FEDERAL INTERNATIONAL (2000) LTD

ADVANCING TOWARDS GROWTH

ANNUAL REPORT 2018

TABLE OF CONTENTS

CORPORATE PROFILE

Established in 1974 and listed on the mainboard of the Singapore Stock Exchange in 2000, Federal International (2000) Limited ("Federal" and together with its subsidiaries, the "Group"), is an integrated service provider and procurement specialist in the oil and gas, and energy industries. The Group's main trading business contributes over 90% of total turnover. The Group's strategy for sustainable growth of the trading business is through forming strategic partnerships. One such partnership is with PT Gunanusa Utama Fabricators ("PTG"). PTG is an established EPCIC contractor and its customers include oil majors such as TOTAL, Petronas, ONGC, Pertamina and PTTEP. The Group provides procurement services to PTG for the projects secured by PTG.

In addition, the Group has a design and manufacturing facility located in Scotland, the United Kingdom. The facility is American Petroleum Institute (API) Q1, Spec 6D, ISO 9001:2015 and Pressure Equipment Directive 97/23/EC (PED) certified. Products manufactured also meet the Safety Integrity Level (SIL) Qualification independently certified by Exida. The Group also owns a floating, storage and offloading ("FSO") vessel through its 30% interest in an associate. The FSO is chartered to PT Pertamina Hulu Energi OSES. The Group has a 1,200 HP American built land drilling rig. The Group also operates an industrial water plant in the People's Republic of China under a 30-year Build, Operate and Transfer agreement with the local Xinjin County government.

OUR VISION

We aim to be a growth-driven company supporting the oil and gas, energy and marine industries globally.

OUR MISSION

To be the preferred business partner and one-stop solutions provider, delivering quality and innovative products and services to our customers.

OUR MOTTO

We are committed to providing quality products and reliable services to our customers at competitive prices.

We adopt new mindsets and innovative ideas.

We focus on continuous process improvements and the alignment of our strategies with our vision and mission so as to deliver value to our customers, shareholders and employees.

LETTER TO SHAREHOLDERS

"We continue to explore new avenues of oil and gas collaboration in Indonesia and the region with engineering, procurement, construction, installation and commissioning (EPCIC) contractors during the year. We will work closely together to secure attractive projects to grow our portfolio."

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

On behalf of the Board of Federal International (2000) Ltd ("Federal" or together with its subsidiaries, the "Group"), I am pleased to present to you our Annual Report 2018 for the financial year ended 31 December 2018 ("FY2018").

CONSOLIDATING OUR POSITION AGAINST ECONOMIC HEADWINDS

In FY2018, macroeconomic concerns in the form of Brexit uncertainty, US-China trade tensions and moderating China growth intensified, our Group's revenue dipped by 66.7% to $43.2 million. In line with the challenging operating condition, lower sales were secured while demand for our flowline control products was weak due to fewer oil and gas projects available in the market. In view of the prevailing trend, the Group added provision of procurement services to the infrastructure sector in Indonesia to our Trading business, as it presented greater business opportunities and higher profit margin.

LAYING THE GROUNDWORK FOR FUTURE GROWTH

As we strengthen our focus in our Trading business in Indonesia, we embarked on laying the groundwork for us to grow this segment into a bigger revenue contributor. Following the collaboration that was forged with China Merchants Industry Holdings ("CMIH") in April 2017, we continued to explore new avenues of oil and gas collaboration in Indonesia and the region with engineering, procurement, construction, installation and commissioning ("EPCIC") contractors during the year. We will work closely together to secure attractive projects to grow our portfolio.

Another strategic alliance established during the year was with Destini Oil Services Sdn Bhd ("Destini"), a wholly-owned subsidiary of Malaysian public listed company Destini Berhad. The 50:50 joint venture, Federal Destini (S) Pte Ltd was established on 11 January 2018 to jointly explore potential in oil and projects in the region. We will leverage on each other's capabilities and expertise to tender for oil and gas projects in South Asia and East Asia. We look forward to enlarging our network of customers and strengthening our order book with our regional partners.

OUR STRATEGIC PARTNERS

Our strategic partnership with PT Gunanusa Utama Fabricators ("PTG"), an established EPCIC contractor with customers comprising major oil players, has secured several projects at the beginning of the year that will keep the yard busy in FY2019. We look forward to the start of the Refinery Development Master Plan ("RDMP"), which helps to bolster our profile as we provide procurement services to PTG for their secured projects.

ZAWTIKA PROJECT

Following the procurement project which we secured from PTTEP International Limited ("PTTEP") through PTG in September 2016, we managed to complete Phase 1C of the Zawtika Development Project 30 days ahead of schedule. This puts us in a favourable position to bid for Phase 1D of the project. Additionally, the former phase which comprised the EPCI of 2 offshore wellhead platforms, associated pipelines and tie-ins has given us a chance to cement our business relationship with PTTEP, paving the way for more projects in the future.

FSO CHARTER (FEDERAL II)

Through our 30.0% stake in PT Eastern Jason ("PTEJ"), we own a floating, storage and offloading ("FSO") vessel. The vessel was chartered to China National Offshore Oil Corporation ("**CNOOC**") until 5 September 2018. After the expiry of the charter agreement with CNOOC, PTEJ successfully secured a 5-year charter hire contract of US$51.3 million with PT Pertamina Hulu Energi OSES ("**PHE**"), commencing since 6 September 2018. This allowed us to optimise the deployment of our vessel without any lag period in between. During this period, Federal II will continue to be deployed at the Widuri Field in Indonesia.

LETTER TO **SHAREHOLDERS**

FUTURE OUTLOOK

Asia is largely expected to remain a buyers' market in 2019, with crude oil producers set to offer attractive prices and extra volumes in a bid to defend their market share in the region this year. With Brent crude oil prices trending at around US$54 per barrel towards end of 2018 as a result of various global economic uncertainties, DBS Group Research expects oil prices to stay subdued in early 2019. Oil prices are expected to pick up more significantly towards the second half of 2019 when the impact of Iran sanctions post the expected expiry of waivers granted to key importers, and the recent OPEC production cuts fully filters into the market. They are targeting average Brent crude oil to reach US$65-70 per barrel for 2019. Though volatility will continue to set the tone as rising uncertainty in global GDP affects growth expectations, the US-China trade war and other geopolitical risks among other economic challenges are also expected to impact equity markets. These events will no doubt increase the coupling effect on oil prices.

As such, our Group's Trading business segment which operates primarily in the oil and gas industry will remain challenging amid intense competition. Capital spending and activities in the oil and gas industry are expected to increase as bidding activities increase in the region. Nevertheless, we remain cautiously optimistic about the industry as we continue with efforts to secure new orders, while exercising financial prudence.

ACKNOWLEDGEMENTS

I would like to use this opportunity to extend a warm welcome to Mr. Loh Eu Tse Derek and Mr. Sam Kwai Hoong who joined us as Non-Executive and Independent Director and Group Chief Financial Officer respectively on 1 November 2018. We believe that their wealth of experience will enable them to contribute significantly to the Group's performance in the near future and we look forward to working closely together.

On behalf of the Board, I would like to express my appreciation to our management and staff for their hard work and dedication that has steered the Group through these difficult times. I would also like to thank our bankers, business partners and customers for their support and trust in us over the years. Finally, I would like to extend my gratitude to our shareholders for their unwavering faith in us along the journey. We will continue to strive relentlessly to create greater value for all our stakeholders in time to come.

MR. KOH KIAN KIONG
Executive Chairman and
Chief Executive Officer

BOARD OF **DIRECTORS**

1. Mr. Koh Kian Kiong *2. Ms. Maggie Koh* *3. Mr. Koh Beng Guan, Don*

4. Mr. Heng Lee Seng *5. Mr. Yee Kee Shian, Leon* *6. Mr. Khoo Boo Yeow, Andrew* *7. Mr. Loh Eu Tse, Derek*

BOARD OF **DIRECTORS**

1. MR. KOH KIAN KIONG

EXECUTIVE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

MR. KOH was first appointed to the Board of Directors on 13 November 1999 and he last re-elected on 27 April 2018. Mr. Koh is also the Executive Chairman and Chief Executive Officer of the Company. He is also a member of the Executive Committee and Nominating Committee. He is one of the founders of the Group and has more than 45 years of experience in the oil and gas industry. Mr. Koh oversees the formulation of the Group's corporate strategies and expansion plans. Mr. Koh holds directorships in various subsidiaries and associated companies of the Group.

Present Directorships/ Chairmanship (as at March 2019)

Listed companies:

Federal International (2000) Ltd

(Chairman)

Others (Non-listed companies):

Subsidiaries and associated companies of the Federal Group

Gunanusa Utama Pte Ltd

Past Directorships/Chairmanship in listed companies held over the preceding three years (from March 2016 to March 2019)

Federal International (2000) Ltd

Other Principal Commitments

NIL

2. MS. MAGGIE KOH

EXECUTIVE DIRECTOR

MS. MAGGIE KOH was first appointed to the Board of Directors on 19 June 2000 and was last re-elected on 28 April 2017. She is also a member of the Executive Committee. She has more than 20 years of experience in the oil and gas industry. She oversees the trading business of the Group and holds directorship in various subsidiaries and associated companies of the Group. She also serves as Vice-Chairman at the Tanjong Katong Girls' School Advisory Committee. Ms. Koh holds a Master in Business Administration.

Present Directorships (as at March 2019)

Listed companies:

Federal International (2000) Ltd

Others (Non-listed companies):

Subsidiaries and associated companies of the Federal Group

Past Directorships in listed companies held over the preceding three years (from March 2016 to March 2019)

Federal International (2000) Ltd

Other Principal Commitments

NIL

3. MR. KOH BENG GUAN, DON

EXECUTIVE DIRECTOR

MR. DON KOH was first appointed to the Board of Directors on 1 January 2017 and last re-elected on 28 April 2017. He will be standing for re-election on 30 April 2019. He is also a member of the Executive Committee. He joined the Group in 1999 and is the Managing Director of Alton International (S) Pte Ltd ("Alton"). He holds directorships in selected subsidiaries of the Group. He is responsible for the operations and business development of the Alton group of companies including but not limited to Alton International (S) Pte Ltd, Alton International (Thailand) Co., Ltd., PT Fedsin Rekayasa Pratama and other Indonesia subsidiaries. He is also the Sales Director of Federal Hardware Engineering Co Pte Ltd. He has a Bachelor in Business Administration from the Southern Cross University, Australia.

Present Directorships (as at March 2019)

Listed Companies:

Federal International (2000) Ltd

Others (Non-listed companies):

Alton International Resources Pte Ltd

Alton International (S) Pte Ltd

Alton International (Thailand) Co., Ltd

Federal Energi Pte Ltd

Gunanusa Utama Pte Ltd

PT Alton International Resources

Federal DNV India Private Limited

Federal Destini (S) Pte Ltd

PT. Fedsin Rekayasa Pratama

Past Directorships in listed companies held over the preceding three years (from March 2016 to March 2019)

Federal International (2000) Ltd

Other Principal Commitments

NIL

BOARD OF DIRECTORS

4. MR. HENG LEE SENG

LEAD INDEPENDENT DIRECTOR

MR. HENG was first appointed to the Board of Directors on 22 August 2000 and was last re-elected on 28 April 2017. He is the Chairman of the Audit Committee and a member of the Remuneration Committee and the Nominating Committee. He is a practising Chartered Accountant with more than 40 years' experience. Mr. Heng is a member of CPA Australia, Chartered Institute of Management Accountants, Association of Chartered Certified Accountants, Chartered Institute of Secretaries and Administrators and the Singapore Institute of Directors. He is a holder of the designation CGMA (Chartered Global Management Accountant).

Present Directorships (as at March 2019)

Listed companies:
Federal International (2000) Ltd
Sinwa Limited
Others (Non-listed companies):
HLS Tax Advisory Services Pte Ltd
HLS Corporate Services Pte Ltd
HLS Risk Advisory Services Pte Ltd
Safe & Sound Pte Ltd

Past Directorships in listed companies held over the preceding three years (from March 2016 to March 2019)

Federal International (2000) Ltd
Sinwa Limited

Other Principal Commitments

Heng Lee Seng LLP, Partner

5. MR. YEE KEE SHIAN, LEON

INDEPENDENT DIRECTOR

MR. LEON YEE was first appointed to the Board of Directors on 23 March 2010 and he was last re-elected on 27 April 2018.

