assets	361	1,090
Deferred tax on undistributed earnings of an associate and joint venture	123	106
Benefits from previously unrecognised tax losses	(30)	(121)
Under/(over)-provision of tax in respect of prior years	129	(115)
Others	4	28
Income tax expense recognised in the profit or loss	518	436

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

(a) Entities incorporated in PRC, Singapore and Malaysia

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

(b) Group relief

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

In prior year financial year ended 31 December 2015, tax losses suffered by a Singapore incorporated subsidiary which amounted to \$816,000 were transferred with consideration to another subsidiary within the Group under the group relief scheme.

(c) Unrecognised tax losses

At the end of the reporting period, the Group has tax losses of approximately \$6,467,000 (2015: \$4,345,000) that are available for set off against future taxable profits of the Group, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authority and compliance with certain provision of the tax legislation. The tax losses have no expiry date.

Notes to the Financial Statements

For the financial year ended 31 December 2016

9. LOSS PER SHARE

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

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

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

	Group	
	2016	2015
Loss for the purpose of basic and diluted loss per share (\$'000)	(4,568)	(5,756)
Number of shares ('000)		
Weighted average number of ordinary shares for basic and diluted loss per share computation	248,973	248,973
Loss per share (cents)		
Basic and diluted loss per share	(1.83)	(2.31)

All share options granted to employees under the existing employee share option plans have not been included in the calculation of diluted earnings per share because they are anti-dilutive.

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

10. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land \$'000	Freehold and leasehold buildings \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Furniture, renovation, fixtures and equipment \$'000	Construction-in-progress \$'000	Total \$'000
Cost							
At 1 January 2015	4,749	20,367	4,880	1,889	984	549	33,418
Additions	-	294	593	149	74	84	1,194
Disposals	-	-	(103)	-	(1)	-	(104)
Reclassification	(51)	51	328	-	-	(328)	-
Exchange differences	327	347	241	20	22	17	974
At 31 December 2015 and 1 January 2016	5,025	21,059	5,939	2,058	1,079	322	35,482
Additions	6	343	11	23	125	261	769
Disposals	-	-	-	(283)	(3)	-	(286)
Reclassification	-	-	257	-	-	(257)	-
Exchange differences	112	121	86	15	4	5	343
At 31 December 2016	5,143	21,523	6,293	1,813	1,205	331	36,308
Accumulated depreciation and impairment loss							
At 1 January 2015	-	688	508	1,142	378	-	2,716
Depreciation charge for the year	-	645	460	280	122	-	1,507
Impairment loss	-	-	783	-	-	-	783
Disposals	-	-	(60)	-	(2)	-	(62)
Exchange differences	-	5	38	9	5	-	57
At 31 December 2015 and 1 January 2016	-	1,338	1,729	1,431	503	-	5,001
Depreciation charge for the year	-	656	479	185	144	-	1,464
Impairment loss	-	-	362	-	-	-	362
Disposals	-	-	-	(245)	(1)	-	(246)
Exchange differences	-	4	31	(9)	(1)	-	25
At 31 December 2016	-	1,998	2,601	1,362	645	-	6,606
Net carrying value							
At 31 December 2015	5,025	19,721	4,210	627	576	322	30,481
At 31 December 2016	5,143	19,525	3,692	451	560	331	29,702

Notes to the Financial Statements

For the financial year ended 31 December 2016

10. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Assets held under finance leases

In the previous financial year, the Group acquired plant and equipment with an aggregate cost of \$149,000 by means of finance leases. No assets acquired by means of finance leases during the year.

At 31 December 2016, the Group had plant and equipment and motor vehicles amounting to \$383,000 (2015: \$502,000) and \$254,000 (2015: \$334,000) respectively which were held under finance leases.

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

The cash outflow on the acquisition of property, plant and equipment during the year, excluding finance lease financing, amounted to \$769,000 (2015: \$1,045,000).

Assets pledged as security

In addition to assets held under finance lease, the Group's freehold land and buildings and leasehold building with a carrying amount of \$10,451,000 (2015: \$10,339,000) and \$14,217,000 (2015: \$14,407,000) respectively and plant and equipment with a carrying amount of \$2,120,000 (2015: \$2,241,000) are mortgaged to secure the Group's bank loans (Note 27).

Particulars of properties held by the Group as at 31 December 2016 are as follows:

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

Impairment of assets

During the financial year, a subsidiary performed an impairment assessment on its plant and machineries used in the steel manufacturing business which has been loss making. As a result, an impairment loss of \$362,000 (2015: \$783,000), representing write-down of these plant and machineries to its recoverable amount of \$2,313,000, was recognised in "Other operating expenses" (Note 7) line item of the consolidated income statement for the financial year ended 31 December 2016.

Notes to the Financial Statements

For the financial year ended 31 December 2016

10. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Impairment of assets (cont'd)

The recoverable amount of the plant and machineries was determined based on fair value less cost of disposal approach. The valuation was performed by an independent valuer using the depreciated replacement cost model of valuation. The valuation technique and key assumptions are described below:

Description	Fair value hierarchy	Valuation technique	Key assumptions
Plant and Machinery	Level 3	Depreciated replacement cost method	Include consideration of: <ul style="list-style-type: none"> • Market value; • Economic or external obsolescence; • Functional or technical obsolescence; and • Physical deterioration

11. PREPAID LAND RENTAL

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

	Group	
	2016 \$'000	2015 \$'000
Cost		
At 1 January	382	378
Exchange differences	(17)	4
At 31 December	365	382
Accumulated amortisation		
At 1 January	55	47
Amortisation	7	7
Exchange difference	(1)	1
At 31 December	61	55
Net carrying amount	304	327
The amount to be amortised is as follows:		
Not later than one year	7	7
Later than one year but not later than five years	28	28
Later than five years	269	292
	304	327

Notes to the Financial Statements

For the financial year ended 31 December 2016

12. GOODWILL

Goodwill acquired in a business combination is allocated to the CGU that is expected to benefit from that business combination for impairment testing purpose, as follows:

	Group	
	2016	2015
	\$'000	\$'000
AngWei Environmental Ecological & Engineering (Shanghai) Co., Ltd ("AngWei Enviro") and its subsidiaries ⁽¹⁾	497	497

⁽¹⁾ Comprising the wastewater treatment business of its subsidiaries, arising from the service concession rights granted by the PRC government as disclosed in Note 42 to the financial statements.

The recoverable amount of AngWei Enviro Group has been determined based on value in use calculation using cash flow projection from the financial budgets approved by management covering the remaining concession periods of the wastewater treatment plants operated by the CGU, ranging from 24 - 30 years (2015: 25 years). The discount rate applied to these cash flows is 7% (2015: 7%).

Key assumptions used in the value in use calculation

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

Growth rate – The growth rate applied to the revenue for first 5 years is projected at 3% per annum, estimated based on the increase in the wastewater treatment volume and the increase in the wastewater treatment tariff. No growth is projected for the revenue from 6th year until the end of the concession period.

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

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

Sensitivity to changes in assumptions:

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

13. INTANGIBLE ASSETS

	Patent rights \$'000	Concession rights \$'000	Technical know-how \$'000	Total \$'000
Group				
Cost:				
At 1 January 2015	–	13,662	431	14,093
Additions	3,732	2,149	–	5,881
Exchange differences	–	128	5	133
At 31 December 2015 and 1 January 2016	3,732	15,939	436	20,107
Additions	–	5,323	–	5,323
Exchange differences	–	(711)	(19)	(730)
At 31 December 2016	3,732	20,551	417	24,700
Accumulated amortisation:				
At 1 January 2015	–	2,050	345	2,395
Amortisation	339	497	44	880
Exchange differences	–	17	4	21
At 31 December 2015 and 1 January 2016	339	2,564	393	3,296
Amortisation	339	567	41	947
Exchange differences	–	(119)	(17)	(136)
At 31 December 2016	678	3,012	417	4,107
Carrying amount:				
At 31 December 2015	3,393	13,375	43	16,811
At 31 December 2016	3,054	17,539	–	20,593
				Patent rights \$'000
Company				
Cost:				
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016				3,732
Accumulated amortisation:				
At 1 January 2015				–
Amortisation				339
At 31 December 2015 and 1 January 2016				339
Amortisation				339
At 31 December 2016				678
Carrying amount:				
At 31 December 2015				3,393
At 31 December 2016				3,054

Notes to the Financial Statements

For the financial year ended 31 December 2016

13. INTANGIBLE ASSETS (CONT'D)

Patent Rights

The patent rights relate to the rights to use the Biological Trickling Filter patent in relation to rural wastewater treatment. The cost of the patent rights consists a base consideration and contingent consideration, as follows:

- first consideration payment of \$1,491,000; and
- subsequent deferred consideration payable of \$2,242,000 where the amount and timing of payment is determined based on the profit projections of a joint venture. As at 31 December 2016, the deferred considerable payable balance is \$1,877,000 (2015: \$2,399,000). The movement in deferred consideration payable is shown in Note 26.

The rights are amortised on a straight-line basis over the remaining contractual life of 10 (2015: 11) years, until 31 March 2026.

The carrying amount of the Company's intangible assets is wholly made up of the carrying amount of the patent rights.

Concession rights

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

The cost of the concession rights is amortised on a straight-line basis over the concession period from the commencement of the operations of each respective plant and is charged to cost of sales in the income statement. Concession rights have an estimated remaining useful life of 20 to 43 years (2015: 21 to 44 years) at the end of the financial year.

Technical know-how

This refers to technical know-how for the treatment of industrial wastewater paid by a subsidiary. The cost of the technical know-how is amortised on a straight-line basis over 10 years commencing from the date of completion of the wastewater treatment plant and is charged to administrative expenses in the consolidated income statement. Technical know-how has been fully amortised during the financial year.

Cash outflow on acquisition of intangible assets

The cash outflow on the acquisition of intangible assets during the year amounted to \$5,323,000 (2015: \$3,639,000).