Mr. Yee is the Chairman and the Managing Director of Duane Morris & Selvam LLP. He serves as the Global Head of Corporate for Duane Morris & Selvam and leads the Banking & Finance and Energy Practice Groups. He is also Head of the Firm's China Practice Group. Mr. Yee has extensive corporate law expertise and regularly advises ultra-high net worth individuals, private equity funds, investment banks, listed and private companies on corporate finance, venture capital, capital markets, takeovers, cross-border mergers and acquisitions, corporate governance, corporate restructurings and joint ventures. He has also advised banks and project companies on complex financing transactions and has a particular focus on Korea, Indonesia and PRC related deals.

Mr. Yee is consistently recognized as a highly regarded lawyer by the IFLR1000 and The Legal 500 Asia Pacific for Banking & Finance, Corporate and M&A and Projects & Energy.

Mr. Yee serves as the Non-Executive Chairman of SGX-listed Pacific Star Development Limited and as an Independent Director of SGX-listed Federal International (2000) Ltd. He is the Chairman of the Nominating Committee as well as the Remuneration Committee for both public listed companies. He is a member of the Audit Committee of SGX-listed Federal International (2000) Ltd. He is also an Independent Director of Laura Ashley Holdings PLC which is listed on the London Stock Exchange.

He has deep industry knowledge in global fashion businesses, real estate development and the oil & gas sectors and also has extensive experience in corporate governance. He also works closely with venture firms and private equity firms on advising technology, life sciences and other growth enterprises worldwide.

He is a member of the Tan Kah Kee International Society and a Visiting Professor of Law at Jimei University, China. He is also the Honorary Legal Adviser to the Char Yong (Dabu) Hakka Clan Association.

Mr. Yee sits on the Board of Governors, St. Joseph's Institution (SJI), Singapore, which was founded in 1852 and is the oldest catholic school in Singapore. He is the President of the St. Joseph's Institution Foundation (Singapore), a registered charity in Singapore.

Mr. Yee read Law at Christ's College, Cambridge University on a Cambridge Commonwealth Trust scholarship where he graduated with Honours. Mr. Yee also founded and chaired the Cambridge University Asian Lawyers Association.

He is an Advocate & Solicitor of the Supreme Court of Singapore and a Solicitor of England and Wales.

Present Directorships (as at March 2019)

Listed companies:
Federal International (2000) Ltd
Pacific Star Development Limited
Laura Ashley Holdings PLC

BOARD OF **DIRECTORS**

Others (Non-listed companies):
Cambridge Alliance Capital Pte. Ltd.
Cambridge Alliance Fund No. 1 Pte. Ltd.
Selvam LLC
Cambridge RE Assets Fund No. 2 Pte. Ltd.
Cambridge RE Assets Fund No. 3 Pte. Ltd.
Cambridge RE Assets Fund No. 4 Pte. Ltd.
Cambridge RE Assets Fund No. 5 Pte. Ltd.
Cambridge RE Assets Fund No. 7 Pte. Ltd.
Ladderman Limited
Ladderman (HK) Limited
Caelius Pte. Ltd.
Caelius Private Limited
Knightsbridge Auto Pte. Ltd.
St. Joseph's Institution Foundation for the Lasallian Mission Ltd.

Past Directorships in listed companies held over the preceding three years (from March 2016 to March 2019)

Federal International (2000) Ltd
Pacific Star Development Limited
Laura Ashley Holdings PLC

Other Principal Commitments

Duane Morris & Selvam LLP, Chairman & Managing Director

6. MR. KHOO BOO YEOW, ANDREW

INDEPENDENT DIRECTOR

MR. KHOO was first appointed to the Board of Directors on 10 August 2012 and was last re-elected on 29 April 2016. Mr. Khoo will be standing for re-election on 30 April 2019. Mr. Khoo is also a member of the Audit Committee and Remuneration Committee. He is currently the Chairman and Chief Executive Officer of Malayan United Industries Berhad, the Chief Executive Officer and Executive Director of MUI Properties Berhad, an Executive Director of Pan Malaysia Corporation Berhad and Network Foods International Ltd and a Non-Executive Chairman of Laura Ashley Holdings PLC. Previously, he was the Chief Operating Officer and Director of Group Business Developments of a Singapore Listed Company. He was also the Director of Corporate Affairs in a UK and Malaysian Listed company. Mr. Khoo holds a degree in law from Cambridge University and a Master of Business Administration from Seattle Pacific University. He was called to the Bar at Lincoln's Inn in 2002.

Present Directorships (as at March 2019)

Listed companies:
Federal International (2000) Ltd
Malayan United Industries Berhad
MUI Properties Berhad
Pan Malaysia Corporation Berhad
Laura Ashley Holdings PLC

Others (Non-listed companies):

Subsidiaries of the MUI Group
Subsidiaries of the Pan Malaysian Industries Berhad Group

Past Directorships in listed companies held over the preceding three years (from March 2016 to March 2019)

Federal International (2000) Ltd

Other Principal Commitments

Chairman and Chief Executive Officer, the MUI Group
Non-Executive Chairman, Laura Ashley Holdings PLC
Vice President, Franchise and Licensing Association (Singapore)

7. MR. LOH EU TSE, DEREK

INDEPENDENT DIRECTOR

MR. LOH was first appointed to the Board of Directors as Non-Executive and Independent Director on 1 November 2018 and is a member of the Audit Committee and Nominating Committee. Mr. Loh will be standing for re-election on 30 April 2019. He graduated with honours from the University of Cambridge and practices law in Singapore as a Partner of TSMP Law Corporation. He is an Advocate and Solicitor of the Supreme Court of Singapore. Mr Loh is also an Independent Director of Adventus Holdings Ltd, DISA Limited, Vibrant Group Ltd, Vietnam Enterprise Investments Ltd. and K2 F&B Holdings Limited. He is a member of the Board of Governors of SJI International and also a trustee and a member of the Management Committee of the SJI Foundation, a registered charity in Singapore.

Present Directorships (as at March 2019)

Listed companies:
Adventus Holdings Ltd
DISA Limited
Vibrant Group Ltd
Vietnam Enterprise International Ltd
Federal International (2000) Ltd
K2 F&B Holdings Lmited

Others (Non-listed companies):

St Joseph's Institution International Ltd.
St Joseph's Institution Foundation for the Lasallian Mission Ltd.
Camembert Holdings Pte. Ltd.

Past Directorships in listed companies held over the preceding three years (from March 2016 to March 2019)

Metech International Limited

Other Principal Commitments

Partner, TSMP Law Corporation
Director, St Joseph's Institution International Elementary School Ltd
Director, St Joseph's Institution International Ltd
Trustee, St Joseph's Institution Foundation For The Lasallian Mission Ltd.

KEY EXECUTIVES

MR. SAM KWAI HOONG

GROUP CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY, FEDERAL INTERNATIONAL (2000) LTD

MR. SAM joined the Group as the Group Chief Financial Officer in November 2018 and is responsible for the management of the Group's financial, treasury, taxation and IT matters. He has also been appointed as the Company Secretary. Prior to his appointment, Mr. Sam had held various senior finance positions in listed companies in the oil and gas industries. He has extensive experiences in accounting, finance and general management. Mr. Sam holds a Degree of Bachelor of Accountancy with National University of Singapore and is a Chartered Accountant with the Institute of Singapore Chartered Accountants.

MR. DENG GUAN QUN

CHIEF EXECUTIVE OFFICER, FEDERAL ENVIRONMENTAL & ENERGY PTE LTD

MR. DENG joined the Group in 1995 and is the Chief Executive Officer of Federal Environmental & Energy Pte Ltd ("FEE"). He is also the Chief Executive Officer of Federal International (Shanghai) Co., Ltd ("FIS") and holds directorships in various subsidiaries of FEE. Mr. Deng is responsible for the operations of FIS and the FEE group of companies, providing strategic planning and business development leadership. He is also responsible for the Group's environmental protection business in People's Republic of China, including the management of the Group's industrial water plant and environmental engineering company. Mr. Deng holds a Master in Mechanical Engineering from the Shanghai Jiao Tong University and an Executive Master in Business Administration from United Business Institutes, Brussels, Belgium.

MR. RICHARD DOCHERTY

MANAGING DIRECTOR, KVC (UK) LTD

MR. DOCHERTY joined the Group in 2004 and is the Managing Director of KVC (UK) Ltd. Mr. Docherty is responsible for the operations and business development of KVC (UK) Ltd, the manufacturing arm of the group for Pipeline Ball Valves. His career in the Valve Industry spans over 40 years which has seen him being extensively involved in the supply of valves to the UK and Norwegian Sector Offshore Industry. In more recent times, Mr. Docherty and his Scottish Manufacturing Team have projected the KVC (UK) Ltd Pipeline Ball Valve on a global scale with numerous appointed agents and distributors worldwide. The KVC (UK) Ltd Pipeline Ball Valve is now a widely used and specified product in the global oil and gas industries.

KEY EXECUTIVES

MS. NG GEOK LAN, TINA

GENERAL MANAGER, GROUP HR AND QUALITY LOGISTICS, FEDERAL INTERNATIONAL (2000) LTD

MS. NG joined the Company in September 2011 and is the General Manager, Group HR and Quality Logistics of Federal International (2000) Ltd. She has more than 25 years of experience in operational HR management, with focus on solutions and service deliverables for short-term and long-term objectives; cross functional exposure, ranging from human resource development to leading strategic roles in operations management, including warehouse & logistics management, facilities management, security and quality management. She is appointed as the Management Representative for the Group's Quality, Environmental, Occupational Health & Safety ("QEHS") Management Systems. She holds a Master of Business Administration from the University of Chester, UK.

MR. QUEK CHENG HOCK

MANAGING DIRECTOR, FEDERAL FIRE ENGINEERING PTE LTD

MR. QUEK joined the Group in November 2013 and is the Managing Director of Federal Fire Engineering Pte Ltd, a wholly-owned subsidiary of the Company. He has been in the fire protection industry since 1990, with experience in fire suppression products, its engineering and applications. His fire protection experience covers industries such as telecommunications, pharmaceutical, petroleum, oil and gas, power generation and other high value facilities in Singapore and in the Asia Pacific. He holds a First Class Honors degree in Manufacturing and Mechanical Engineering.

MR. TAY HANG HEE, MICHAEL

PROJECT DIRECTOR, FEDERAL INTERNATIONAL (2000) LTD

MR. TAY joined the Group in 2001 and is the Project Director of Federal International (2000) Ltd. He also holds directorships in various subsidiaries of the Group. With over 30 years of experience in the oil and gas industry, he is responsible for overseeing the operations of the Group's international markets, including operations in Indonesia. He is also the Business Development Director of Federal Hardware Engineering Co Pte Ltd. He holds a Master in Business Administration from the University of South Australia, Adelaide.

BUSINESS AND **FINANCIAL REVIEW**

FY2018 has been a challenging year for the Group as the oil and gas industry was further impacted by negative events in the global economy. The Group's performance has also been affected in tandem with the uncertainties that ensued in the macro economy.

INCOME STATEMENT OVERVIEW

In FY2018, the Group's revenue decreased 66.7% to $43.2 million mainly due to lower sales from the Trading business in Indonesia resulting from the completion of the Zawtika Development Project Phase 1C in first quarter of FY2018. Demand for our flowline control products was also lower as there were few oil and gas projects available during the year. As a result, gross profit dipped 53.9% to $10.2 million, while gross profit margin for the year was 23.7% against 17.1% in FY2017. This was attributed to higher margins achieved for certain products under the Trading business segment.

Separately, other income slid 11.4% to $2.7 million due to lower interest income. This was partially offset by higher sundry income, which mainly comprised rental income, LC handling fee and late payment charges. Selling and distribution costs of mainly fixed overheads stood at $5.0 million as compared to $5.2 million for FY2017.

Meanwhile, administrative and general costs of $11.8 million were lower than the $13.5 million for FY2017 due mainly to the absence of one-time write-off of collectibles as well as higher bank fees and charges for project financing in the previous year.

Other operating expenses included allowances for slow moving inventories, impairment of doubtful receivables, foreign currency loss and loss on disposal of associates. These were significantly higher than that of FY2017 due to the reversal of accruals and provisions for vessel disposal amounting to $3.8 million in FY2017 that resulted in a much lower figure

BUSINESS AND FINANCIAL REVIEW

for the previous year. Finance costs of $1.1 million were comparable to that incurred in FY2017.

Concurrently, the Group's share of results of its associates and joint venture increased two-fold to $1.0 million mainly attributed to an associated company in Japan reporting a profit for FY2018 against a loss in the year before.

Additionally, income tax credit registered was due to write back of overprovision of prior year tax of $131k and deferred tax credit of $80k, which were partially offset by current year tax expense of $108k for FY2018.

As a result of the above factors, the Group recorded net loss of $6.5 million for FY2018.

STATEMENT OF FINANCIAL POSITION

Assets

Non-current assets decreased by $10.8 million to $53.3 million mainly due to:–

(a) decline in property, plant and equipment in relation to recognition of depreciation charge for the year;

(b) decrease in amount due from an associate, and

(c) reduction in amount due from a related party, which was partially offset by an increase in investment in associates and joint venture.

Current assets contracted by $17.4 million to $64.4 million, mainly attributed to receipt from customers, reduction in advance payment to suppliers and lower cash and bank balances. These were partially offset by a reclassification of amount due from a related party from non-current to current.

As at 31 December 2018, the net assets attributable to owners of the Group stood at $80.6 million, which translated to a net asset value per ordinary share of 57.32 cents.

Liabilities

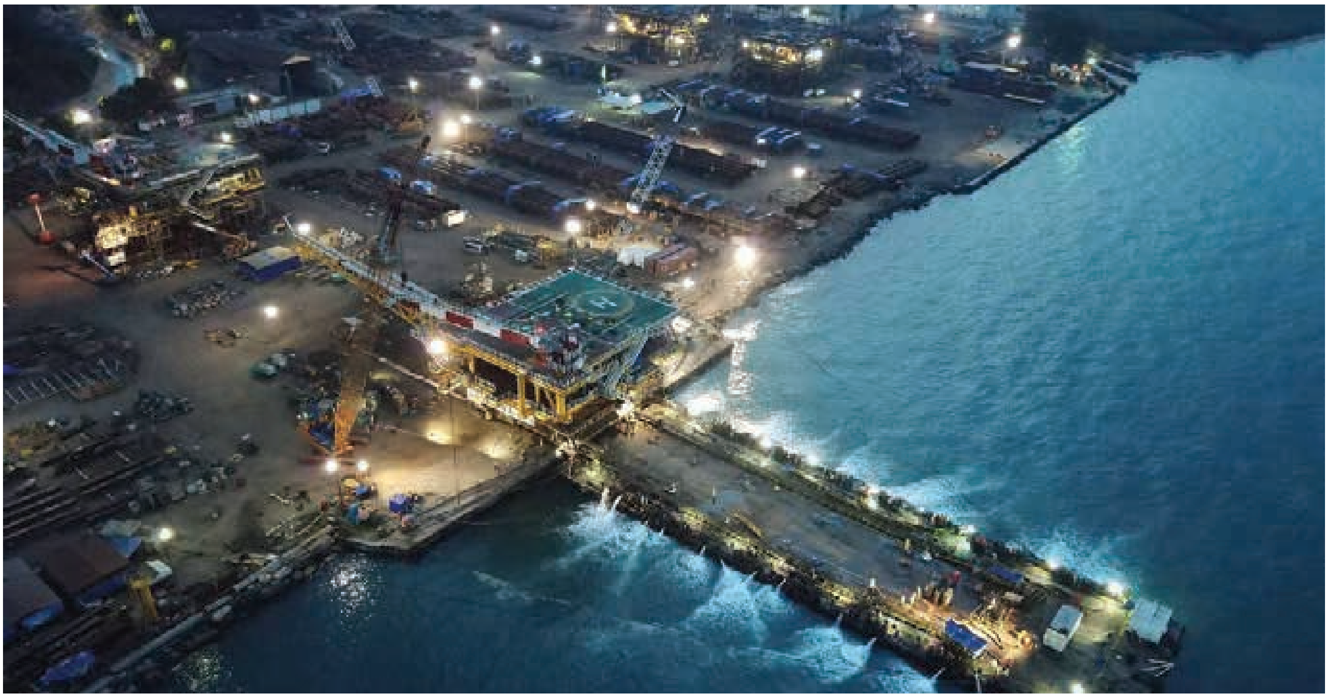
Meanwhile, current liabilities dipped by $18.5 million to $40.3 million in relation to:–

(a) decrease in trade and other payables;

(b) net reduction in amount owing to banks and current portion of term loans, and

(c) lower amount owing to associates.

BUSINESS AND FINANCIAL REVIEW



Separately, non-current liabilities contracted by $2.3 million to $10.0 million mainly due to a decrease in term loans of $2.3 million.

STATEMENT OF CASH FLOW

As at 31 December 2018, the Group's cash and cash equivalents, excluding pledged deposits, amounted to $9.0 million. In FY2018, operating activities and investing activities generated cash of $9.8 million and $4.7 million respectively. Net cash generated from operating activities was due mainly to the net decrease in trade and other receivables, partially offset by the net loss incurred and decrease in trade and other payables. Meanwhile, net cash generated by investing activities was due mainly to a repayment of shareholder's loan by an associate. Concurrently, financing activities utilised net cash of $16.4 million.

FINANCIAL **HIGHLIGHTS**

NET ASSETS VALUE PER SHARE (CENTS)

FY2018	**57.32**
FY2017	62.13
FY2016	60.89
FY2015	56.45
FY2014	42.84

TURNOVER ($MIL)

FY2018	**43.24**
FY2017	130.0
FY2016	89.5
FY2015	128.7
FY2014	131.6

EARNINGS/(LOSS) PER SHARE (CENTS)

FY2018	**(4.12)**
FY2017	3.01
FY2016	5.16
FY2015	14.61
FY2014	(19.49)

PROFIT/(LOSS) BEFORE TAX ($MIL)

FY2018	**(6.6)**
FY2017	5.37
FY2016	7.08
FY2015	23.0
FY2014	(24.1)

PROPOSED DIVIDEND PER SHARE (CENTS)

FY2018	–
FY2017	2.0*
FY2016	2.0*
FY2015	1.5
FY2014	–

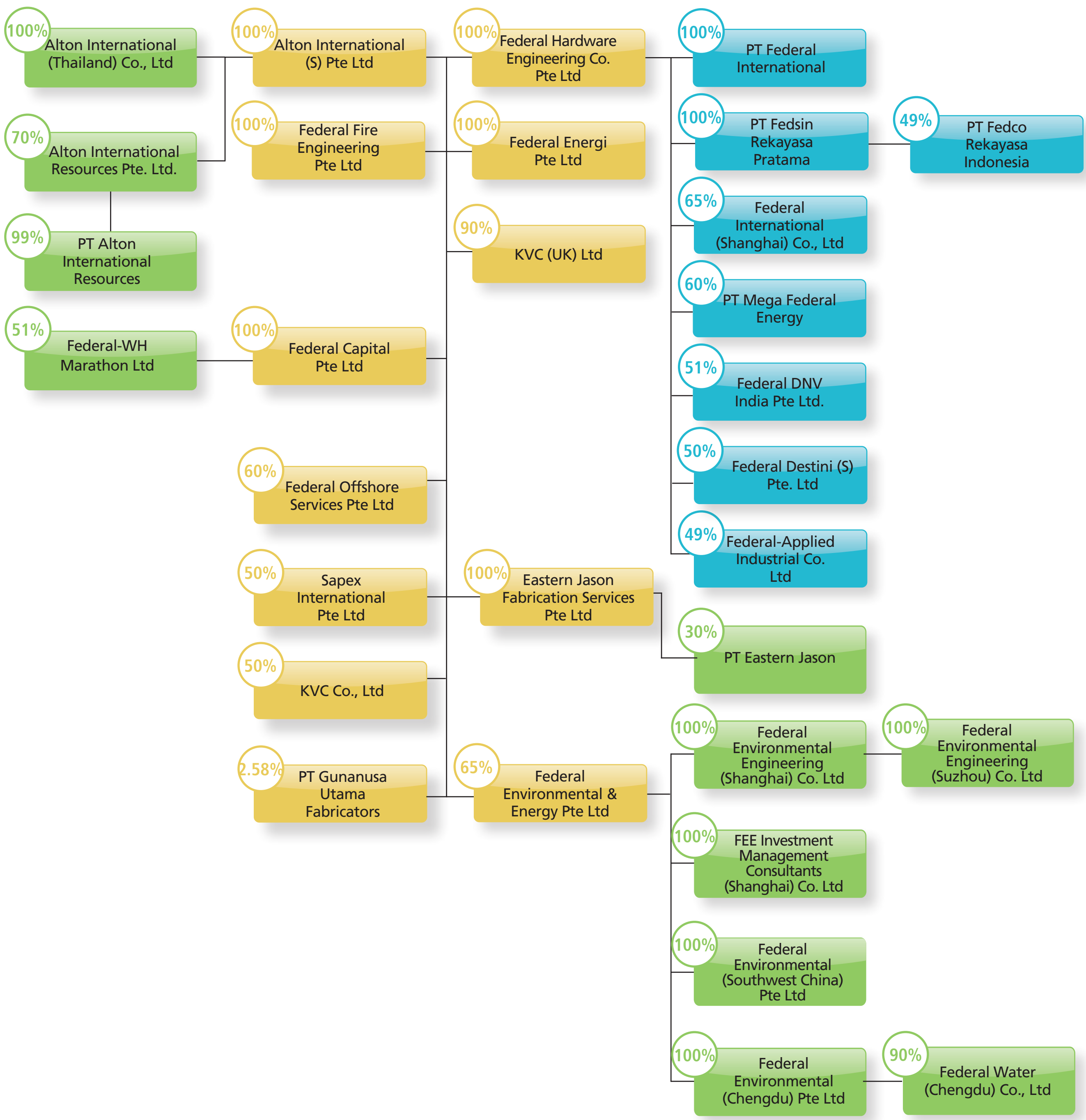
DEBT/EQUITY RATIO

FY2018	**0.58**
FY2017	0.76
FY2016	0.78
FY2015	0.60
FY2014	1.58

* Comprise of final dividend per share of 1.5 cents and special dividend per share of 0.5 cents

CORPORATE STRUCTURE

Federal International (2000) Ltd



CORPORATE **INFORMATION**

DIRECTORS

Executive

MR. KOH KIAN KIONG Chairman & Chief Executive Officer

MS. MAGGIE KOH

MR. KOH BENG GUAN, DON

Non-Executive & Independent

MR. HENG LEE SENG Lead Independent Director

MR. YEE KEE SHIAN, LEON

MR. KHOO BOO YEOW, ANDREW

MR. LOH EU TSE, DEREK (appointed on 1 November 2018)

AUDIT COMMITTEE

Mr. Heng Lee Seng (Chairman)
Mr. Yee Kee Shian, Leon
Mr. Khoo Boo Yeow, Andrew
Mr. Loh Eu Tse, Derek

NOMINATING COMMITTEE

Mr. Yee Kee Shian, Leon (Chairman)
Mr. Heng Lee Seng
Mr. Koh Kian Kiong
Mr. Loh Eu Tse, Derek

REMUNERATION COMMITTEE

Mr. Yee Kee Shian, Leon (Chairman)
Mr. Heng Lee Seng
Mr. Khoo Boo Yeow, Andrew

COMPANY SECRETARIES

Mr. Sam Kwai Hoong
Ms. Noraini Binte Noor Mohamed Abdul Latiff

REGISTERED OFFICE

47 Genting Road
Singapore 349489
Tel: (65) 6747 8118
Fax: (65) 6743 0690/6745 0048
Email: admin@fedsin.com.sg
Website: http://www.federal.com.sg

SHARE REGISTRAR

B.A.C.S. Private Limited
8 Robinson Road
#03-00 ASO Building
Singapore 048544
Tel: (65) 6593 4848
Fax: (65) 6593 4847

AUDITOR

BAKER TILLY TFW LLP
600 North Bridge Road
#05-01 Parkview Square
Singapore 188778

PARTNER-IN-CHARGE

Mr. Khor Boon Hong
(Appointed since financial year ended 31 December 2018)

PRINCIPAL BANKERS

United Overseas Bank Limited
DBS Bank Limited
Overseas-Chinese Banking Corporation Limited
Malayan Banking Berhad

CORPORATE GOVERNANCE **STATEMENT**

The Board of Directors (the "**Board**") of Federal International (2000) Ltd (the "**Company**" together with its subsidiaries the "Group") is committed to maintain a high standard of corporate governance. The Board and Management have taken steps to align its corporate governance framework with the principles and guidelines of the Code of Corporate Governance 2012 issued on 2 May 2012 by the Monetary Authority of Singapore (the "**Code**"). Unless otherwise stated, the Group has generally adhered to the principles and guidelines as set out in the Code during the financial year ended 31 December 2018 ("**FY2018**").