14. INVESTMENT IN SUBSIDIARIES

	Company	
	2016 \$'000	2015 \$'000
Unquoted equity shares, at cost	27,087	27,087
Less: Impairment losses	(5,923)	(1,421)
	<u>21,164</u>	<u>25,666</u>

Notes to the Financial Statements

For the financial year ended 31 December 2016

14. INVESTMENT IN SUBSIDIARIES (CONT'D)

(a) Composition of the Group

The Group has the following investment in subsidiaries:

Name of subsidiary	Country of incorporation	Principal activities	Proportion of ownership interest	
			2016 %	2015 %
Held by the Company				
AnnAik & Partners (S) Pte Ltd ("AA Partners") ⁽²⁾	Singapore	Investment holding	65	65
Anxon Eco Holdings Pte Ltd ("Anxon Eco") ⁽²⁾	Singapore	Investment holding	100	100
Anxon Engineering Pte Ltd ⁽²⁾	Singapore	Designing, contracting and management of engineering projects	100	100
Anxon Environmental Pte Ltd ("Anxon Enviro") ⁽²⁾	Singapore	Investment holding	100	100
Wesco Steel Pte Ltd ("Wesco") ⁽²⁾	Singapore	Marketing and sale of steel related products	70	70
Anxon Envirotech Pte Ltd ("Anxon Envirotech") ⁽²⁾	Singapore	Investment holding	100	100
Ann Aik Pte Ltd ⁽¹⁾	Singapore	Marketing and sale of steel related products	100	100
Pioneer Environmental Technology Pte Ltd ("Pioneer") ⁽²⁾	Singapore	Development of environmental technologies and environmental engineering	51	51
Shinsei Holdings Pte Ltd ("SHPL") ⁽¹⁾	Singapore	Investment holding	92	92
Ichinose Emico Valves (S) Pte Ltd ("Ichinose") ⁽²⁾	Singapore	Marketing and sale of steel related products	50	50
Metal Wang Pte Ltd ("MWPL") ⁽¹⁾	Singapore	Wholesale of metals and metal ores	60	60
Held through AA Partners				
AnnAik Pipes & Fittings (Shanghai) Co., Ltd ⁽³⁾	PRC	Marketing and sale of steel related products and provision of import and export agency services	65	65

Notes to the Financial Statements

For the financial year ended 31 December 2016

14. INVESTMENT IN SUBSIDIARIES (CONT'D)

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

Name of subsidiary	Country of incorporation	Principal activities	Proportion of ownership interest	
			2016 %	2015 %
Held through Anxon Enviro				
AngWei Enviro ⁽³⁾	PRC	Owning and management of wastewater treatment plants	60	60
ChangXing AngWei Environmental & Ecological Engineering Co., Ltd. ("ChangXing AW") ⁽³⁾	PRC	Owning and management of wastewater treatment plants	60	60
Held through Anxon Eco				
ChangXing LinSheng Wastewater Treatment Co., Ltd ("CX LinSheng") ⁽³⁾	PRC	Owning and management of wastewater treatment plant	88	88
Held through CX LinSheng				
ChangXing Wusheng Wastewater Treatment Co., Ltd ⁽³⁾	PRC	Owning and management of wastewater treatment plant	88	88
Held by SHPL				
Shinsei Industry Sdn. Bhd ("SISB") ⁽⁴⁾	Malaysia	Production of steel flanges and related products	92	92
Held by AngWei Enviro				
ChangXing Lijiexiang New Era Wastewater Treatment Co., Ltd ("LJX") ⁽³⁾	PRC	Owning and management of wastewater treatment plant	60	60
Held by Pioneer				
Suzhou Pioneer Environmental Technology Pte Ltd ⁽³⁾	PRC	Development of environmental technologies and environmental engineering	70	–

Notes to the Financial Statements

For the financial year ended 31 December 2016

14. INVESTMENT IN SUBSIDIARIES (CONT'D)

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

Name of subsidiary	Country of incorporation	Principal activities	Proportion of ownership interest	
			2016 %	2015 %
Held through LJX				
ChangXing Annyi Wastewater Treatment Co., Ltd ⁽³⁾	PRC	Owning and management of wastewater treatment plant	100	–
ChangXing HengYi Wastewater Treatment Co., Ltd ⁽⁵⁾	PRC	Dormant	100	–

(1) Audited by Ernst & Young LLP, Singapore.

(2) Audited by another firm of auditors, Ecovis Assurance LLP.

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

(4) Audited by Ernst & Young LLP, Penang, Malaysia.

(5) Not appointed yet as newly incorporated during the year.

(b) Incorporation of subsidiaries for the financial year ended 31 December 2016

- The Group has incorporated two wholly-owned subsidiaries, ChangXing HengYi Wastewater Treatment Co., Ltd and ChangXing Annyi Wastewater Treatment Co. Ltd with a start-up capital of RMB5,000,000 or \$1,040,500 equivalent and RMB10,000,000 or \$2,046,000 equivalent respectively. The subsidiaries were set up to construct and operate wastewater plants in LiJiaXiang Town, China.
- The Group incorporated a 70% owned subsidiary, Suzhou Pioneer Environmental Technology Pte Ltd. ("Suzhou Pioneer") in Suzhou, China, with a start-up capital of RMB350,000 or \$71,000 equivalent. The capital contributions from non-controlling interests amounted to RMB150,000 or \$31,000 equivalent. The principal activity of Suzhou Pioneer is to carry out environmental engineering services, specifically in developing environmental technologies and carrying out environmental engineering projects.

(c) Increase of paid-up registered share capital of subsidiaries for the financial year ended 31 December 2015

In the previous financial year, the Company increased the paid-up registered capital of Wesco and Ichinose through capital injection of \$210,000 and \$337,000 respectively, in cash. The capital contributions from the non-controlling interests amounted to \$427,000. There was no change in the Group's ownership interest in the above-mentioned subsidiaries.

Notes to the Financial Statements

For the financial year ended 31 December 2016

14. INVESTMENT IN SUBSIDIARIES (CONT'D)

(d) Interest in subsidiaries with material non-controlling interests ("NCI")

The Group has the following subsidiaries that have non-controlling interests that are material to the Group.

Name of subsidiary	Principal place of business	Proportion of ownership interest held by NCI %	Profit/(loss) allocated to NCI during the reporting period \$'000	Accumulated NCI at the end of reporting period \$'000
31 December 2016:				
ChangXing AW	PRC	40	76	1,822
LJX	PRC	40	221	1,551
MWPL	Singapore	40	2	263
SISB	Malaysia	8	(75)	357
31 December 2015:				
ChangXing AW	PRC	40	131	1,828
LJX	PRC	40	239	1,392
MWPL	Singapore	40	(30)	256
SISB	Malaysia	8	(234)	423

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

Summarised balance sheets

	ChangXing AW		LJX		MWPL		SISB	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Current								
Assets	1,651	960	1,595	1,426	2,523	1,995	6,932	6,901
Liabilities	(1,916)	(1,214)	(5,658)	(2,792)	(1,868)	(1,359)	(10,002)	(8,844)
Net current (liabilities)/assets	(265)	(254)	(4,063)	(1,366)	655	636	(3,070)	(1,943)
Non-current								
Assets	5,435	5,518	9,536	6,182	2	3	13,189	13,656
Liabilities	(615)	(694)	(1,596)	(1,337)	–	–	(5,652)	(6,421)
Net non-current assets	4,820	4,824	7,940	4,845	2	3	7,537	7,235
Net assets	4,555	4,570	3,877	3,479	657	639	4,467	5,292

Notes to the Financial Statements

For the financial year ended 31 December 2016

14. INVESTMENT IN SUBSIDIARIES (CONT'D)

(d) Interest in subsidiaries with material non-controlling interests ("NCI") (cont'd)

Summarised statement of comprehensive income

	ChangXing AW		LJX		MWPL		SISB	
	2016	2015	2016	2015	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	1,459	1,688	2,517	3,714	8,089	11,585	6,404	6,699
Profit/(loss) before tax	256	441	703	782	4	(82)	(936)	(2,929)
Tax expense	(67)	(112)	(151)	(185)	–	6	–	–
Profit/(loss) after tax, representing total comprehensive income	189	329	552	597	4	(76)	(936)	(2,929)

Other summarised information

	ChangXing AW		LJX		MWPL		SISB	
	2016	2015	2016	2015	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Net cash flows from operations	338	211	434	463	(1,118)	909	(315)	(1,887)
Acquisition of significant property, plant and equipment	2	61	23	–	–	3	24	393

(e) Impairment testing of investment in subsidiaries

During the financial year, management has performed an impairment test for the Company's investment in certain subsidiaries based on the net assets of the subsidiaries. As a result, the Company has made an impairment loss of \$4,502,000 (2015: \$200,000) for the year ended 31 December 2016 to write down the investments to their respective recoverable amounts.

Notes to the Financial Statements

For the financial year ended 31 December 2016

15. INVESTMENT IN AN ASSOCIATE

	Group	
	2016 \$'000	2015 \$'000
Unquoted equity shares, at cost	1,392	1,392
Share of post-acquisition profits	1,735	1,420
Exchange differences	80	214
Net carrying amount	3,207	3,026

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

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

Name of associate	Country of incorporation	Principal activities	Proportion of ownership	
			2016 %	2015 %
Held through Anxon Enviro				
Shuanglin (Huzhou) Wastewater Treatment Co., Ltd ("Shuanglin") ⁽¹⁾	PRC	Owning and management of wastewater treatment plant	42	42

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

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

	Group	
	2016 \$'000	2015 \$'000
Summarised balance sheet		
Current assets (inclusive of cash and cash equivalents of 2016: \$446,000, 2015: \$135,000)	2,559	4,114
Non-current assets	6,191	7,125
Total assets	8,750	11,239
Current liabilities	1,113	3,874
Non-current liabilities	–	160
Total liabilities	1,113	4,034
Net assets	7,637	7,205
Proportion of the Group's ownership	42%	42%
Group's share of net assets	3,207	3,026

Notes to the Financial Statements

For the financial year ended 31 December 2016

15. INVESTMENT IN AN ASSOCIATE (CONT'D)

Summarised statement of comprehensive income

	Group	
	2016 \$'000	2015 \$'000
Revenue	1,736	4,283
Other operating income	429	495
Interest income	19	36
Amortisation expense	(308)	(311)
Depreciation expense	(8)	(4)
Operating costs	(950)	(3,821)
Profit before tax	918	678
Tax expense	(167)	(135)
Profit after tax	751	543
Other comprehensive income	(319)	65
Total comprehensive income	432	608

16. INVESTMENT IN A JOINT VENTURE

	Group	
	2016 \$'000	2015 \$'000
Unquoted equity, shares, at cost	1,097	1,097
Share of post-acquisition profits	2,810	636
Exchange differences	(65)	–
Net carrying amount	3,842	1,733

In the previous financial year, the Company's wholly-owned subsidiary, Anxon Envirotech, had entered into an equity joint venture agreement with Shanghai Xingyu Environmental Science and Technology Co., Ltd. ("Xingyu"), to incorporate a joint venture, namely Shanghai Onway Development Co., Ltd. to carry out rural wastewater treatment business in the PRC.