PRINCIPLE 1: THE BOARD'S CONDUCT OF AFFAIRS

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.

Guidelines Federal Corporate Governance Practices

1.1 The Board is primarily responsible for directing the affairs of the Company in order to achieve the goals set for the Group. The responsibility includes setting the strategic direction and long term goals, internal controls and risk management, corporate governance and financial performance of the Group.

1.2 The Board works closely with Management ensuring that their duties and responsibilities stipulated under the Companies Act and applicable rules and regulations are complied with and their obligations towards shareholders and other stakeholders are met.

With assistance of the Company Secretaries, the Board and the Management are continually apprised of their compliance obligations and responsibilities arising from regulatory requirements and changes in the Listing Manual of Singapore Exchange Securities Trading Limited ("**SGX-ST**").

1.3 The Board comprises the following members:

Executive Directors
Mr Koh Kian Kiong (Executive Chairman and Chief Executive Officer ("**CEO**"))
Ms Maggie Koh
Mr Koh Beng Guan, Don

Non-Executive and Independent Directors
Mr Heng Lee Seng (Lead Independent Director)
Mr Yee Kee Shian, Leon
Mr Khoo Boo Yeow, Andrew
Mr Loh Eu Tse, Derek

Mr Loh Eu Tse, Derek was appointed as Non-Executive and Independent Director of the Company on 1 November 2018.

To facilitate effective management, certain functions have been delegated to various Board Committees ie. Executive Committee ("**EC**"), Audit Committee ("**AC**"), Nominating Committee ("**NC**") and Remuneration Committee ("**RC**"), each of which has its own clear written terms of reference ("**TOR**"). The TORs are reviewed on a regular basis to ensure their continued relevance with the Code.

The Management together with the Board Committees support the Board in discharging its duties and responsibilities. The roles and powers of the Board Committees are set out separately in this Statement.

The EC comprises the following Directors:

Mr Koh Kian Kiong

Ms Maggie Koh

Mr Koh Beng Guan, Don

CORPORATE GOVERNANCE **STATEMENT**

The EC meets and performs the following key duties:

(1) to approve investment/divestment proposals within 5% of NTA;

(2) to review and submit the Group's business plans to the Board;

(3) to establish guidelines and approval limits for the management and operation of the Group's businesses;

(4) to review budget against performance of each business unit; and

(5) to ensure interested person transactions are undertaken at arm's length and on commercial terms.

1.4 The Board meets at least quarterly and more frequently as and when required, to review and evaluate the Group's operations and performance and to address key policy matters of the Group, where necessary.

The Constitution of the Company allows Board and Board Committees meetings to be conducted by way of teleconferencing to facilitate Board participation.

In the absence of Board and Board Committees meetings, the Board and the Board Committees discuss, deliberate and approve the matters specially reserved to them by way of resolutions in writing in accordance with the Company's Constitution and Board Committees' term of references where applicable.

The number of Board and Board Committee meetings held during FY2018 and the attendance of each Director, where relevant, are set out as follows:

Directors	**Board Meetings**	**Audit Committee Meetings**	**Remuneration Committee Meetings**	**Nominating Committee Meetings**
Mr Koh Kian Kiong	6	Not Applicable	Not Applicable	2
Ms Maggie Koh	6	Not Applicable	Not Applicable	Not Applicable
Mr Koh Beng Guan, Don	6	Not Applicable	Not Applicable	Not Applicable
Mr Heng Lee Seng	6	4	2	1
Mr Yee Kee Shian, Leon	5	5	2	2
Mr Khoo Boo Yeow, Andrew	6	5	2	Not Applicable
Mr Loh Eu Tse, Derek^	1	1	Not Applicable	Not Applicable
No. of Meetings held in FY2018	**6**	**5**	**2**	**2**

Note:

^ Mr Loh Eu Tse, Derek was appointed as Non-Executive and Independent Director and a member of Audit Committee and Nominating Committee of the Company on 1 November 2018.

1.5 The matters specifically reserved for the Board's decision include but are not limited to:

(1) Approving the Group's goals, strategies and objectives;

(2) Monitoring the performance of Management;

(3) Overseeing the processes for evaluating the adequacy and effectiveness of internal controls, risk management systems, financial reporting and compliance of the Group;

(4) Approving the appointment of Directors of the Company and Key Management Personnel of the Group;

CORPORATE GOVERNANCE **STATEMENT**

(5) Approving the announcement of unaudited quarterly financial results, unaudited full year financial results and audited financial statements;

(6) Endorsing remuneration framework and key human resource matters of the Group;

(7) Convening of general meetings;

(8) Approving annual budgets, major funding proposals, major acquisition and major disposal of investments according to the Listing Manual of the SGX-ST; and

(9) Assuming responsibility for corporate governance and compliance with the Companies Act, Chapter 50 and the rules and regulations applicable to a public listed company.

1.6 The Company also has in place a budget for Directors' training programmes on an annual basis and the Directors are encouraged to participate industry conferences, seminars, courses or training programmes in connection with their duties and responsibilities as Directors of the Board and Board Committees, in order to keep abreast of the latest rules, regulations and accounting standards in Singapore.

The Directors have been keeping themselves abreast with the latest rules, regulations and accounting standards applicable to the Group during the course of their principal commitments, in addition to the regular digest provided by Company Secretaries and external auditors.

Please also refer to Guideline 4.6

1.7 The newly appointed Non-Executive and Independent Director, Mr Loh Eu Tse, Derek, has accepted letter of appointment issued by the Company where essential duties and obligations arising from his role as Non-Executive and Independent Director are set out.

Save for the above, there are no directors appointed to the Board of the Company in FY2018.

PRINCIPLE 2: BOARD COMPOSITION AND GUIDANCE

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.

Guidelines Federal Corporate Governance Practices

2.1 The Board comprises four (4) Non-Executive and Independent Directors and three (3) Executive Directors in FY2018.

The Board is of the view that a strong element of independence is present in the Board with Non-Executive and Independent Directors making up majority of the Board. The Board exercises objective and independent judgement on the Group's corporate affairs. No individual or group of individuals dominates the Board's decision-making.

2.2 The Board complies with the Guideline by having at least half of the Board made up of Non-Executive and Independent Directors as the Chairman of the Board and the CEO is the same person.

2.3 The Board and the NC reviews on annual basis whether or not a Director is independent, taking into account the definition of independence under the Code, *inter alia*, one who has no relationship with the Company, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement with a view to the best interests of the Company.

The NC and the Board have formed a view that none of the Non-Executive and Independent Directors has any relationship with the Company, its related corporations, 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.

CORPORATE GOVERNANCE **STATEMENT**

The Board and the NC also reviewed the individual Directors' judgement and conduct in carrying out their duties for FY2018. Together with the NC, the Board affirmed that Mr Heng Lee Seng, Mr Yee Kee Shian, Leon, Mr Khoo Boo Yeow, Andrew and Mr Loh Eu Tse, Derek continue to be independent pursuant to the definition of Independence under the Code.

2.4 The Board and the NC has assessed the independence of each Director, including Director whose tenure exceeds nine years from the date of their first appointment.

In this regard, Mr Heng Lee Seng has served beyond nine years from the date of his first appointment on 22 August 2000. Based on the Board's and the NC's observations during the tenure of office occupied by Mr Heng Lee Seng for FY2018, Mr Heng Lee Seng distinctively demonstrated independent mindedness and conduct at Board and Board Committees meetings. Together with the NC, the Board, is of the firm view and opinion that Mr Heng Lee Seng continues to exercise independent judgement in the best interest of the Company in the discharge of his duties as Director, despite his extended tenure in office.

2.5 & 2.6 The composition of the Board is reviewed annually by the NC and the Board 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 Board is of the view that the current size, composition, range of experience and the varied expertise of the current Board members provides core competencies in business, investment, industry knowledge, legal, regulatory matters, audit, accounting and tax matters which are necessary to meet the Group's needs.

Key information regarding the Directors is set out on pages 6 to 8 of the Annual Report.

2.7 Non-Executive and Independent Directors contribute to the Board process by monitoring and reviewing the Group's performance against goals and objectives in a timely manner. Their views and opinions provide alternative perspectives to the Group's businesses and bring independent judgement on business activities and transactions involving conflicts of interest and other complexities.

2.8 Where the need arises, Non-Executive and Independent Directors will at the direction of Lead Independent Director meet without the presence of Management.

PRINCIPLE 3: CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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.

Guidelines ***Federal Corporate Governance Practices***

3.1 Mr Koh Kian Kiong is the Executive Chairman and CEO of the Company.

The Board is of the view that having Mr Koh Kian Kiong assume the roles of both Executive Chairman and CEO has not compromised overall accountability and independent decision-making as there is a majority number of Independent Directors versus Executive Directors on the Board.

Notwithstanding the Company has benefited from having an Executive Chairman and CEO who is knowledgeable about the businesses and operations of the Company and of the Group, the Board will address the segregation of such positions when it is appropriate.

3.2 As the founder of the Group, Mr Koh Kian Kiong has been responsible for leading the Board and has assumed full executive responsibilities over the directions and operational decisions of the Group since 1974, when operations first began as a hardware trading business.

The Chairman also ensure that Board meetings are held every quarter and as and when necessary. The Management, who can provide additional insight into the matters to be discussed, are invited to attend the relevant Board or Board Committees meetings.

CORPORATE GOVERNANCE **STATEMENT**

3.3 In compliance with the Code, Mr Heng Lee Seng has been appointed as Lead Independent Director to act as the principal liaison to address shareholders' concerns, in the case direct contact through normal channels of the Chairman/CEO or Management fails to resolve or is inappropriate.

The role as Lead Independent Director includes but is not limited to:

- Act as liaison between the Independent Directors of the Board and the Chairman of the Board and lead the Independent Directors to provide a non-executive perspective in circumstances where it would be inappropriate for the Chairman to serve in such capacity and to contribute a balanced viewpoint to the Board;
- Advise the Chairman of the Board as to the quality, quantity and timeliness of information submitted by Management that is necessary or appropriate for the Independent Directors to effectively and responsibly perform their duties;
- Assist the Board in ensuring compliance with and implementation of governance guidelines;
- Lead the meetings of Non-Executive Directors (without the presence of the Executive Directors), where necessary, and to provide feedback to the Chairman after such meetings; and
- Serve as principal liaison for consultation and communication with shareholders.

3.4 When the need arises, Non-Executive and Independent Directors will at the direction of Lead Independent Director meet without the presence of Management.

PRINCIPLE 4: BOARD MEMBERSHIP

There should be a formal and transparent process for the appointment and re-appointment of directors to the Board.

Guidelines ***Federal Corporate Governance Practices***

4.1 The members of the NC of the Company are:

Mr Yee Kee Shian, Leon (Chairman)
Mr Heng Lee Seng
Mr Koh Kian Kiong
Mr Loh Eu Tse, Derek

The majority of the NC members, including the Chairman of the NC, are Non-Executive and Independent Directors. The Lead Independent Director, Mr Heng Lee Seng, is a member of the NC. Mr Loh Eu Tse, Derek was appointed to the NC on 1 November 2018.

4.2 The NC is responsible for reviewing the composition and effectiveness of the Board and determining whether Directors possess the requisite qualifications and expertise and whether the independence of Directors is compromised pursuant to the guidelines set out in the Code.