The details of the investment in a joint venture are summarised below:

Name of joint venture	Country of incorporation	Principal activities	Proportion of ownership	
			2016 %	2015 %
Held through Anxon Envirotech				
Shanghai Onway Environmental Development Co Ltd ("Shanghai Onway") ⁽¹⁾	PRC	Provision of equipment in rural wastewater treatment	51	51
Held through Shanghai Onway				
ZheJiang XinYu Environmental Technology Pte Ltd ⁽¹⁾	PRC	Provision of engineering, procurement and construction ("EPC") activities in relation to wastewater treatment	51	51

⁽¹⁾ Audited by Ernst & Young LLP, Chengdu, PRC, for the purpose of inclusion of the entity's results into the Group's consolidated financial statements.

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16. INVESTMENT IN A JOINT VENTURE (CONT'D)

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

	Group	
	2016	2015
	\$'000	\$'000
Summarised balance sheet		
Current assets (inclusive of cash and cash equivalents of 2016: \$1,572,000, 2015: \$1,617,000)	11,497	7,990
Non-current assets	2,990	69
Total assets	14,487	8,059
Current liabilities	6,953	4,660
Non-current liabilities	–	–
Total liabilities	6,953	4,660
Net assets	7,534	3,399
Proportion of the Group's ownership	51%	51%
Group's share of net assets	3,842	1,733

Summarised statement of comprehensive income

	Group	
	2016	2015
	\$'000	\$'000
Revenue	13,462	5,509
Other operating income	59	23
Depreciation expense	(11)	(5)
Interest expense	(11)	(1)
Operating costs	(7,713)	(3,865)
Profit before tax	5,786	1,661
Tax expenses	(1,523)	(414)
Profit after tax	4,263	1,247
Other comprehensive income	(127)	–
Total comprehensive income	4,136	1,247

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group and Company	
	2016	2015
	\$'000	\$'000
Unquoted equity security, at cost	5,667	5,667
Less: Impairment loss	(5,667)	(2,200)
Net carrying amount	–	3,467

This relates to the Company's 17.6% equity interest in an unquoted investment which is incorporated in Singapore and is engaged in property development activities in the PRC.

During the financial year, the Group has fully impaired the unquoted equity security subsequent to a review on its financial condition. Accordingly, an impairment loss of \$3,467,000 (2015: \$2,200,000) has been recognised under the "Other operating expenses" line item in the consolidation financial statements.

Notes to the Financial Statements

For the financial year ended 31 December 2016

18. CLUB MEMBERSHIP

	Group and Company	
	2016	2015
	\$'000	\$'000
Club membership, at cost (indefinite life)	190	190

19. REFUNDABLE DEPOSITS

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

20. INVENTORIES

	Group	
	2016	2015
	\$'000	\$'000
Balance sheet:		
Raw materials	200	1,545
Work-in-progress	155	1,649
Finished goods	21,281	24,229
	<u>21,636</u>	<u>27,423</u>
Income statement:		
Inventories recognised as an expense in cost of sales	29,810	36,103
Inclusive of the following charge/(credit):		
- (Reversal of write down)/write down of inventories	(401)	622
- Allowance for slow moving inventories	86	119

Inventories are stated after allowance for inventory obsolescence of \$897,000 (2015: \$811,000).

Movement in allowance account at end of the year:

	Group	
	2016	2015
	\$'000	\$'000
At beginning of the year	811	692
Allowance made during the year	86	119
At the end of the year	<u>897</u>	<u>811</u>

Notes to the Financial Statements

For the financial year ended 31 December 2016

21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Current:				
<u>Trade receivables</u>				
- External parties	9,934	13,482	–	–
- Related parties	57	49	–	–
Less: Allowance for doubtful debts	(415)	(480)	–	–
	9,576	13,051	–	–
<u>Non-trade receivables</u>				
Other receivables	3,836	2,072	2,014	6
GST receivables	172	16	–	–
Advances to suppliers for trade purchase	574	286	4	4
Amounts due from related parties	763	1,155	88	587
Refundable deposits	382	514	–	–
Less: Allowance for doubtful debts	(413)	(239)	(88)	–
	14,890	16,855	2,018	597
Non-current:				
<u>Non-trade receivables</u>				
Other receivables	–	5,468	–	5,468
Sale proceeds from disposal of available-for-sale assets	–	1,505	–	1,505
	–	6,973	–	6,973
Total trade and other receivables	14,890	23,828	2,018	7,570

Trade receivables

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

At the end of the reporting period:

- Trade receivables arising from export sales amounting \$108,000 (2015: \$158,000) are arranged to be settled via letters of credit issued by reputable bank in countries where the customers are based; and
- Trade receivables that are insured by trade credit insurance underwritten by a reputable insurer in Singapore amounted to \$812,000 (2015: \$3,570,000).

Amounts due from related parties

At the end of the reporting period, the balance relates to unsecured loans to related parties of \$763,000 (2015: \$637,000) which are non-interest bearing, repayable on demand and are to be settled in cash, except for an amount of \$583,000 which bears interest at 4.35% (2015: 5.00%) per annum. An allowance for doubtful debt of \$88,000 was made since the previous financial year.

In the previous financial year, the balance also comprised loans to related parties of \$498,000 which bore interest at 10% per annum and secured by a charge of shares in a partially-owned subsidiary. Such loans had been settled by the related parties in the current reporting period.

Notes to the Financial Statements

For the financial year ended 31 December 2016

21. TRADE AND OTHER RECEIVABLES (CONT'D)

Other receivables

Other receivables include receivables from Shinsei Company (S) Pte, Ltd. ("Shinsei Singapore") and Both-Well Holdings (S) Pte Ltd ("Both-Well Singapore") amounting to \$2,000,000 under current balance (2015: \$5,468,000 under non-current balance). Shinsei Singapore and Both-Well Singapore were previously the available-for-sale investments of the Group, which were disposed off in March 2015. These balances were non-trade related and were secured by the corporate guarantee from Both-Well Fittings Co., Ltd Taiwan. An amount of \$3,468,000 was received in the current financial year whereas the remaining balance of \$2,000,000 was received subsequent to the end of the reporting period in January 2017.

Receivables that are past due but not impaired

The Group has trade receivables amounting to \$5,642,000 (2015: \$7,361,000) that are past due at the end of the reporting period but not impaired. These receivables are unsecured and the analysis of their aging at the end of the reporting period is as follows:

	Group	
	2016	2015
	\$'000	\$'000
Trade receivables past due:		
Lesser than 30 days	2,479	3,185
30 to 60 days	1,150	2,180
61 to 90 days	906	557
More than 90 days	1,107	1,439
	5,642	7,361

Trade receivables that are impaired

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

	Group	
	Individually impaired	
	2016	2015
	\$'000	\$'000
Trade receivables - nominal amount	415	480
Allowance for impairment	(415)	(480)
	-	-

Movement in the allowance account:

	Group	
	2016	2015
	\$'000	\$'000
At 1 January	480	117
Charge for the year, net	20	373
Written off	(83)	-
Exchange differences	(2)	(10)
At 31 December	415	480

Notes to the Financial Statements

For the financial year ended 31 December 2016

21. TRADE AND OTHER RECEIVABLES (CONT'D)

Trade receivables that are impaired (cont'd)

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

At the end of the reporting period, the Group has provided an allowance of \$20,000 (2015: \$373,000) for the impairment of doubtful receivables subsequent to a debt recovery assessment carried out during the year.

Other receivables that are impaired

Movement in the allowance account:

	Group	
	2016	2015
	\$'000	\$'000
At 1 January	239	–
Charge for the year	170	239
Exchange differences	4	–
At 31 December	413	239

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

	Group		Company	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
United States dollars:				
- Trade receivables	1,322	2,777	–	–
- Other receivables	368	314	–	–

22. FINANCE DERIVATIVE ASSETS/(LIABILITIES)

	Group			
	2016		2015	
	Contract/ Notional amount \$'000	Liabilities \$'000	Contract/ Notional amount \$'000	Assets \$'000
Non-current:				
Interest rate swaps	9,179	(48)	9,179	81
Current:				
Forward currency contracts	–	–	709	5

The interest rate swaps receive floating interest equal to SIBOR + 1.50% (2015: SIBOR + 1.50%) per annum, pay a fixed rate of interest ranging from 3.00% to 3.45% (2015: 3.00% to 3.45%) per annum and mature between January 2019 and March 2020 (2015: January 2019 and March 2020). During the financial year, the fair value loss of \$134,000 (2015: gain of \$86,000) has been recognised under the "Other operating expenses" (2015: "Other income") line item in the consolidated income statement.

Notes to the Financial Statements

For the financial year ended 31 December 2016

23. AMOUNTS DUE FROM/(TO) SUBSIDIARIES, AN ASSOCIATE AND A JOINT VENTURE

Amounts due from subsidiaries, an associate and a joint venture

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Current:				
Amounts due from subsidiaries	–	–	13,117	13,001
Amount due from an associate	–	518	–	–
Amount due from a joint venture	709	–	–	–
	<u>709</u>	<u>518</u>	<u>13,117</u>	<u>13,001</u>
Non-current:				
Amounts due from subsidiaries	–	–	8,261	8,116

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

The non-current amounts due from subsidiaries are non-trade related, unsecured, non-interest bearing and are to be settled in cash. These amounts are not expected to be repaid within 12 months from the end of the reporting period.

Amounts due from subsidiaries, an associate and a joint venture denominated in foreign currency are as follows:

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
United States dollars	–	–	9,162	8,666

Amounts due to subsidiaries, an associate and a joint venture

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Current:				
Amounts due to subsidiaries	–	–	521	572
Amount due to an associate	420	–	–	–
Amount due to a joint venture	2,737	850	–	–
	<u>3,157</u>	<u>850</u>	<u>521</u>	<u>572</u>

The amounts due to subsidiaries, an associate and a joint venture are non-trade, unsecured, non-interest bearing, repayable on demand and are to be settled in cash.

Notes to the Financial Statements

For the financial year ended 31 December 2016

24. CASH AND BANK BALANCES

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Cash at banks and on hand	6,369	5,966	556	2,032
Fixed deposit	1,000	–	1,000	–
Total cash and bank balances	7,369	5,966	1,556	2,032
Less: Bank overdrafts (Note 27)	(154)	(196)	–	–
Less: Fixed deposit, pledged	(1,000)	–	(1,000)	–
Cash and cash equivalents in the consolidated cash flow statement	6,215	5,770	556	2,032

Cash at banks and on hand earn interest at floating rates based on daily bank deposit rates. Pledged fixed deposit relates to short term deposit held by a bank as collateral for credit facilities of a subsidiary (Note 27c). The fixed deposit has a term of 6.5 months (2015: Nil) and earns interest at 0.7% (2015: Nil) per annum.

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

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
United States dollars	775	453	107	124
Euro	53	136	–	–

25. TRADE PAYABLES

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Trade payables – third parties	1,696	2,360	–	–
Amount owing to a related party	277	632	–	–
	1,973	2,992	–	–

The credit period for purchases of goods ranges from 2 to 3 months (2015: 2 to 3 months). No interest is payable by the Group and the Company on trade payables.