The key duties of the NC includes but not limited to:

(1) To review annually the independence of each Director with reference to the guidelines set out in the Code;

(2) To review all nominations for new appointments and re-election of Directors and put forth their recommendations for approval by the Board;

(3) To determine whether a Director is able to and has been adequately carrying out his duties as a Director of the Company, particularly, when a Director has multiple Board representations;

(4) To review Board succession plans, in particular, the Chairman and CEO;

CORPORATE GOVERNANCE **STATEMENT**

(5) To assess the effectiveness of the Board as a whole and NC; and

(6) To review training and professional development programmes for the Board.

Each member of the NC abstains from voting on any resolution and making any recommendation or participating in any deliberations of the NC in respect of matters concerned him, if any.

In accordance with the Constitution of the Company, one-third of Directors for the time being, or, if their number is not a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation at annual general meeting of the Company, and a Director appointed during the year shall hold office until the next annual general meeting of the Company. The retiring Directors may offer themselves for re-election.

The NC has reviewed and recommended the nomination of Mr Koh Beng Guan, Don and Mr Khoo Boo Yeow, Andrew who will be retiring by rotation in accordance with Regulation 91 of the Constitution of the Company, and the nomination of Mr Loh Eu Tse, Derek who will be retiring by rotation in accordance with Regulation 97 of the Constitution of the Company, for re-election as Directors of the Company at the forthcoming Annual General Meeting of the Company scheduled for 30 April 2019.

Set out below are the names, positions, dates of appointment and last re-election of each Director of the Company:

Name	**Position**	**Date of Appointment**	**Date of Last Re-election**
Mr Koh Kian Kiong	Chairman & CEO	13 November 1999	27 April 2018
Ms Maggie Koh	Executive Director	19 June 2000	28 April 2017
Mr Koh Beng Guan, Don	Executive Director	1 January 2017	28 April 2017
Mr Heng Lee Seng	Lead Independent Director	22 August 2000	28 April 2017
Mr Yee Kee Shian, Leon	Non-Executive Independent Director	23 March 2010	27 April 2018
Mr Khoo Boo Yeow, Andrew	Non-Executive Independent Director	10 August 2012	29 April 2016
Mr Loh Eu Tse, Derek	Non-Executive Independent Director	01 November 2018	–

4.3 Please refer to Guideline 2.3

4.4 The NC has reviewed the multiple board representations of Directors and whether competing time commitments were faced when Directors serve on multiple boards, in addition to the principal commitments of Directors on annual basis.

The NC has received assurance from the Directors who are holding multiple board representations, in particular the Directors holding listed company board representations, that their time and effort in carrying out their duties as Directors of the Company will not be compromised. The NC has also considered the number of listed company board representations held by each Director. In FY2018, all Non-Executive and Independent Directors held up to not more than six (6) listed company board representations. Notwithstanding the foregoing, each of them contributes their time, resources and commitment to the Group.

The NC is satisfied that sufficient time and attention are being given by the Directors to the affairs of the Group, notwithstanding multiple listed company board representations and principal commitments of each Director of the Company, as the Board and the Board Committees experienced minimal competing time commitments among its Board and Board Committees meetings in FY2018, which are planned and scheduled in advance.

4.5 None of the Directors has appointed an alternate director to the Board of the Company.

CORPORATE GOVERNANCE **STATEMENT**

4.6 The NC has formalised a procedure for the selection, appointment and re-election of Directors. Letters of appointment will be issued to new Non-Executive and Independent Directors setting out their duties, obligations and terms of appointment as appropriate while a service agreement accompanied with supporting documents setting out duties, responsibilities and terms of appointment will be given to new Executive Director.

New Directors will undergo an orientation programme whereby they are briefed by the Company Secretaries of their obligations as Directors, as well as the Group's corporate governance practices, and relevant statutory and regulatory compliance issues, as appropriate. They will also be briefed by Management on the Group's industry and business operations.

During FY2018, the Board has appointed Mr Loh Eu Tse, Derek as an additional Non-Executive and Independent Director to the Board of the Company, a move to prepare the Company to progressively comply with the new Code of Corporate Governance 2018, in particular, Provision 2.2 requires independent directors to make up a majority of the Board when Executive Chairman is not independent, and Provision 2.3 requires non-executive and Independent directors to make up a majority of the Board.

Mr Loh Eu Tse, Derek accepted letter of appointment issued by the Company setting out his duties and responsibilities as Non-Executive and Independent Director of the Company.

Save for the above, there is no any other new appointment of director to the Board of the Company in FY2018.

4.7 Please refer to Guideline 2.3, Guideline 4.2 and the pages 6 to 8 of the Annual Report.

PRINCIPLE 5: BOARD PERFORMANCE

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.

Guidelines Federal Corporate Governance Practices

5.1 The NC has in place a performance evaluation process where the effectiveness of the Board as a whole and each Board Committee as a whole is carried out on annual basis following the conclusion of each financial year.

The annual evaluation exercise provides an opportunity to obtain constructive feedback from each Director on amongst others to propose changes which may be made to enhance the performance of the Board and the Board Committees, to provide their views on the functions of the Board and Board Committees including its procedures and processes and if any of these may be improved upon.

The collective assessment is conducted by means of a confidential questionnaire to be completed by each Director before such assessment results are collated, analysed and reported to the respective Board Committees for their deliberation prior to the report to the Board.

Recommendations to further enhance the effectiveness of the Board and Board Committees are implemented as and when appropriate, if any.

The performance evaluation of the Board and the Board Committees as a whole for FY2018 had been conducted. It was satisfied that all Directors individually and severally contributed effectively and demonstrated full commitment to their roles, accordingly, the performance of the Board and the Board Committees for FY2018 were satisfactory. No external facilitator had been engaged for this purpose.

CORPORATE GOVERNANCE **STATEMENT**

5.2 The annual evaluation process is undertaken as an internal exercise and involves Board members completing a questionnaire covering areas relating to but not limiting to:

- Board/Board Committees composition
- Information to the Board/Board Committees
- Board/Board Committees procedures
- Board accountability
- Communication with CEO
- Standards of conduct by the Board/Board Committees

5.3 The NC believes that the Directors should not be evaluated individually, as each member of the Board contributes in different areas to the success of the Company and of the Group, and therefore, it will be more appropriate to assess the Board and the Board Committees as a whole following the conclusion of each financial year.

PRINCIPLE 6: ACCESS TO INFORMATION

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.

Guidelines ***Federal Corporate Governance Practices***

6.1 The Company recognises that the flow of accurate and timely information is important for the Board to be effective in the discharge of its duties and responsibilities. Accordingly, the Management endeavours to meet the information needs of the Directors, such as requests for further explanations, briefings or informal discussions on any aspect of the Group's operations or business issues from time to time.

The Directors are provided with the contact details of the Group's Key Management Personnel and Company Secretaries in order to facilitate their access to essential information of the Group on timely basis and/or as and when necessary.

6.2 The information to the Board and Board Committees comprising quarterly financial results, budgets, forecasts, material variance reports, management report and such other relevant information requested by the Board are supplied prior to the Board and Board Committees meetings, and as and when the Board and Board Committees request.

6.3 The Company Secretaries attend and prepare minutes of all Board and Board Committees meetings. They assist the Executive Chairman in ensuring board procedures are followed and all relevant statutes, rules and regulations, including Listing Manual of the SGX-ST, are complied with by the Company.

They are also the primary channel of communication between the Company and the SGX-ST.

6.4 The appointment and the removal of the Company Secretaries are subject to the approval of the Board pursuant to the Constitution of the Company.

6.5 The Board seeks independent professional advice as and when necessary to enable it to discharge its duties and responsibilities effectively. In addition, whether as a group or an individual, the Directors may seek and obtain independent professional advice in furtherance of their duties, at the expense of the Group.

CORPORATE GOVERNANCE **STATEMENT**

PRINCIPLE 7: PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

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.

Guidelines ***Federal Corporate Governance Practices***

7.1 The members of the RC of the Company are:

Mr Yee Kee Shian, Leon (Chairman)
Mr Heng Lee Seng
Mr Khoo Boo Yeow, Andrew

The RC comprises entirely Non-Executive and Independent Directors.

In consultation with the Chairman of the Board, the key responsibilities of the RC include but not limited to the following:

(1) To recommend to the Board a framework of remuneration for Executive Directors and Key Management Personnel of the Group that is aligned with the interests of shareholders and ensure that such remuneration is appropriate to attract, motivate and retain the right talents for the Group;

(2) To review and recommend to the Board for their endorsement on the annual remuneration packages for Executive Directors, Key Management Personnel and employees related to Directors or controlling shareholder of the Group, if any, which include a performance-related variable bonus component;

(3) To review and recommend to the Board the benefits under any long-term incentive schemes, if any, for Executive Directors and Key Management Personnel of the Group;

(4) To review and recommend the remuneration package of employees related to Directors or controlling shareholder of the Group, if any; and

(5) To review the contracts of service of the Executive Directors and Key Management Personnel of the Group.

Each member of the RC will abstain from voting on any resolution and making any recommendation or participating in any deliberations of the RC in respect of matters concerned him, if any.

7.2 The ultimate objective of the Group's remuneration framework is, through a competitive and appropriate structured framework of remuneration, to motivate and retain Key Management Personnel of the Group and to ensure that the Group is able to attract talents in the market in order to maximise shareholders' value in the long term.

As part of its review, the RC covers all aspects of remuneration, including but not limited to Directors' fees, salaries, bonuses, other benefits and benefits-in-kind.

Unless otherwise determined by the RC and the Board, the Executive Directors' service agreements are contracted for a period of three years and subject to review before the next renewal.

In reviewing the remuneration packages for Executive Directors and Key Management Personnel of the Group, as well as employee related to Directors and controlling shareholder of the Group, if any, the RC will consider their contributions as well as the financial performance and the commercial needs of the Group and ensure that they are adequately but not excessively remunerated by the Group.

Further, the RC will take into consideration remuneration packages and employment conditions within the industry and within similar organization structure as well as the Group's relative performance and the performance of individual employee.

CORPORATE GOVERNANCE **STATEMENT**

The RC ensures that the remuneration packages of employee relating to Directors and controlling shareholder of the Group, if any, are in line with the Group's staff remuneration guidelines and commensurate with their respective job scopes and levels of responsibilities.

7.3 The RC has access to the advice of external experts in the field of remuneration, where required, in furtherance of their duties and responsibilities. The services of Freshwater Advisers Pte. Ltd. was engaged to conduct a review of remuneration packages for Executive Directors and Key Management Personnel of the Group in 2015. Aon Hewitt Singapore Pte. Ltd. was engaged to review remuneration package for the most recent appointment of Executive Director, Mr Koh Beng Guan, Don as a Director of the Company effective from 1 January 2017. Aon Hewitt Singapore Pte. Ltd. was also engaged to review service agreements for Executive Directors that are due for renewal by the Company in 2018.

Freshwater Advisers Pte. Ltd. and Aon Hewitt Singapore Pte. Ltd. are external professional firms with no relationship with the Company and hence, their independence and objectivity on the above remuneration review have been maintained since engagement.

7.4 The RC aims to be fair and avoid rewarding poor performance during the course of RC's duties including in the event of termination, termination clauses should be fair and not overly generously in respect of contract services entered into with Executive Directors and Key Management Personnel of the Group.

Please also refer to Guideline 8.4

PRINCIPLE 8: LEVEL AND MIX OF REMUNERATION

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.

Guidelines Federal Corporate Governance Practices

8.1 The Company adopts a remuneration policy for Executive Directors and Key Management Personnel of the Group that comprise a fixed component and a variable component. The fixed component is in the form of a base salary. The variable component is in the form of profit-sharing or a variable bonus that is linked to the performance of the Group and the individual performance for the preceding financial year.

8.2 The Company does not have a long-term incentive, share option scheme or share award scheme within the Group.

8.3 Directors' fees payable/paid to Non-Executive and Independent Directors are set in accordance with a remuneration framework comprising a basic fee and increment fixed fee, taking into account of the level of responsibilities such as taking the roles of chairman and member of Board Committees.