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

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

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
United States dollars	610	1,633	–	–

Notes to the Financial Statements

For the financial year ended 31 December 2016

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Non-current:				
Deferred consideration payable (Note 13)	618	2,101	618	2,101
Current:				
Accrued expenses	709	1,288	371	283
Accrued directors' fees	143	186	–	186
Deferred consideration payable (Note 13)	1,259	298	1,259	298
Deposits and advances from customers	281	274	–	–
Deferred income	–	19	–	–
GST payables	155	124	29	–
Other payables	1,495	2,466	7	115
	4,042	4,655	1,666	882
Total other payables and accruals	4,660	6,756	2,284	2,983

Deferred consideration payable

As part of the assignment agreement with the previous owner of Biological Trickleing Filter patent, a purchase consideration comprising a first consideration and subsequent deferred consideration payable has been agreed on for the rights to use the patent. On initial recognition, the deferred consideration was capped \$2,861,000 and was carried at net present value based on the discount rate of 7% amounting to \$2,242,000. The first consideration has been paid in the financial year ended 31 December 2015. The deferred consideration shall be paid to the previous owner annually, computed based on a percentage over projected profits of the rural wastewater operation.

Movement in the deferred consideration payable:

	Group and Company	
	2016 \$'000	2015 \$'000
At 1 January/At assignment date	2,399	2,242
Payment during the year	(680)	–
Accretion of interests (Note 6)	158	157
At 31 December	1,877	2,399

Other payables and accruals, including the deferred consideration payable, denominated in foreign currency at 31 December are as follows:

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
United States dollars	6	70	–	–

Notes to the Financial Statements

For the financial year ended 31 December 2016

27. LOANS AND BORROWINGS

	Note	Group		Company	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Current:					
<i>Bank loans:</i>					
- Revolving SGD loan facilities	(a)	500	2,500	–	–
- Revolving USD loan facilities	(b)	145	–	–	–
- Secured RMB term loans	(c)	1,207	575	–	–
- Secured SGD term loans	(d)	509	455	–	–
- Secured USD term loans	(e)	3,204	2,860	–	–
- Unsecured SGD loan facilities	(f)	–	3,500	–	3,500
		5,565	9,890	–	3,500
<i>Other loans and borrowings:</i>					
Bank overdrafts	24	154	196	–	–
Bills payables – for trade purpose		7,649	8,483	–	–
Finance lease obligations		93	223	–	–
Government loan		624	327	–	–
		14,085	19,119	–	3,500
Non-current:					
<i>Bank loans:</i>					
- Secured RMB term loan	(c)	1,456	–	–	–
- Secured SGD term loans	(d)	9,673	9,900	–	–
- Secured USD term loans	(e)	5,629	6,379	–	–
- Unsecured SGD loan facilities	(f)	–	1,500	–	1,500
		16,758	17,779	–	1,500
<i>Other loans and borrowings:</i>					
Finance lease obligations		39	135	–	–
Government loan		832	436	–	–
		17,629	18,350	–	1,500
Total loans and borrowings		31,714	37,469	–	5,000

The Group has the following outstanding bank loans:

- (a) Revolving SGD loan facilities of \$500,000 (2015: \$2,500,000) are secured by a corporate guarantee from the holding company. The loans bear fixed interests at 3.20% (2015: ranging from 2.43% to 3.55%) per annum.
- (b) Revolving USD loan facilities of \$145,000 (2015: \$Nil) are secured by a corporate guarantee from the holding company. The loans bear fixed interests at 3.19% (2015: Nil) per annum.

Notes to the Financial Statements

For the financial year ended 31 December 2016

27. LOANS AND BORROWINGS (CONT'D)

Bank loans (cont'd)

(c) Secured RMB term loans comprising:

Current:

- A subsidiary's bank loan of RMB1,400,000 or \$291,000 equivalent (2015: RMB2,641,000 or \$575,000 equivalent) is secured by a corporate guarantee from the holding company, property, plant and machinery and personal guarantees of the directors of the subsidiary, bears fixed interest at 5.90% (2015: 5.90%) per annum and is repayable over 4 years starting from January 2014. It is callable at the option of the lenders and as such, has been classified as current liabilities on the consolidated balance sheet.
- Term loan of RMB4,400,000 or \$916,000 equivalent (2015: \$Nil) is secured by a charged over the fixed deposit of the Company amounting to \$1,000,000 (Note 24). The term loan bears fixed interest at 3.92% (2015: Nil) and is due for repayment in April 2017.

Non-current:

Secured RMB term loan of RMB7,000,000 or \$1,456,000 equivalent (2015: \$Nil), bears interest at a floating rate of +30% of loan base rates set by PBOC. The bank loan is repayable in 16 quarterly instalments with the starting from January 2018. The loan is secured by a corporate guarantee from the holding company and personal guarantees by the directors of the subsidiary.

(d) Secured SGD term loans of \$10,182,000 (2015: \$10,355,000) undertaken by a subsidiary to finance the expansion of its 2-storey industrial warehouse cum office at 52 Tuas Avenue 9, Singapore 639193. The loan bears floating interest at 1.50% (2015: 1.50%) per annum above bank swap rate and is repayable in equal instalments over 20 years from the date of draw down.

(e) Secured USD term loans comprising:

- Property loan of US\$4,016,000 or \$5,807,000 equivalent (2015: US\$4,269,000 or \$6,039,000 equivalent) undertaken by a subsidiary to finance the purchase of a piece of vacant land for the construction of a factory building in Pulau Pinang, Malaysia. The loan bears floating interest at 1.75% (2015: 1.75%) per annum above bank cost of funds and is repayable in 39 quarterly instalments from date of draw down and 1 final balloon instalment;
- Working capital loan of US\$493,000 or \$713,000 equivalent (2015: US\$862,000 or \$1,219,000) undertaken by a subsidiary to purchase machinery and equipment used in the manufacturing business. The loan bears floating interest at 2.45% (2015: 2.08%) per annum above bank cost of fund and is repayable in 20 quarterly principal instalments and 1 final instalment over its tenure of 5 years commencing from date of draw down; and
- Revolving loans of US\$1,600,000 or \$2,313,000 (2015: US\$1,400,000 or \$1,981,000), which bears fixed interest ranging from 3.12% to 3.24% (2015: 2.35%) per annum and secured by a corporate guarantee from the holding company.

(f) Unsecured SGD loan facilities comprising:

- Revolving SGD loan facilities of \$3,000,000 drawn down in 2015. The loan bore floating interest at 1.75% per annum over the bank cost of fund or swap offer rate as determined by the bank whichever is higher. The loan has been fully repaid during the financial year; and
- Revolving SGD loan facilities of \$2,000,000 drawn down in 2015. The loan bore floating interest ranging from 1.50% to 1.75% per annum over the bank cost of fund. The loan has been fully repaid during the financial year.

Notes to the Financial Statements

For the financial year ended 31 December 2016

27. LOANS AND BORROWINGS (CONT'D)

Government loans

The government loans comprise:

- (a) A government loan of RMB5,000,000 or \$1,041,000 equivalent (2015: RMB3,500,000 or \$762,000) granted to a subsidiary of the Group to finance the construction of the wastewater plant. The loan is unsecured, non-interest bearing and repayable in the following manners:
- RMB3,000,000 or \$624,000 equivalent by December 2017, being one year after the completion of the construction of the wastewater plant; and
 - Remaining loan of RMB2,000,000 or \$416,000 equivalent by December 2018.
- (b) A government loan of RMB2,000,000 or \$416,000 equivalent granted to a subsidiary of the Group to finance the construction of the wastewater plant. The loan is unsecured, non-interest bearing and repayable by December 2021.

Bank overdrafts

Bank overdrafts are repayable on demand and bear interest at 6.50% (2015: 6.50%) per annum. The Company provides corporate guarantees to banks in respect of the bank overdrafts amounting to \$154,000 (2015: \$196,000) drawn down by a subsidiary.

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

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Amounts payable under finance leases:				
- Within one year	97	232	93	223
- In the second to fifth year inclusive	39	140	39	135
	136	372	132	358
Less: Future finance charges	(5)	(14)	-	-
Present value of lease obligations	131	358	132	358
Less: Amount due to be paid within 12 months			(93)	(223)
Amount due to be paid after 12 months			39	135

The Group leases certain of its plant and equipment under finance leases. The period of these finance leases ranges from 1 to 4 years (2015: 2 to 5 years). For the year ended 31 December 2016, the average effective interest rate in respect of these finance leases ranges from 1.15% to 4.78% (2015: 1.15% to 4.78%) per annum. Lease terms do not contain restrictions, concerning dividends, additional debts or further leasing. All leases are on fixed repayment basis and no arrangements have been entered into for contingent rental payments. The fair value of the Group's lease obligations approximates their carrying amounts.

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For the financial year ended 31 December 2016

27. LOANS AND BORROWINGS (CONT'D)

Bills payables

Bills payables are repayable between 3 to 6 months from the date the bills are first issued. The carrying amounts of the bills payables approximate their fair value due to the short-term maturity. During the year ended 31 December 2016, the bills payables carry interests at rates ranging from 2.27% to 3.20% (2015: 1.57% to 3.58%) per annum.

The Company provides corporate guarantees to banks in respect of the bills payables amounting to \$7,649,000 (2015: \$8,483,000) owing by subsidiaries.

Bills payables denominated in foreign currency as at 31 December are as follows:

	Group	
	2016 \$'000	2015 \$'000
United States dollars	1,418	209

Undrawn committed borrowing facilities

As at 31 December 2016, the Group has available undrawn committed borrowing facilities of \$11,282,000 (2015: \$12,335,000).

Effective interest rates

	Effective interest rate	
	2016 %	2015 %
<i>Bank loans:</i>		
- Revolving SGD loan facilities	3.20%	2.43% - 3.55%
- Revolving USD loan facilities	3.19%	-
- Secured SGD term loans	2.35%	3.10%
- Secured RMB term loans	3.92% - 5.90%	5.90%
- Unsecured SGD loan facilities	-	3.18% - 4.40%
- Secured USD term loans	2.08% - 3.24%	2.08%
<i>Other loans and borrowings:</i>		
Bank overdrafts	6.50%	6.50%
Bills payables – for trade purpose	2.27% - 3.20%	1.57% - 3.58%
Finance lease obligations	1.15% - 4.78%	1.15% - 4.78%

Notes to the Financial Statements

For the financial year ended 31 December 2016

28. GOVERNMENT GRANTS

These are grants received from the government of the PRC for the improvements and upgrading of the wastewater treatment plants built and operated by the Group. These grants will be recognised in the income statement on a systematic basis over respective concession periods of 30 to 50 years.