The Board, after the recommendation of the RC, has recommended the aggregate Directors' fees of S$240,000 to Non-Executive and Independent Directors of the Company for financial year ending 31 December 2019, to be paid quarterly in arrears, for shareholders' approval at the forthcoming Annual General Meeting of the Company scheduled for 30 April 2019.

At the upcoming Annual General Meeting of the Company scheduled for 30 April 2019, the Board also has recommended additional Director's fee of S$8,334 to Non-Executive and Independent Director of the Company for FY2018. The additional Director's fee is payable to Mr Loh Eu Tse, Derek, a Non-Executive and Independent Director newly appointed to the Board on 1 November 2018.

8.4 Even though there are no contractual provisions allowing the Company to reclaim incentive components of remuneration from Executive Directors or Key Management Personnel of the Group in exceptional circumstances of misstatement of financial results or of misconduct resulting financial loss to the Group, the Group will not hesitate to take legal actions against the personnel responsible in the event of such exceptional circumstances or misconduct resulting financial loss to the Group.

CORPORATE GOVERNANCE **STATEMENT**

PRINCIPLE 9: DISCLOSURE ON REMUNERATION

Every 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.

Guidelines ***Federal Corporate Governance Practices***

9.1 & 9.2 The following information relates to the remuneration received or to be received by the Directors from the Company and its subsidiaries for FY2018:

Directors of the Company	Fees	Salary	Bonus	Other Benefits	Total
S$500,000 to S$750,000					
Mr Koh Kian Kiong	–	94%	–	6%	100%
S$250,000 to S$499,999					
Ms Maggie Koh	–	90%	–	10%	100%
Mr Koh Beng Guan, Don	–	90%	–	10%	100%
Less than S$250,000					
Mr Heng Lee Seng	100%	–	–	–	100%
Mr Yee Kee Shian, Leon	100%	–	–	–	100%
Mr Khoo Boo Yeow, Andrew	100%	–	–	–	100%
Mr Loh Eu Tse, Derek^	100%	–	–	–	100%

Note:

^ Mr Loh Eu Tse, Derek was appointed as Non-Executive and Independent Director and a member of Audit Committee and Nominating Committee of the Company on 1 November 2018.

In view of confidentiality and sensitivity attached to remuneration matters, the Board is of the opinion that it is in the best interests of the Group not to disclose exact remuneration received by each Director of the Company, but in the bands of S$250,000 disclosed as above.

9.3 In view of the confidentiality and sensitivity attached to remuneration matters, the Board is of the opinion that it is in the best interests of the Group not to disclose exact names and exact remuneration and the breakdown of remuneration in the forms of salary, bonus or other benefits received by the top five Key Management Personnel of the Group during FY2018. Accordingly, the aggregate remuneration paid to the top five Key Management Personnel for FY2018 will also not be provided in the Annual Report.

The following information relates to the remuneration received by the top five Key Management Personnel of the Group from the Company and its subsidiaries for FY2018 in the bands of S$250,000 without the disclosure of exact names:

Remuneration Bands	Number of Key Management Personnel
S$250,000 to S$499,999	–
Less than S$250,000	5
Total	5

9.4 Mr Koh Kian Kiong, Ms Maggie Koh and Mr Koh Beng Guan, Don, being the Directors of the Company, are immediate family members defined under the Listing Manual of SGX-ST. Save as disclosed, there were no employees who are immediate family members of a director or CEO, and whose remuneration exceeds S$50,000 during FY2018.

CORPORATE GOVERNANCE **STATEMENT**

9.5 The Company does not have a long-term incentive scheme, share option scheme or share award scheme within the Group.

9.6 Notwithstanding the Group was not profitable throughout FY2018, the RC is still satisfied with the Group achieving its core performance objective ie. net profits for three consecutive financial years, FY2015, FY2016 and FY2017.

However, the Executive Directors of the Group are not entitled to the variable remuneration component for FY2018 in the form of profit-sharing payable/paid in accordance their respective service agreements.

PRINCIPLE 10: ACCOUNTABILITY

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

Guidelines Federal Corporate Governance Practices

10.1 The Board is accountable to the shareholders of the Company while Management is accountable to the Board of the timely update on the Group's position, performance and prospect. The objectives of the audited financial statements, unaudited quarterly financial results and unaudited full year financial results are to provide the shareholders of the Company with a timely, balanced and understandable analysis of the Group's financial performance, position and prospects.

10.2 The Board takes adequate steps to ensure compliance with legislative and regulatory requirements and observes the obligations of continuing disclosures in accordance with Listing Rules of the SGX-ST.

During the review of unaudited quarterly financial results, the Board will provide a negative assurance confirmation to shareholders of the Company, that to the best of their knowledge, nothing has come to the attention of the Board which may render the interim financial statements to be false or misleading in any material aspect, in line with Rule 705(5) of the Listing Manual of SGX-ST.

10.3 The Management will at the request of the Board members to provide a periodic update covering the Group's performance, financial results, material business transactions as well as other important and relevant information as the Board members may require from time to time, to enable the Board make a balanced and informed assessment of the Group's performance, position and prospects.

PRINCIPLE 11: RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for the governance of risk. The Board should ensure that 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.

Guidelines Federal Corporate Governance Practices

11.1 The Board acknowledges the ultimate responsibility for the governance of risk and sets the tone and direction for the Group in the way risks are managed in the Group's businesses. The Board approves the strategy of the Group in a manner which stakeholders' expectations are addressed and does not expose the Group to an unacceptable level of risk determined by the Board.

The Board after the recommendation of the AC approves the key risk management policies and ensures a sound system of risk management and internal controls and monitors performance against them. In addition to determining the approach to risk governance, the Board sets and instills the right risk focused culture throughout the Group for effective risk governance.

CORPORATE GOVERNANCE **STATEMENT**

The Board recognises that the Group's risk management system and internal control system are designed to ensure the reliability and integrity of financial information and to safeguard the assets of the Group. Notwithstanding the foregoing, the Board notes that internal controls system and risk management established by the Group provide reasonable, but not absolute assurance that the Group will not be adversely affected by any event that can be reasonably foreseen as it strives to achieve its business objectives.

However, the Board also notes that no internal controls system and risk management can provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, losses, fraud or other irregularities occurred within the Group.

11.2 In 2013, the Management, with the assistance of the outsourced internal auditors, carried out an exercise to review and consolidate the Group's risk register, of which those key risks faced by the Group had been identified and the key internal controls had been put in place to manage or mitigate those key risks. Since 2014, the Group regularly conducted a follow up review of the Group's key risks and the effectiveness of the key internal controls of the Group.

The Management presents their report on annual basis to the AC and the Board on the Group's risk profile, the status of risk mitigation action plans, if any, and the results of various assurance activities carried out to measure the adequacy and effectiveness of Group's internal controls including financial, operational, compliance and information technology controls. Such assurance activities include self-assessment performed by Management, internal audit and external audit performed by the internal auditor and the external auditor on annual basis.

On annual basis, the Board together with the AC review the Group's risk management policies and internal controls. Accordingly, based on the external and internal audit reports, the AC is satisfied that there are adequate and effective internal controls within the Group as at 31 December 2018.

11.3 The Board has received annual assurance from the CEO and the Group Chief Financial Officer in respect of FY2018 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 have been effectively put in place.

In reference to Guideline 11.3 and pursuant to Rule 1207(10) of Listing Manual of the SGX-ST, the Board, with the concurrence of the AC, having considered (i) the internal controls established and maintained by the Group; (ii) the reports received from the internal auditor and the external auditor; and (iii) the regular reviews performed by Management, Board Committees and the Board; is of the opinion that, the Group's risk management system and the Group's internal controls including financial, operational, compliance and information technology controls are effective and adequate as at 31 December 2018.

11.4 The Board together with the AC oversee the Group's risk management framework and policies, pursuant to which, their roles and responsibilities including but not limiting to the following:–

- To propose the risk governance approach and risk policies for the Group;
- To review the risk management methodology adopted by the Group;
- To review the strategic, financial, operational, regulatory compliance, information technology and other emerging risks relevant to the Group identified by Management; and
- To review Management's risk assessment and Management's action plans to mitigate such risks.

CORPORATE GOVERNANCE **STATEMENT**

PRINCIPLE 12: AUDIT COMMITTEE

The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.

Guidelines ***Federal Corporate Governance Practices***

12.1 The members of the AC of the Company are:–

Mr Heng Lee Seng (Chairman)
Mr Yee Kee Shian, Leon
Mr Khoo Boo Yeow, Andrew
Mr Loh Eu Tse, Derek

The AC comprises entirely Non-Executive and Independent Directors. Mr Loh Eu Tse, Derek was appointed to the AC on 1 November 2018.

12.2 The AC Chairman is a practising Chartered Accountant while the two AC members hold a law degree from the University of Cambridge, and the other AC member holds a law master from the University of Cambridge. Each of them has an extensive knowledge and experience in the fields of corporate finance, legal and business. The Board is of the view that the AC members are appropriately qualified in discharging their duties and responsibilities and are capable of exercising sound and independent judgement in view of their requisite expertise and experience.

12.3 The AC is empowered to investigate any matter relating to the Group's accounting, auditing, internal controls and financial practices brought to its attention, with full access to records, resources and personnel of the Group, to enable them to discharge its functions properly.

The AC has full access to Management and full discretion to invite any Director and officer to attend AC meetings held from time to time.

12.4 The key responsibilities of the AC include but not limited to the following:–

(1) To review scope, audit plans and reports of the external auditor and the internal auditor;

(2) To review and report to the Board on the adequacy and effectiveness of the Group's internal controls, including financial, operational, compliance and information technology controls and risk management system;

(3) To review interested person transactions in accordance with the requirements of the Listing Manual of the SGX-ST;

(4) To review and recommend to the Board of the release of the unaudited quarterly financial results and unaudited full year financial results;

(5) To review and recommend the re-appointment of the external auditor, and approve the remuneration of the external auditor;

(6) To oversee co-ordination where more than one auditing firm or auditing corporation is involved in the Group's external audit;

(7) To review the independence of the external auditor annually; and

(8) To review all non-audit services provided by the external auditor to determine if the provision of such services will affect the independence of the external auditor.

CORPORATE GOVERNANCE **STATEMENT**

Each member of the AC will abstain from voting on any resolution and making any recommendation or participating in any deliberations of the AC in respect of matters concerned him, if any.

12.5 In performing its functions, the AC reviews the overall scope of both internal audit and external audit, and the assistance and resources given by Management to the internal auditor and the external auditor.

The AC also meets with the internal auditor and the external auditor annually after the conclusion of each financial year, without the presence of Management, to discuss the results of their respective audit findings and their evaluation of the Group's system of accounting and internal controls.

12.6 The AC has reviewed the non-audit services provided by the external auditor, Baker Tilly TFW LLP and is satisfied that the non-audit services will not affect the independence and objectivity of Baker Tilly TFW LLP as external auditor of the Company.

The AC has also considered the performance of Baker Tilly TFW LLP based on factors such as performance, adequacy of resources and experience of the audit engagement partner and audit team assigned to the Company's and the Group's audit as well as the size and complexity of the Company and of the Group. Accordingly, the AC has recommended the re-appointment of Baker Tilly TFW LLP as external auditor of the Company for the ensuing year. The aggregate amount of fees paid to external auditor, as well as its fees for non-audit services is disclosed in page 109 of the Annual Report.

The Group has complied with Rules 712 and 715 of the Listing Manual of SGX-ST as the Group's Singapore-incorporated subsidiaries and significant associated companies were audited by Baker Tilly TFW LLP and significant foreign-incorporated subsidiary was audited by independent overseas member firms of Baker Tilly International for FY2018.

12.7 The AC has adopted a whistle-blowing policy pursuant to which an appropriate channel has been established for the Group's employees to report and to raise, in good faith and in confidence, their concerns about possible improprieties in matters of financial reporting or other matters of the Group through emails.

The whistle-blowing policy was last reviewed by the AC in 2017 to ensure that the Group's whistle-blowing policy staying relevant and reaching out to the Group's employees in Singapore and overseas.