	Group	
	2016	2015
	\$'000	\$'000
At 1 January	2,100	2,155
Less: Amortisation of government grant	(73)	(79)
Exchange differences	(94)	24
At 31 December	1,933	2,100

29. DEFERRED TAX ASSETS/(LIABILITIES)

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

	Group			
	Balance sheet		Net change in income statement	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Deferred tax liabilities:				
Undistributed earnings of an associate and joint venture	229	106	123	106
Unrealised profits ⁽¹⁾	192	283	(94)	6
Exchange differences	(13)	3		
	408	392		
Deferred tax assets:				
Unutilised tax losses	–	–	–	23
	–	–	29	135
Deferred income tax expense (Note 8)			29	135

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

Unrecognised temporary differences relating to investments in subsidiaries

At the end of the reporting period, no deferred tax liability (2015: \$Nil) has been recognised for taxes that would be payable on the undistributed earnings of certain subsidiaries as the Group has determined that the undistributed earnings of the subsidiaries will not be distributed in the foreseeable future.

Such temporary differences for which no deferred tax liability has been recognised aggregate to \$4,940,000 (2015: \$4,447,000). The deferred tax liability is estimated to be approximately \$247,000 (2015: \$222,000).

Notes to the Financial Statements

For the financial year ended 31 December 2016

30. SHARE CAPITAL

	Group and Company			
	No. of ordinary shares			
	2016	2015	2016	2015
	'000	'000	\$'000	\$'000
Issued and paid-up:				
At 1 January and at 31 December	248,973	248,973	36,131	36,131

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

31. FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

	Group	
	2016	2015
	\$'000	\$'000
At 1 January	1,142	608
Net effect of exchange differences arising from translation of financial statements of foreign operations	(451)	534
At 31 December	691	1,142

32. STATUTORY RESERVE FUND

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

33. EMPLOYEE SHARE OPTION RESERVE

	Group and Company	
	2016 \$'000	2015 \$'000
At 1 January	1,485	1,216
- Forfeited	(205)	(42)
- Amortisation of share-based expense	-	311
At 31 December	1,280	1,485

Equity-settled share option scheme

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

(a) Market price options

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

(b) Discounted options

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

There have been no cancellation or modification to the share option plan during both 2016 and 2015.

Movement of share options during the financial year

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

	Group and Company			
	2016		2015	
	No. of share options	WAEP \$	No. of share options	WAEP \$
Outstanding at 1 January	19,804,000	0.129	20,452,000	0.128
- Forfeited	(1,887,000)	0.096	(648,000)	0.091
Outstanding at 31 December	17,917,000	0.132	19,804,000	0.129
Exercisable at 31 December	17,917,000	0.132	19,804,000	0.129

Notes to the Financial Statements

For the financial year ended 31 December 2016

33. EMPLOYEE SHARE OPTION RESERVE (CONT'D)

(b) Discounted options (cont'd)

- No share options were exercised during the year.
- There are no options granted during the financial years ended 31 December 2016 and 2015.
- The options outstanding at the end of the year have a weighted average remaining contractual life of 4.70 years (2015: 5.27 years).
- The range of exercise prices for options outstanding at the end of the year was \$0.083 to \$0.280 (2015: \$0.083 to \$0.280).
- Share-based payment expense amounting to \$Nil (2015: \$311,000) was recognised during the financial year ended 31 December 2016.

34. DIVIDENDS

	Group and Company	
	2016	2015
	\$'000	\$'000
Declared and paid during the year:		
<i>Dividends on ordinary shares:</i>		
- Final exempt (one-tier) dividend for 2015: Nil (2014: 0.2) cents per share	-	498
Proposed but not recognised as liability as at 31 December:		
<i>Dividends on ordinary shares, subject to shareholders' approval at AGM:</i>		
- Final exempt (one-tier) dividend for 2016: 0.2 (2015: Nil) cents per share	498	-

35. RELATED PARTIES TRANSACTIONS

(a) Sales and purchases of goods and services

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

	Group	
	2016	2015
	\$'000	\$'000
Engage of legal services from a firm related to a director	4	8
Sales of goods to related parties	60	66
Purchase of goods from related parties	320	1,194

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

The Group has engaged Lee Bon Leong & Co., a firm of which one of the independent directors is the Senior Partner of the firm, for the provision of legal services in relation to the Group's affairs. The amounts outstanding are unsecured and will be settled in cash.

Notes to the Financial Statements

For the financial year ended 31 December 2016

35. RELATED PARTIES TRANSACTIONS (CONT'D)

(b) Compensation of directors and key management personnel

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

	Group	
	2016	2015
	\$'000	\$'000
Short-term employee benefits	2,122	2,495
Central Provident Fund contributions	163	153
Directors' fees	143	186
Share-based payments	–	146
	2,428	2,980
Comprise amounts paid to:		
- Directors of the Company	1,435	1,543
- Other key management personnel	993	1,437
	2,428	2,980

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

Directors' interests in employee share option

At the end of the reporting period, the total number of outstanding share options granted by the Company to the above-mentioned directors under the share option plan amount to 9,623,000 (2015: 11,243,000).

36. COMMITMENTS

(a) Operating lease commitment – as lessee

The Group has entered into commercial property leases on certain properties and land rental. The lease has an average tenure of between 1 and 26 years (2015: 1 and 27 years) with no renewal option or contingent rent provision included in the contracts. The Group is restricted from subleasing the leased properties and leasehold lands to third parties.

Minimum lease payments recognised as an expense in profit or loss for the financial year ended 31 December 2016 amounted to \$412,000 (2015: \$431,000).

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

	Group	
	2016	2015
	\$'000	\$'000
Not later than one year	516	551
Later than one year but not later than five years	1,033	1,488
Later than five years	4,034	4,997
	5,583	7,036

Notes to the Financial Statements

For the financial year ended 31 December 2016

36. COMMITMENTS (CONT'D)

(b) Capital commitments

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

	Group	
	2016	2015
	\$'000	\$'000
Capital commitments in construction of wastewater plants	1,457	–

37. CORPORATE GUARANTEE – COMPANY LEVEL

The Company has issued corporate guarantees to several financial institutions for borrowings granted to certain subsidiaries for \$60,116,000, of which \$30,126,000 (2015: \$32,111,000) were utilised at the end of the reporting period

38. SEGMENT INFORMATION

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

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

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

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

38. SEGMENT INFORMATION (CONT'D)

(a) Business segments

	Distribution		Manufacturing of steel flanges		Engineering construction		Environmental business		Elimination		Consolidation	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue												
External revenue	33,053	42,576	3,884	3,599	-	-	11,085	6,896	-	-	48,022	53,071
Inter-segment revenue	3,190	3,288	3,442	4,747	-	-	-	-	(6,632)	(8,035)	-	-
Total revenue	36,243	45,864	7,326	8,346	-	-	11,085	6,896	(6,632)	(8,035)	48,022	53,071
Result												
Segment results	(6,260)	(4,348)	(893)	(2,923)	(55)	(35)	1,152	722	599	1,177	(5,457)	(5,407)
Share of results of an associate	-	-	-	-	-	-	315	228	-	-	315	228
Share of results of a joint venture	-	-	-	-	-	-	2,174	636	-	-	2,174	636
Interest income	-	-	-	-	-	-	-	-	-	-	211	295
Finance costs	-	-	-	-	-	-	-	-	-	-	(1,035)	(1,331)
Loss before tax	-	-	-	-	-	-	-	-	-	-	(3,792)	(5,579)
Income tax	-	-	-	-	-	-	-	-	-	-	(518)	(436)
Loss for the year	-	-	-	-	-	-	-	-	-	-	(4,310)	(6,015)

Notes to the Financial Statements

For the financial year ended 31 December 2016

38. SEGMENT INFORMATION (CONT'D)

(a) Business segments (cont'd)

	Distribution		Manufacturing of steel flanges		Engineering construction		Environmental business		Elimination		Consolidation	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets												
Segment assets	50,962	69,162	20,226	20,498	78	94	25,628	21,010	-	-	96,894	110,764
Investment in an associate	-	-	-	-	-	-	3,207	3,026	-	-	3,207	3,026
Investment in a joint venture	-	-	-	-	-	-	3,842	1,733	-	-	3,842	1,733
Consolidated total assets											103,943	115,523
Liabilities												
Segment liabilities	10,218	14,364	2,601	2,434	4	15	7,528	5,526	-	-	20,351	22,339
Bank loans	10,980	18,051	8,833	9,239	-	-	4,120	1,338	-	-	23,933	28,628
Consolidated total liabilities											44,284	50,967
Other information												
Depreciation and amortisation	1,234	1,272	426	455	10	30	749	637	-	-	2,418	2,394
Capital expenditure	443	4,297	23	393	-	-	5,626	2,385	-	-	6,092	7,075
Other non-cash expenses	4,212	2,901	(181)	626	-	165	22	58	-	-	4,053	3,750

Notes to the Financial Statements

For the financial year ended 31 December 2016

38. SEGMENT INFORMATION (CONT'D)

(a) Business segments (cont'd)

Notes Nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements.

A Inter-segment revenues are eliminated on consolidation.

B The following items are deducted from segment profits to arrive at "loss before tax" presented in the consolidated income statement:

	2016 \$'000	2015 \$'000
Profit from inter-segment sales	(78)	(43)
Unallocated corporate expenses	677	1,220
	599	1,177

(b) Geographical information

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

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

	Group	
	2016 \$'000	2015 \$'000
By geographical markets:		
Singapore	20,236	24,080
Malaysia	4,691	5,779
PRC	9,545	6,362
Denmark	–	3,572
India	1,808	3,500
Russia	3,361	1,879
Indonesia	4,444	1,974
Vietnam	1,135	2,099
Others ⁽¹⁾	2,802	3,826
	48,022	53,071

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

38. SEGMENT INFORMATION (CONT'D)

(b) Geographical information (cont'd)

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

	Non-current assets	
	2016	2015
	\$'000	\$'000
Singapore	26,624	34,587
Malaysia	13,189	16,270
PRC	19,407	13,657
	<u>59,220</u>	<u>64,514</u>

Non-current assets information presented above consists of property, plant and equipment, prepaid land rental, goodwill, intangible assets, investment in an associate and a joint venture, available-for-sale financial assets, club membership, refundable deposits, other receivables, financial derivative assets, amount due from an associate and deferred tax assets as presented in the consolidated balance sheet.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(a) Credit risk

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

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(a) Credit risk (cont'd)

Concentration risk

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

Exposure to credit risk

The extent of the Group's credit exposure is represented by the aggregate carrying amount of cash and bank balances, trade and other receivables and amounts due from an associate and a joint venture and amount due from related parties.

The maximum amount that the Company could be forced to settle under corporate guarantee contracts to the banks in respect of facilities extended to its subsidiaries is \$30,126,000 (2015: \$32,111,000).

Information regarding credit enhancements for trade and other receivables is disclosed in Note 21.

Credit risk concentration profile

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

	2016		2015	
	\$'000	% of total	\$'000	% of total
<i>By country:</i>				
Singapore	3,916	41%	7,853	60%
Malaysia	1,171	12%	1,333	10%
PRC	1,498	16%	1,417	11%
Others	2,991	31%	2,448	19%
	<u>9,576</u>	<u>100%</u>	<u>13,051</u>	<u>100%</u>

At the balance sheet date, approximately 0.57% (2015: 0.36%) of the Group's trade receivables were due from related parties. There were no customers who represented more than 5% of the total balance of trade receivables.

Financial assets that are neither past due nor impaired

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

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 21.

Notes to the Financial Statements

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(b) Liquidity risk

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

Analysis of financial instruments by remaining contractual maturities

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

	2016				2015			
	1 year or less \$'000	1 to 5 years \$'000	After 5 years \$'000	Total \$'000	1 year or less \$'000	1 to 5 years \$'000	After 5 years \$'000	Total \$'000
Group								
Financial assets:								
Trade and other receivables ⁽¹⁾	14,144	–	–	14,144	16,553	6,973	–	23,526
Financial derivative assets (net-settled)	–	–	–	–	5	81	–	86
Refundable deposits	–	–	892	892	–	–	935	935
Amounts due from an associate and a joint venture	709	–	–	709	518	–	–	518
Cash and bank balances	7,369	–	–	7,369	5,966	–	–	5,966
Total undiscounted financial assets	22,222	–	892	23,114	23,042	7,054	935	31,031
Financial liabilities:								
Trade and other payables ⁽²⁾	5,579	661	–	6,240	7,230	1,841	562	9,633
Finance leases	97	39	–	136	232	140	–	372
Amounts due to an associate and a joint venture	3,157	–	–	3,157	850	–	–	850
Bank loans and government loan	14,472	6,990	12,623	34,085	19,873	7,239	13,934	41,046
Bank overdrafts	154	–	–	154	196	–	–	196
Financial derivative liabilities (net-settled)	–	48	–	48	–	–	–	–
Total undiscounted financial liabilities	23,459	7,738	12,623	43,820	28,381	9,220	14,496	52,097
Total net undiscounted financial liabilities	(1,237)	(7,738)	(11,731)	(20,706)	(5,339)	(2,166)	(13,561)	(21,066)

⁽¹⁾ Exclude GST receivables and advances to suppliers.

⁽²⁾ Exclude GST payables, advances from customers and deferred income.

Notes to the Financial Statements

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(b) Liquidity risk (cont'd)

Analysis of financial instruments by remaining contractual maturities (cont'd)

	2016				2015			
	1 year or less \$'000	1 to 5 years \$'000	After 5 years \$'000	Total \$'000	1 year or less \$'000	1 to 5 years \$'000	After 5 years \$'000	Total \$'000
Company								
Financial assets:								
Trade and other receivables ⁽¹⁾	2,014	–	–	2,014	593	6,973	–	7,566
Amounts due from subsidiaries, an associate and a joint venture	13,117	8,261	–	21,378	13,001	8,116	–	21,117
Cash and bank balances	1,556	–	–	1,556	2,032	–	–	2,032
Total undiscounted financial assets	16,687	8,261	–	24,948	15,626	15,089	–	30,715
Financial liabilities:								
Loans and borrowings	–	–	–	–	3,500	1,549	–	5,049
Trade and other payables	1,637	661	–	2,298	882	1,841	562	3,285
Amounts due to subsidiaries, an associate and a joint venture	521	–	–	521	572	–	–	572
Total undiscounted financial liabilities	2,158	661	–	2,819	4,954	3,390	562	8,906
Total net undiscounted financial assets/ (liabilities)	14,529	7,600	–	22,129	10,672	11,699	(562)	21,809

⁽¹⁾ Exclude advances to suppliers.

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

	2016				2015			
	1 year or less \$'000	1 to 5 years \$'000	After 5 years \$'000	Total \$'000	1 year or less \$'000	1 to 5 years \$'000	After 5 years \$'000	Total \$'000
Company								
Financial guarantees	13,368	5,148	11,610	30,126	15,396	5,934	10,781	32,111

Notes to the Financial Statements

For the financial year ended 31 December 2016

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(c) Foreign currency risk

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

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

Sensitivity analysis for foreign currency risk

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

	2016 Profit net of tax \$'000	2015 Profit net of tax \$'000
Group		
USD/SGD - strengthened 10% (2015:10%)	60	135
- weakened 10% (2015:10%)	(60)	(135)

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from their loans and borrowings. All of the Group's financial liabilities at floating rates are contractually re-priced at intervals of less than 6 months (2015: less than 6 months) from the end of the reporting period. The Group's policy is to manage interest cost using a mix of fixed and floating rate debts. The Group's policy is to keep 40% to 70% (2015: 40% to 70%) of its loans and borrowings at fixed rates of interest.

Sensitivity analysis for interest rate risk

At the end of the reporting period, if SGD interest rates had been 20 (2015: 20) basis points higher/lower with all other variables held constant, the Group's loss before tax would have been \$45,000 (2015: \$55,000) higher/lower, arising mainly as a result of higher/lower interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility as in prior years.

Notes to the Financial Statements

For the financial year ended 31 December 2016

40. FAIR VALUES OF ASSETS AND LIABILITIES

(a) Fair value hierarchy

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

- Level 1 – Quoted prices (unadjusted) in active market for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – Unobservable inputs for the asset or liability.

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

There have been no transfers of items amongst the level during the financial year ended 31 December 2016 and 2015.

(b) Assets and liabilities measured at fair value

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

	Fair value measurements at the end of the reporting period using			Total
	Quoted prices in active markets for identical instruments (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)	
2016				
Group				
Assets measured at fair value				
Finance liabilities:				
<u>Financial derivative liabilities:</u>				
- Forward currency contracts	–	48	–	48
Financial liabilities as at 31 December 2016	–	48	–	48
2015				
Group				
Assets measured at fair value				
Finance assets:				
<u>Financial derivative assets:</u>				
- Forward currency contracts	–	81	–	81
- Interest rate swaps	–	5	–	5
Financial assets as at 31 December 2015	–	86	–	86

Notes to the Financial Statements

For the financial year ended 31 December 2016

40. FAIR VALUES OF ASSETS AND LIABILITIES (CONT'D)

(c) Level 2 fair value measurements

The following is a description of the valuation techniques and inputs used in the fair value measurement for assets and liabilities that are categorised within Level 2 of the fair value hierarchy:

Finance derivative (liabilities)/assets

Forward currently contracts and interest rate swaps are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curve.

(d) Assets and liabilities not carried at fair value but for which fair value is disclosed

The following table shows an analysis of the Group's assets and liabilities not measured at fair value but for which fair value is disclosed:

	Group				Company			
	2016		2015		2016		2015	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets:								
Unquoted equity, at cost (Note 17)	–	*	3,467	*	–	*	3,467	*
Other receivables/ Amounts due from related parties (Note 21)	–	–	5,468	5,887 ^{##}	–	–	5,468	5,887 ^{##}
Amounts due from subsidiaries (Note 23)	–	–	–	–	8,261	#	8,116	#
Liabilities:								
Deferred consideration payable (Note 26)	1,876	1,876 ^{**}	2,399	2,399 ^{**}	1,876	1,876 ^{**}	2,399	2,399 ^{**}
Government loans (Note 27)	1,456	1,317 ^{##}	763	714 ^{##}	–	–	–	–

* Unquoted equity, at cost

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

Amounts due from subsidiaries (non-current)

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

40. FAIR VALUES OF ASSETS AND LIABILITIES (CONT'D)

(d) Assets and liabilities not carried at fair value but for which fair value is disclosed (cont'd)

** Deferred consideration payable

The fair value, determined using significant unobservable inputs (level 3), is estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the end of the reporting period. The fair value is similar to the carrying amount as the current market rate does not differ significantly from the intrinsic rate of the deferred consideration payable.

Other receivables (non-current) and government loans

The fair value, determined using significant unobservable inputs (level 3), is estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the end of the reporting period.

41. FINANCIAL INSTRUMENTS BY CATEGORY

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

	Note	Fair value through profit or loss \$'000	Available- for-sale \$'000	Loans and receivables \$'000	Liabilities at amortised cost \$'000	Total \$'000
Group						
2016						
Assets:						
Refundable deposits	19	–	–	892	–	892
Trade and other receivables ⁽¹⁾	21	–	–	14,144	–	14,144
Amount due from a joint venture	23	–	–	709	–	709
Cash and bank balances	24	–	–	7,369	–	7,369
Total		–	–	23,114	–	23,114
Liabilities:						
Trade payables	25	–	–	–	1,973	1,973
Other payables and accruals ⁽²⁾	26	–	–	–	3,606	3,606
Amount due to an associate	23	–	–	–	420	420
Amount due to a joint venture	23	–	–	–	2,737	2,737
Loans and borrowings	27	–	–	–	31,714	31,714
		–	–	–	40,450	40,450

⁽¹⁾ Exclude GST receivables and advances to suppliers.

⁽²⁾ Exclude GST payables, advances from customers and deferred income.

Notes to the Financial Statements

For the financial year ended 31 December 2016

41. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D)

	Note	Fair value through profit or loss \$'000	Available-for-sale \$'000	Loans and receivables \$'000	Liabilities at amortised cost \$'000	Total \$'000
Group						
2015						
Assets:						
Available-for-sale financial assets	17	–	3,467	–	–	3,467
Refundable deposits	19	–	–	935	–	935
Trade and other receivables ⁽¹⁾	21	–	–	23,526	–	23,526
Financial derivative assets	22	86	–	–	–	86
Amount due from an associate	23	–	–	518	–	518
Cash and bank balances	24	–	–	5,966	–	5,966
Total		86	3,467	30,945	–	34,498
Liabilities:						
Trade payables	25	–	–	–	2,992	2,992
Other payables and accruals ⁽²⁾	26	–	–	–	6,339	6,339
Amount due to a joint venture	23	–	–	–	850	850
Loans and borrowings	27	–	–	–	37,469	37,469
		–	–	–	47,650	47,650

⁽¹⁾ Exclude GST receivables and advances to suppliers.

⁽²⁾ Exclude GST payables, advances from customers and deferred income.