12.8 During FY2018, the key activities carried out by AC included but not limited to:–

(1) Reviewed and recommended unaudited quarterly financial results and unaudited full year financial results to the Board for approval;

(2) Reviewed annual audit plans and reports presented by the internal auditor and external auditor;

(3) Received and discussed with the external auditor on the changes of Singapore Financial Reporting Standards (International) that may have a direct impact on the Group's financial statements ahead of the effective dates;

(4) Reviewed re-appointment of the external auditor and determining its independence before making a recommendation for Board's approval;

(5) Reviewed and reported to the Board on the adequacy and effectiveness of the Group's internal controls, including financial, operational, compliance and information technology controls and risk management system;

(6) Reviewed interested person transactions in accordance with the requirements of the Listing Manual of the SGX-ST; and

(7) Reviewed the Group's audited financial statements with Management and external auditor of the Company. Accordingly, the AC is of the view that the Group's financial statements for FY2018 are fairly presented in conformity with relevant Singapore Financial Reporting Standards (International) in all material aspects.

CORPORATE GOVERNANCE **STATEMENT**

12.9 None of the members of the AC is a partner or director of the Group's auditing firms or auditing corporations, or was a former partner or former director of the Group's auditing firms or auditing corporations. None of them has any financial interest in the Group's auditing firms or auditing corporations.

PRINCIPLE 13: INTERNAL AUDIT

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

Guidelines Federal Corporate Governance Practices

13.1 The AC is responsible for internal audit functions of the Group. The AC is also responsible to oversee the implementation of the internal audit plan and ensures that the Management provides necessary co-operation and resources to enable the in-house internal auditor to perform its functions.

The AC also periodically review the internal controls established and maintained by the Group for further improvements, if necessary, based on the recommendations of the external auditor and the in-house internal auditor.

The AC, with the assistance of the Management, interviewed and recruited an internal auditor to spearhead the Group's in-house internal audit function since 2015. The in-house internal auditor will be responsible for reporting directly to the AC any internal control weaknesses identified during the course of internal audit, the recommended corrective actions and the implementation thereof are reported to the AC in accordance with internal audit schedule.

13.2 Since 2015, the AC has been working closely with the in-house internal auditor to establish and develop internal audit function of the Group.

13.3 The AC has been satisfied with the requisite qualification, knowledge and experience possessed by the in-house internal auditor.

13.4 The in-house internal auditor has carried out its internal audit function according to the standards set by nationally or internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

13.5 The AC annually reviews the internal audit functions to ensure that the internal audits are performed adequately and effectively during each financial year.

During FY2018, the AC continually reviewed and approved the internal audit scope and internal audit plan to ensure that there is sufficient internal audit coverage on the Group's significant subsidiaries and significant associated companies on rotation basis. The in-house internal auditor performed internal audits on significant subsidiaries and significant associated companies in accordance with the internal audit scope and internal audit plan endorsed by the AC.

PRINCIPLE 14: SHAREHOLDER RIGHTS

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.

Guidelines Federal Corporate Governance Practices

14.1 To facilitate shareholders to exercise their ownership rights, the Board ensures adequate and material information concerning to the Group's business development in accordance with disclosure requirements of the Listing Manual of the SGX-ST are released to SGX-ST through SGXNET in a timely and fair manner.

CORPORATE GOVERNANCE **STATEMENT**

14.2 The shareholders of the Company are entitled to receive notice of general meetings, annual report, offer information statement or circulars, whichever is applicable via mail. Such documents are also made available at SGXNET.

All shareholders of the Company can exercise their votes in accordance with voting procedures set out in the Constitution of the Company. The procedures setting out how each shareholder can vote either in person or via proxy are also read out prior to the voting during the general meetings.

14.3 Individual shareholders and corporate shareholders, who are unable to attend general meetings of the Company, are entitled to appoint not more than two proxies to attend and vote on their behalf at the general meetings of the Company.

With effect from 3 January 2016, those shareholders whose shares held under the names of relevant intermediaries as defined under Section 181 of the Companies Act, Chapter 50 of Singapore, such as nominees or custodial institutions, are allowed to attend the general meetings of the Company personally as the relevant intermediaries are allowed to appoint more than two proxies ie. individual shareholders, corporate shareholders or their representatives to attend and vote at the general meetings of the Company.

PRINCIPLE 15: COMMUNICATION WITH SHAREHOLDERS

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

Guidelines Federal Corporate Governance Practices

15.1 The Board is committed to maintain a high standard of corporate governance by disclosing to its stakeholders, including its shareholders and investors, with adequate and material information concerning the Group's business development in accordance with disclosure requirements of the Listing Manual of the SGX-ST through SGXNET to SGX-ST in a timely and fair manner.

15.2 The Board is mindful of its obligation to provide adequate and timely disclosure of all material and price-sensitive information to SGX-ST through SGXNET.

The announcements, including but not limiting to the Group's unaudited financial results for each of the first three quarters of its financial year, the Group's unaudited full year financial results, and the material updates of the Group's business development prepared in accordance with disclosure requirements of the Listing Manual of the SGX-ST are also released through SGXNET in a timely manner.

The corporate profile and announcements of the Company are also available at http://www.federal.com.sg.

The Company does not practice selective disclosure as the relevant material and price-sensitive information are released to SGX-ST through SGXNET in a timely and fair manner.

15.3 The shareholders of the Company, including institutional investors and retail investors, are encouraged to attend general meetings, especially Annual General Meeting which serves as the primary channel to express their views and raise their questions regarding the Group's businesses and prospects.

In addition, the Management will address shareholders' questions and concerns in respect of the Group's businesses should they approach the Company through emails or calls.

15.4 The Annual General Meeting of the Company serves as the primary channel for the Management to solicit and collate the views of the shareholders of the Company, including institutional investors and retail investors. The Company also through external investor relation engages shareholders, institutional investors and retail investors at analyst briefings or investors roadshow on occasional basis.

CORPORATE GOVERNANCE **STATEMENT**

15.5 The Company currently does not have a fixed dividend policy. The dividend that the Directors of the Company may recommend or declare in respect of any particular financial year or period will be subject to the factors outlined below as well as any other factors deemed relevant by the Directors of the Company:–

(a) the level of the earnings of the Group;

(b) the financial condition of the Group;

(c) the projected levels of the Group's capital expenditure and other investment plans;

(d) the restrictions on payment of dividends imposed on the Group by the Group's financing arrangements (if any); and

(e) other factors as the Directors of the Company may consider appropriate.

The Company paid a first and final one-tier tax-exempt cash dividend of 1.5 Singapore cents per ordinary share of the Company for FY2016 and FY2017 and a special one-tier tax-exempt cash dividend of 0.5 Singapore cents per ordinary share of the Company for FY2016 and FY2017 to the shareholders of the Company.

The Company has decided not to recommend any dividend for FY2018 at the forthcoming Annual General Meeting of the Company as the Group was not profitable throughout FY2018.

PRINCIPLE 16: CONDUCT OF SHAREHOLDER MEETINGS

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.

Guidelines ***Federal Corporate Governance Practices***

16.1 The Constitution of the Company allows each resolution put forth at general meetings to be voted either by a show of hands or by a poll and the results of each resolution is announced at general meetings and released subsequently to SGX-ST.

16.2 Resolutions on each distinct issue are tabled separately at general meetings. For resolutions tabled under special business, a descriptive explanation of the effects of a resolution will be disclosed in the notice of general meeting.

16.3 The Chairmen of the EC, AC, NC and RC are available to address shareholders' questions at general meetings like Annual General Meetings and Extraordinary General Meetings. The Management will be present to facilitate in addressing shareholders' queries at general meetings.

The external auditor of the Company will also be present at the Annual General Meeting of the Company to address any shareholders' queries that they may have on the consolidated audited financial statements of the Group.

16.4 The proceedings of general meetings, including questions and answers exchanged among the Board, the Management and the shareholders, will be recorded in minutes and made available to the shareholders of the Company upon their request.

16.5 With effect from 1 August 2015, all resolutions put forth at the general meetings will be voted by way of a poll, the percentages of votes in favour or against each resolution will be announced at general meetings and released subsequently to SGX-ST.

Given the limited number of shareholders physically attending general meetings, the Company is of the view that it is not cost effective to conduct voting by way of electronic polling. Instead, the Company conducts voting through manual polling at general meetings.

CORPORATE GOVERNANCE **STATEMENT**

Dealings in Securities

The Group has adopted an internal policy on securities transactions which provide a guidance to Directors and officers of the Group. Under this internal policy, Directors and officers of the Group are not permitted to deal in the Company's securities, while in possession of unpublished price-sensitive information and for the periods commencing two (2) weeks before the release of announcement of the Group's unaudited financial results for each of the first three quarters of its financial year; and one (1) month before the release of announcement of the Group's unaudited full year financial results till the release of announcement; and they are not expected to deal in the securities of the Company on short-term considerations.

Interested Person Transactions

The Company has adopted an internal policy outlining procedures for review and approval of the interested person transactions entered into between the Company and the interested persons. All interested person transactions are subject to the review by the AC.

The Company does not have a shareholders' mandate for interested person transactions. The Company confirms that the aggregate value of all interested person transactions during FY2018 is less than S$100,000/-.

Material Contracts

No other material contracts were entered into between the Company and any of the subsidiaries of the Group with any CEO, Director or controlling shareholder of the Company either subsisting or during FY2018, except as disclosed in the notes to the Financial Statements (Note 45).

DIRECTORS' **STATEMENT**

The directors present their statement to the members together with the audited consolidated financial statements of Federal International (2000) Ltd (the "Company") and its subsidiary corporations (collectively, the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2018.

In the opinion of the directors:

(i) the accompanying balance sheets, consolidated income statement, consolidated statement of comprehensive income, statements of changes in equity and consolidated statement of cash flows together with the notes thereto 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 2018 and of the financial performance, changes in equity and cash flows of the Group and the changes in equity of the Company for the financial year ended on that date in accordance with the provisions of the Companies Act, Chapter 50 and Singapore Financial Reporting Standards (International); and

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

DIRECTORS

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

Koh Kian Kiong
Maggie Koh
Koh Beng Guan, Don
Heng Lee Seng
Yee Kee Shian, Leon
Khoo Boo Yeow, Andrew
Loh Eu Tse, Derek (Appointed on 1 November 2018)

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects 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' 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 Companies Act, Chapter 50, an interest in shares of the Company and related corporations (other than wholly-owned subsidiary corporations) as stated below:

	Direct interest			Deemed interest		
Name of directors	**At 1.1.2018**	**At 31.12.2018**	**At 21.1.2019**	**At 1.1.2018**	**At 31.12.2018**	**At 21.1.2019**
Ordinary shares of the Company						
Koh Kian Kiong	8,803,000	9,500,000	9,500,000	18,150,000	18,150,000	18,150,000
Maggie Koh	400,000	400,000	400,000	–	–	–
Heng Lee Seng	12,999	12,999	12,999	–	–	–
Koh Beng Guan, Don	100,000	100,000	100,000	–	–	–

Except as disclosed in this statement, 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, or at the end of the financial year.

DIRECTORS' **STATEMENT**

OPTIONS

No share option has been granted at the date of this statement.

AUDIT COMMITTEE

The Audit Committee carried out its functions in accordance with Section 201B(5) of the Companies Act, Chapter 50. The functions performed are detailed in the Corporate Governance Statement, set out in the Annual Report of the Company.

INDEPENDENT AUDITOR

The independent auditor, Baker Tilly TFW LLP, has expressed its willingness to accept re-appointment.

On behalf of the board of directors:

Koh Kian Kiong Director	Maggie Koh Director

Singapore
2 April 2019

INDEPENDENT **AUDITOR'S REPORT**

TO THE MEMBERS OF FEDERAL INTERNATIONAL (2000) LTD

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements Federal International (2000) Ltd (the "Company") and its subsidiaries as set out on pages 42 to 138 (collectively, the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)") 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 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the year ended on that date.

Basis for Opinion

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

Key Audit Matters

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

Impairment review of other receivables (non-current) of $13,022,000
(Refer to Note 10 to the financial statements)

Description of key audit matter

Included in the other receivables (non-current) of the Group and Company as at 31 December 2018 is an amount of $13,022,000 (2017: $13,022,000) due from a shareholder of an investee company. The amount is secured by the shareholder's shares in the investee company.

Management assessed impairment of the receivable using expected credit loss model and by taking into consideration the fair value of the pledged shares. The fair value of the pledged shares is determined by reference to the equity value of the investee company based on valuation performed by an independent external valuer.