	Note	Available-for-sale \$'000	Loans and receivables \$'000	Liabilities at amortised cost \$'000	Total \$'000
Company					
2016					
Assets:					
Trade and other receivables ⁽¹⁾	21	–	2,014	–	2,014
Amounts due from subsidiaries	23	–	21,378	–	21,378
Cash and bank balances	24	–	1,556	–	1,556
Total		–	24,948	–	24,948
Liabilities:					
Amounts due to subsidiaries	23	–	–	521	521
Other payables and accruals	26	–	–	2,284	2,284
		–	–	2,805	2,805

⁽¹⁾ Exclude GST receivables.

Notes to the Financial Statements

For the financial year ended 31 December 2016

41. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D)

	Note	Available- for-sale \$'000	Loans and receivables \$'000	Liabilities at amortised cost \$'000	Total \$'000
Company					
2015					
Assets:					
Available-for-sale financial assets	17	3,467	–	–	3,467
Trade and other receivables ⁽¹⁾	21	–	7,566	–	7,566
Amounts due from subsidiaries	23	–	21,117	–	21,117
Cash and bank balances	24	–	2,032	–	2,032
Total		3,467	30,715	–	34,182
Liabilities:					
Amounts due to subsidiaries	23	–	–	572	572
Other payables and accruals	26	–	–	2,983	2,983
Loans and borrowings	27	–	–	5,000	5,000
		–	–	8,555	8,555

⁽¹⁾ Exclude GST receivables.

42. SERVICE CONCESSION ARRANGEMENTS

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

	Construction revenue \$'000	Operating income of water/ wastewater treatment plants \$'000	Total service concession revenue \$'000
Group			
For financial year ended 31 December 2016	5,323	3,738	9,061
For financial year ended 31 December 2015	2,149	4,175	6,324

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

The details of service concession arrangements are as follows:

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

Notes to the Financial Statements

For the financial year ended 31 December 2016

42. SERVICE CONCESSION ARRANGEMENTS (CONT'D)

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

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

43. CAPITAL MANAGEMENT

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

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

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

The Group's overall strategy for 2016 has remained unchanged from 2015.

The Group monitors capital based on gearing ratio which is total liabilities divided by total equity. At 31 December 2016, total liabilities and total equity are \$44,286,000 (2015: \$50,967,000) and \$59,657,000 (2015: \$64,556,000) respectively. The Group seeks to maintain a balance between higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. At 31 December 2016, the Group's gearing ratio was 0.74 (2015: 0.79).

44. AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 30 March 2017.

Statistics of Shareholdings

As at 20 March 2017

SHAREHOLDERS' INFORMATION AS AT 20 MARCH 2017

Number of Equity Securities : 248,894,900*
 Class of Equity Securities : Ordinary shares
 Voting Rights : One vote per share

* Excluding non-voting 78,100 treasury shares

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 99	8	0.57	287	0.00
100 - 1,000	36	2.57	22,500	0.01
1,001 - 10,000	398	28.43	2,783,319	1.12
10,001 - 1,000,000	930	66.43	75,116,647	30.18
1,000,001 AND ABOVE	28	2.00	170,972,147	68.69
Total	1,400	100.00	248,894,900	100.00

DISTRIBUTION OF SHAREHOLDINGS

(As recorded in the Register of Substantial Shareholders)

	Direct Interest	%	Indirect Interest	%
Ow Chin Seng*	72,382,958	29.08	8,274,924	3.32
Low Kheng*	8,274,924	3.32	72,382,958	29.08

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

Statistics of Shareholdings

As at 20 March 2017

TWENTY LARGEST SHAREHOLDERS

No.	Name	No. of Shares	%
1.	OW CHIN SENG	60,382,958	24.26
2.	HONG LEONG FINANCE NOMINEES PTE LTD	21,807,000	8.76
3.	MAYBANK KIM ENG SECURITIES PTE LTD	15,856,902	6.37
4.	CITIBANK NOMINEES SINGAPORE PTE LTD	12,152,400	4.88
5.	LOW KHENG	8,274,924	3.32
6.	LEE TECK LEONG	6,438,800	2.59
7.	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	4,286,400	1.72
8.	SEOW ZI-HUA	3,662,000	1.47
9.	PHILLIP SECURITIES PTE LTD	3,431,200	1.38
10.	CHEW KIT LENG	3,330,646	1.34
11.	TAN ONG HUAT	3,029,700	1.22
12.	KUAH POH BENG	2,958,000	1.19
13.	KWEK GEOK YONG	2,516,072	1.01
14.	PHUA SIN YEE	2,448,000	0.98
15.	EE KIM CHUAN @ YEE KIM CHUAN	2,229,200	0.90
16.	KWA CHING TZE	2,060,000	0.83
17.	NG THENG LOCK	1,962,309	0.79
18.	ANG MONG AIANG OR ANG THONG HUANG (HONG ZHONGHAN)	1,650,000	0.66
19.	YAP KOK VEE	1,635,000	0.66
20.	LOW KHENG THOR	1,595,000	0.64
	Total	161,706,511	64.97

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

Approximately 64.03% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual Section B: Rules of Catalist of the SGX-ST.

TREASURY SHARES

Total number of ordinary shares held in Treasury	: 78,100
Voting rights	: None
Percentage of this shareholding against total number of issued shares excluding Treasury Shares	: 0.03%

Notice of Annual General Meeting

ANNAIK LIMITED

(Company Registration No. 197702066M) / (Incorporated in the Republic of Singapore)

NOTICE IS HEREBY GIVEN that the Annual General Meeting of AnnAik Limited (the "**Company**") will be held at 52 Tuas Avenue 9, Singapore 639193 on 25 April 2017 at 10.00 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 and the Group for the year ended 31 December 2016 together with the Auditors' Report thereon. **(Resolution 1)**

2. To declare a first and final dividend (tax exempt one-tier) of 0.20 Singapore cents per ordinary share for the financial year ended 31 December 2016. **(Resolution 2)**

3. To re-elect the following Directors of the Company who are retiring pursuant to Regulation 115 of the Constitution of the Company:-
 - (i) Mr Ow Chin Seng **(Resolution 3)**
 - (ii) Mr Daniel Lin Wei **(Resolution 4)**

[See Explanatory Note (i)]

4. To note the retirement of Dr Choong Chow Siong as a Director of the Company who is retiring pursuant to Regulation 115 of the Constitution of the Company and will not be seeking for re-election.

Upon the retirement of Dr Choon Chow Siong, he will be relinquishing his position as independent director, chairman of the Audit Committee and a member of Remuneration and Nominating Committee.

5. To approve the payment of Directors' fees of S\$143,100 for the financial year ended 31 December 2016. (FY2015: S\$186,000) **(Resolution 5)**

6. To re-appoint Messrs Ernst & Young LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 6)**

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

AS SPECIAL BUSINESS

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

8. Authority to issue new shares

That pursuant to Section 161 of the Companies Act, Chapter 50 (the "**Companies Act**") and Rule 806 of the Listing Manual Section B: Rules of Catalist ("**Catalist Rules**") of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), the Directors of the Company be authorised and empowered to:-

- (a) (i) issue shares in the Company ("**shares**") whether by way of rights, bonus or otherwise; and/or
- (ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

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

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

(the "Share Issue Mandate")

provided that:-

- (1) the aggregate number of shares (including shares to be issued in pursuant of the Instruments, made or granted pursuant to this Resolution) and Instruments to be issued pursuant to this Resolution shall not exceed one hundred per centum (100%) 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 Instruments to be issued other than on a pro rata basis to existing shareholders of the Company shall not exceed fifty per centum (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);
- (2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares and Instruments that may be issued under sub-paragraph (1) above, the total number of issued shares and Instruments 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 the Instruments or any convertible securities;
 - (b) new shares arising from exercising share options or vesting of share awards outstanding and subsisting at the time of the passing of this Resolution; and
 - (c) any subsequent bonus issue, consolidation or subdivision of shares;
- (3) in exercising the Share Issue Mandate conferred by this Resolution, the Company shall comply with the provisions of the Catalist Rules of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution of the Company; and
- (4) unless revoked or varied by the Company in a general meeting, the Share Issue Mandate shall continue in force (i) until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of the Instruments.

(Resolution 7)

[See Explanatory Note (ii)]

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

That pursuant to Section 161 of the Companies Act, Chapter 50, the Directors of the Company be authorised and empowered to offer and grant options under the AnnAik Employee Share Option Scheme 2013 (the "Scheme") and to issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of share options granted by the Company under the Scheme, whether granted during the subsistence of this authority or otherwise, provided always that the aggregate number of additional ordinary shares to be issued pursuant to the Scheme shall not exceed fifteen per centum (15%) of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier.

(Resolution 8)

[See Explanatory Note (iii)]

Notice of Annual General Meeting

ANNAIK LIMITED

(Company Registration No. 197702066M) / (Incorporated in the Republic of Singapore)

10. Renewal of Share Buy Back Mandate

That approval be and is hereby given:-

- (a) for the purposes of Sections 76C and 76E of the Companies Act, Chapter 50 and the Catalist Rules of the SGX-ST, the exercise by the Directors of the Company of all the powers of the Company to purchase or otherwise acquire issued ordinary shares in the share capital of the Company (the "**Shares**") not exceeding in aggregate the Maximum Limit (as hereafter defined), at such price or prices as may be determined by the Directors of the Company from time to time up to the Maximum Price (as hereafter defined), whether by way of:-
- (i) on-market purchases ("**Market Purchases**") transacted on the SGX-ST through the ready market, and which may be transacted through one or more duly licensed stockbrokers appointed by the Company for such purpose; and/or
 - (ii) off-market purchases ("**Off-Market Purchases**") effected pursuant to any equal access scheme(s) as may be determined or formulated by the Directors in their discretion, which scheme(s) shall satisfy all the conditions prescribed by the Companies Act, Chapter 50,

and otherwise be in accordance with all other laws, the Catalist Rules of the SGX-ST and other regulations and rules of the SGX-ST,

(the "**Share Buy Back Mandate**");

- (b) unless varied or revoked by the Company in a general meeting, the authority conferred on the Directors of the Company pursuant to the Share Buy Back Mandate may be exercised by the Directors of the Company at any time and from time to time during the period commencing from the date of the passing of this Resolution and expiring on the earliest of:-
- (i) the date on which the next AGM of the Company is held or required by law to be held; or
 - (ii) the date on which the authority conferred by the Share Buy Back Mandate is revoked or varied by the Company in a general meeting, or
 - (iii) the date on which the purchases or acquisitions of Shares pursuant to the Share Buy Back Mandate are carried out to the full extent mandated; and
- (c) the Directors of the Company and/or any of them be and is hereby authorised to do such acts and things (including, without limitation, enter into all transactions, arrangements and agreements and executing such documents) as they and/or he may consider necessary or expedient to give effect to this Resolution.

In this Resolution:-

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

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

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The Maximum Price shall apply to both Market Purchases and Off-Market Purchases and shall exclude brokerage fees, commission, stamp duties payable, applicable goods and services tax, clearance fees and other related expenses; and

“**Relevant Period**” means the period commencing from the date on which the AGM of the Company at which this Resolution is passed is held and expiring on the date the next AGM of the Company is held or is required by law to be held, whichever is earlier, after the date of the passing of this Resolution.

(Resolution 9)

[See Explanatory Note (iv)]

By Order of the Board

Siau Kuei Lian
Company Secretary
Singapore

7 April 2017

Notice of Annual General Meeting

ANNAIK LIMITED

(Company Registration No. 197702066M) / (Incorporated in the Republic of Singapore)

Explanatory Notes:-

- (i) (a) Mr Ow Chin Seng will, upon re-election as a Director of the Company, remain as Executive Chairman and Chief Executive Officer and will be considered non-independent Director.
- (b) Mr Daniel Lin Wei will, upon re-election as a Director of the Company, remain as Non-Executive Director and will be considered non-independent Director.
- (ii) The Ordinary Resolution 7 in item 8 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant Instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding, in total, 100% of the total number of issued shares in the capital of the Company, of which up to 50% may be issued other than on a pro-rata basis to shareholders.

For determining the aggregate number of shares that may be issued, the total number of issued shares will be calculated based on the total number of issued shares in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.

- (iii) The Ordinary Resolution 8 in item 9 above, if passed, will empower the Directors of the Company from the date of this AGM until the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held or the date which such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to offer and grant options under the Scheme and to allot and issue shares in the Company pursuant to the exercise of options granted or to be granted under the Scheme up to a number not exceeding in aggregate (for the entire duration of the Scheme) fifteen per centum (15%) of the total number of issued shares in the capital of the Company from time to time.
- (iv) The Ordinary Resolution 9 in item 10 above, if passed, will empower the Directors of the Company from the date of this AGM until the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held or the date which such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to repurchase Shares by way of Market Purchases and/or Off-Market Purchases of up to 10% of the total number of Shares (excluding treasury shares) at the Maximum Price (as defined in Resolution 9). Information relating to this proposed Resolution is set out in the Appendix dated 7 April 2017 (in relation to the Renewal of Share Buy Back Mandate).

Notes:-

1. A Member of the Company (other than a Relevant Intermediary*) entitled to attend and vote at the AGM (the "Meeting") is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
2. A Relevant Intermediary may appoint more than two proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified.)
3. The instrument appointing a proxy must be deposited at the registration office of the Company at 52 Tuas Avenue 9, Singapore 639193 not less than forty-eight (48) hours before the time appointed for holding the Meeting.

* A Relevant Intermediary is:-

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

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- (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Chap. 289) of Singapore and who holds shares in that capacity; or
- (c) the Central Provident Fund Board established by the Central Provident Fund Act, (Chap. 36) of Singapore, in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

NOTICE OF BOOKS CLOSURE AND DIVIDEND PAYMENT DATE

NOTICE IS HEREBY GIVEN that the Share Transfer Books and Register of Members of AnnAik Limited (the "**Company**") will be closed on 5 May 2017 for the purpose of determining the entitlements to the first and final dividend (tax exempt one-tier) of 0.20 Singapore cents per ordinary share to be proposed at the Annual General Meeting ("**AGM**") of the Company to be held on 25 April 2017.

Duly completed registrable transfers received by the Company's Share Registrar, RHT Corporate Advisory Pte. Ltd. of 9 Raffles Place, #29-01 Republic Plaza Tower 1, Singapore 048619, up to 5.00 p.m. on 4 May 2017 will be registered to determine members' entitlements to the said dividend.

Members whose Securities Account with The Central Depository (Pte) Limited are credited with shares up to 5.00 p.m. on 4 May 2017 will be entitled to the proposed dividend.

The proposed payment of the dividend, if approved by the members at the AGM to be held on 25 April 2017, will be made on 19 May 2017.

PERSONAL DATA PRIVACY

By submitting an instrument 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 or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, proxy lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), 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 or service providers) 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.

This announcement has been prepared by the Company and its contents have been reviewed by the Company's Sponsor Hong Leong Finance Limited (the "**Sponsor**") for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"). The Sponsor has not independently verified the contents of this announcement.

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

The contact person for the Sponsor is Mr Tang Yeng Yuen, Vice President, Head of Corporate Finance, Hong Leong Finance Limited, at 16 Raffles Quay, #40-01A Hong Leong Building, Singapore 048581, telephone: +65 6415-9886.

ANNAIK LIMITED

(Company Registration No. 197702066M)
(Incorporated In the Republic of Singapore)

PROXY FORM

(Please see notes overleaf before completing this Form)

IMPORTANT:-

1. An investor who holds shares under the Central Provident Fund Investment Scheme ("CPF Investor") and/or the Supplementary Retirement Scheme ("SRS Investor") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

I/We, _____ (Name) _____ (NRIC/Passport No.)
of _____ (Address)
being a member/members of AnnAik Limited (the "Company"), hereby appoint:-

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

and/or (delete as appropriate)

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

as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held at 52 Tuas Avenue 9, Singapore 639193 on 25 April 2017 at 10.00 a.m. and at any adjournment thereof.

I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion.

No.	Resolutions relating to:-	No. of votes 'For'*	No. of votes 'Against'*
Ordinary Businesses			
1	Directors' Statement and Audited Financial Statements for the financial year ended 31 December 2016		
2	Declaration of First and Final Dividend for the financial year ended 31 December 2016		
3	Re-election of Mr Ow Chin Seng as a Director		
4	Re-election of Mr Daniel Lin Wei as a Director		
5	Approval of Directors' fees amounting to S\$143,100 for the financial year ended 31 December 2016		
6	Re-appointment of Messrs Ernst & Young LLP as Auditors and to authorised the Directors of the Company to fix their remuneration		
Special Businesses			
7	Authority to issue new shares		
8	Authority to grant options and issue shares under the AnnAik Employee Share Option Scheme 2013		
9	Renewal of Share Buy-Back Mandate		

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

Dated this _____ day of _____ 2017

Signature of Shareholder(s)
and, Common Seal of Corporate Shareholder

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

IMPORTANT: PLEASE READ NOTES ON THE REVERSE

Notes:-

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
2. A member of the Company (other than a Relevant Intermediary*), entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member (other than a Relevant Intermediary*) appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
4. A Relevant Intermediary may appoint more than two proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number or class of shares shall be specified).
5. Subject to note 9, completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.
6. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 52 Tuas Avenue 9, Singapore 639193 not less than 48 hours before the time appointed for the Meeting.
7. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorized in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorized. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.
8. A corporation which is a member may authorize by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore, and the person so authorised shall upon production of a copy of such resolution certified by a director of the corporation to be a true copy, be entitled to exercise the powers on behalf of the corporation so represented as the corporation could exercise in person if it were an individual.
9. An investor who holds shares under the Central Provident Fund Investment Scheme ("**CPF Investor**") and/or the Supplementary Retirement Scheme ("**SRS Investor**") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.

* A Relevant Intermediary is:-

- (a) a banking corporation licensed under the Banking Act, Chapter 19 of Singapore or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or
- (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act, Chapter 289 of Singapore and who holds shares in that capacity; or
- (c) the Central Provident Fund Board established by the Central Provident Fund Act, Chapter 36 of Singapore, in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

Personal Data Privacy:-

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 7 April 2017.

General:-

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

Corporate Directory

Board of Directors

Mr. Ow Chin Seng, PBM
Executive Chairman cum CEO

Mr. Ng Kim Keang
Mr. Koh Beng Leong
Dr. Yang Guo Ying
Mr. Ow Eei Meng Benjamin
Executive Directors

Mr. Daniel Lin Wei
Non-Executive Director

Mr. Ang Mong Seng, BBM
Mr. Lee Bon Leong, BBM,
PBM, JP
Dr. Choong Chow Siong
Independent Directors

Corporate Information

Audit Committee
Dr. Choong Chow Siong
Chairman

Mr. Lee Bon Leong, BBM,
PBM, JP
Mr. Ang Mong Seng, BBM

Nominating Committee
Mr. Lee Bon Leong, BBM,
PBM, JP
Chairman

Dr. Choong Chow Siong
Mr. Ang Mong Seng, BBM
Mr. Ow Chin Seng, PBM

Remuneration Committee
Mr. Ang Mong Seng, BBM
Chairman

Mr. Lee Bon Leong, BBM,
PBM, JP
Dr. Choong Chow Siong

Management Team

Distribution Division
Mdm. Low Kheng
Head of Distribution (Operations)
– Singapore

Mr. Tay Chee Seng
Financial Controller
– Singapore

Mr. Alex Kuah
General Manager of a subsidiary
– Singapore

Mr. Terence Sim
General Manager of a subsidiary
– Singapore

Mr. Peh Choon Chieh
Commercial Manager of a subsidiary
– Singapore

Manufacturing Division
Mr. Lim Khan Choon
Deputy General Manager
– Penang, Malaysia

Environmental Technology & Engineering Division
Dr. Qiu Jiangping
Group President
– Environmental Business
– China

Company Secretary

Ms. Siau Kuei Lian

Registered Office

52 Tuas Avenue 9
Singapore 639193
Tel: 65 6210 2727, 6210 2726
Fax: 65 6861 5705, 6861 6919
Email: sales@annaik.com

Share Registrar

RHT Corporate Advisory
Pte. Ltd.
9 Raffles Place #29-01
Republic Plaza Tower 1
Singapore 048619
Tel: 65 6381 6888
Fax: 65 6381 6899

Principal Bankers

United Overseas Bank
Limited
80 Raffles Place
UOB Plaza 1
Singapore 048624

DBS Bank Ltd
12 Marina Boulevard #43-03
Marina Bay Financial Tower 3
Singapore 018982

Oversea-Chinese Banking
Corporation Limited
65 Chulia Street
#06-00, OCBC Centre East
Singapore 049514

Sponsor

Hong Leong Finance Limited
Mr Tang Yeng Yuen,
Vice President
Head of Corporate Finance
16 Raffles Quay, #40-01A
Hong Leong Building
Singapore 048581


Auditors

Ernst & Young LLP
Certified Public
Accountants
(Partner: Andrew CP Tan)
Date of appointment:
Effective from financial year
ended 31 December 2015
Number of years in-charge:
2 years
One Raffles Quay
North Tower, Level 18
Singapore 048583




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(Company Registration No. 197702066M)