INDEPENDENT **AUDITOR'S REPORT**

TO THE MEMBERS OF FEDERAL INTERNATIONAL (2000) LTD

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key Audit Matters (Continued)

Impairment review of other receivables (non-current) of $13,022,000 (Continued)
(Refer to Note 10 to the financial statements)

Description of key audit matter (Continued)

The equity value of the investee company is determined by the independent external valuer using income approach and cross checked with market approach. The parameters and key assumptions used in the methodologies involve significant judgements and estimates. The use of different valuation methodologies and assumptions could produce significantly different estimates of equity value which would impact the impairment allowance determination.

Our audit procedures to address the key audit matter

We reviewed management's assessment of the impairment of the receivable.

We evaluated competency, capability and objectivity of the independent external valuer. We engaged our internal valuation specialist to assist in assessing the assumptions, methodologies and parameters adopted in the valuation against general market practice. We reviewed the adequacy of disclosures in the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the 2018 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 SFRS(I), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

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

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

INDEPENDENT **AUDITOR'S REPORT**

TO THE MEMBERS OF FEDERAL INTERNATIONAL (2000) LTD

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

INDEPENDENT **AUDITOR'S REPORT**

TO THE MEMBERS OF FEDERAL INTERNATIONAL (2000) LTD

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Baker Tilly TFW LLP
Public Accountants and
Chartered Accountants
Singapore

2 April 2019

CONSOLIDATED **BALANCE SHEET**

AS AT 31 DECEMBER 2018

	Note	Group 31.12.2018 $'000	31.12.2017 $'000	1.1.2017 $'000
Non-current assets				
Property, plant and equipment	4	**31,316**	32,434	33,426
Investment in associates and joint venture	6	**5,994**	4,748	4,611
Intangible assets	7	**1,650**	1,786	1,923
Other investments	8	**–**	558	558
Financial assets at fair value through other comprehensive income	9	**538**	–	–
Other receivables	10	**13,095**	13,094	13,092
Financial receivable	11	**–**	–	816
Amount due from an associate	17	**–**	4,588	4,966
Amount due from a related party	18	**–**	6,203	6,714
Deferred tax assets	12	**722**	665	626
		53,315	64,076	66,732
Current assets				
Inventories	13	**12,625**	12,796	15,012
Trade receivables	14	**23,867**	46,370	35,948
Other receivables	15	**6,859**	4,336	2,129
Contract assets	19	**–**	104	1
Advance payment to suppliers		**779**	1,740	2,997
Prepayments		**250**	317	338
Deposits		**78**	62	80
Financial receivable	11	**300**	707	552
Amounts due from associates	17	**2,979**	3,263	3,695
Amount due from a related party	18	**6,327**	–	–
Fixed and bank deposits	37	**1,398**	1,422	1,517
Cash and bank balances	37	**8,968**	10,704	15,502
		64,430	81,821	77,771
Current liabilities				
Provisions	20	**–**	–	4,911
Trade payables		**8,233**	12,319	15,267
Other payables	21	**10,007**	11,097	12,452
Contract liabilities	19	**924**	1,841	3,115
Amounts due to associates	23	**10**	1,216	202
Amount due to a related party	24	**1,926**	2,009	2,034
Amounts due to bankers	25	**8,067**	19,311	22,170
Term loans	26	**8,535**	7,438	5,001
Provision for taxation		**2,620**	3,570	3,206
		40,322	58,801	68,358
Net current assets		**24,108**	23,020	9,413

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

CONSOLIDATED **BALANCE SHEET**

AS AT 31 DECEMBER 2018

		Group		
	Note	**31.12.2018 $'000**	**31.12.2017 $'000**	**1.1.2017 $'000**
Non-current liabilities				
Term loans	26	**7,352**	9,742	–
Provision for post employment benefits		**211**	192	115
Deferred tax liabilities	12	**2,390**	2,367	2,041
		9,953	12,301	2,156
Net assets		**67,470**	74,795	73,989
Equity attributable to owners of the Company				
Share capital	27(a)	**144,099**	144,099	144,099
Treasury shares	27(b)	**(25)**	–	–
Foreign currency translation reserve	28	**(3,748)**	(4,860)	(4,575)
Capital reserve	29	**5**	5	5
Revaluation reserve	30	**17,782**	17,073	16,460
Other reserves	31	**(976)**	(976)	(976)
Accumulated losses		**(76,506)**	(67,889)	(69,306)
		80,631	87,452	85,707
Non-controlling interests		**(13,161)**	(12,657)	(11,718)
Total equity		**67,470**	74,795	73,989

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

BALANCE **SHEET**

AS AT 31 DECEMBER 2018

	Note	Company 31.12.2018 $'000	Company 31.12.2017 $'000	Company 1.1.2017 $'000
Non-current assets				
Property, plant and equipment	4	**–**	–	2
Investment in subsidiaries	5	**77,876**	75,345	76,558
Investment in associates and joint venture	6	**732**	732	732
Other investments	8	**–**	538	538
Financial assets at fair value through other comprehensive income	9	**538**	–	–
Other receivables	10	**13,022**	13,022	13,022
Amounts due from subsidiaries	16	**–**	4,588	4,966
		92,168	94,225	95,818
Current assets				
Other receivables	15	**46**	18	58
Prepayments		**16**	15	16
Deposits		**24**	10	8
Amounts due from subsidiaries	16	**1,875**	7,026	7,161
Amounts due from associates	17	**50**	49	50
Fixed and bank deposits		**1,363**	1,389	1,484
Cash and bank balances		**188**	599	197
		3,562	9,106	8,974
Current liabilities				
Other payables	21	**649**	1,081	944
Amounts due to subsidiaries	22	**1,226**	1,217	1,276
Amounts due to associates	23	**–**	243	192
Provision for taxation		**–**	1	11
		1,875	2,542	2,423
Net current assets		**1,687**	6,564	6,551
Non-current liabilities				
Amounts due to subsidiaries	22	**19,716**	21,335	23,093
Net assets		**74,139**	79,454	79,276
Equity attributable to owners of the Company				
Share capital	27(a)	**144,099**	144,099	144,099
Treasury shares	27(b)	**(25)**	–	–
Accumulated losses		**(69,935)**	(64,645)	(64,823)
Total equity		**74,139**	79,454	79,276

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

CONSOLIDATED **INCOME STATEMENT**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	Group 2018 $'000	Group 2017 $'000
Revenue	32	**43,235**	129,958
Cost of sales		**(33,009)**	(107,785)
Gross profit		**10,226**	22,173
Other income		**2,669**	3,011
Selling and distribution costs		**(5,019)**	(5,156)
Administrative and general costs		**(11,806)**	(13,541)
Other operating expenses		**(2,512)**	(475)
Finance costs		**(1,148)**	(1,118)
Share of results of associates and joint venture		**986**	474
(Loss)/profit before tax	33	**(6,604)**	5,368
Income tax credit/(expense)	35	**103**	(1,447)
(Loss)/profit net of tax		**(6,501)**	3,921
Attributable to:			
Owners of the Company		**(5,802)**	4,232
Non-controlling interests		**(699)**	(311)
		(6,501)	3,921
(Loss)/earnings per share attributable to owners of the Company (cents per share)	36		
Basic		**(4.12)**	3.01
Diluted		**(4.12)**	3.01

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 2018

		Group	
		2018	**2017**
	Note	**$'000**	**$'000**
(Loss)/profit net of tax		**(6,501)**	3,921
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Net surplus on revaluation of freehold/leasehold land and buildings		**709**	613
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation		**451**	(587)
Share of other comprehensive income/(loss) of associates and joint venture		**159**	(308)
Foreign currency translation on loss of control/disposal of associates reclassified to profit or loss	6/5	**697**	408
Other comprehensive income for the financial year, net of tax		**2,016**	126
Total comprehensive (loss)/income for the financial year		**(4,485)**	4,047
Total comprehensive (loss)/income attributable to:			
Owners of the Company		**(3,981)**	4,560
Non-controlling interests		**(504)**	(513)
		(4,485)	4,047

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 2018

Group	Share capital (Note 27(a)) $'000	Treasury shares (Note 27(b)) $'000	Accumulated losses $'000	Foreign currency translation reserve (Note 28) $'000	Capital reserve (Note 29) $'000	Revaluation reserve (Note 30) $'000	Other reserves (Note 31) $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
	Attributable to the owners of the Company									
At 1 January 2018	144,099	–	(67,889)	(4,860)	5	17,073	(976)	87,452	(12,657)	74,795
Loss net of tax	–	–	(5,802)	–	–	–	–	(5,802)	(699)	(6,501)
Other comprehensive income for the financial year:										
Items that will not be reclassified subsequently to profit or loss										
Net surplus on revaluation of freehold/leasehold land and buildings	–	–	–	–	–	709	–	709	–	709
Items that are or may be reclassified subsequently to profit or loss										
Foreign currency translation	–	–	–	256	–	–	–	256	195	451
Share of other comprehensive income of associates and joint venture	–	–	–	159	–	–	–	159	–	159
Foreign currency translation on disposal of associates reclassified to profit or loss (Note 6)	–	–	–	697	–	–	–	697	–	697
Total comprehensive (loss)/income for the financial year	–	–	(5,802)	1,112	–	709	–	(3,981)	(504)	(4,485)
Dividend paid (Note 38)	–	–	(2,815)	–	–	–	–	(2,815)	–	(2,815)
Purchase of treasury shares	–	(25)	–	–	–	–	–	(25)	–	(25)
At 31 December 2018	144,099	(25)	(76,506)	(3,748)	5	17,782	(976)	80,631	(13,161)	67,470

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 2018

Group	Share capital (Note 27(a)) $'000	Treasury shares (Note 27(b)) $'000	Accumulated losses $'000	Foreign currency translation reserve (Note 28) $'000	Capital reserve (Note 29) $'000	Revaluation reserve (Note 30) $'000	Other reserves (Note 31) $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
	Attributable to the owners of the Company									
At 1 January 2017	144,099	–	(69,306)	(4,575)	5	16,460	(976)	85,707	(11,718)	73,989
Profit net of tax	–	–	4,232	–	–	–	–	4,232	(311)	3,921
Other comprehensive income for the financial year:										
Items that will not be reclassified subsequently to profit or loss										
Net surplus on revaluation of freehold/leasehold land and buildings	–	–	–	–	–	613	–	613	–	613
Items that are or may be reclassified subsequently to profit or loss										
Foreign currency translation	–	–	–	(222)	–	–	–	(222)	(365)	(587)
Share of other comprehensive loss of associates and joint venture	–	–	–	(308)	–	–	–	(308)	–	(308)
Foreign currency translation on loss of control reclassified to profit or loss (Note 5)	–	–	–	245	–	–	–	245	163	408
Total comprehensive income/(loss) for the financial year	–	–	4,232	(285)	–	613	–	4,560	(513)	4,047
Dividend paid (Note 38)	–	–	(2,815)	–	–	–	–	(2,815)	–	(2,815)
Disposal of a subsidiary company	–	–	–	–	–	–	–	–	(195)	(195)
Dividend paid to non-controlling interest	–	–	–	–	–	–	–	–	(237)	(237)
Capital contribution by non-controlling interest in a subsidiary company	–	–	–	–	–	–	–	–	6	6
At 31 December 2017	144,099	–	(67,889)	(4,860)	5	17,073	(976)	87,452	(12,657)	74,795

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 2018

Company	**Share capital (Note 27(a)) $'000**	**Treasury shares (Note 27(b)) $'000**	**Accumulated losses $'000**	**Total equity $'000**
At 1 January 2018	**144,099**	**–**	**(64,645)**	**79,454**
Loss net of tax and total comprehensive loss for the financial year	**–**	**–**	**(2,475)**	**(2,475)**
Dividend paid (Note 38)	**–**	**–**	**(2,815)**	**(2,815)**
Purchase of treasury shares	**–**	**(25)**	**–**	**(25)**
At 31 December 2018	**144,099**	**(25)**	**(69,935)**	**74,139**
At 1 January 2017	144,099	–	(64,823)	79,276
Profit net of tax and total comprehensive income for the financial year	–	–	2,993	2,993
Dividend paid (Note 38)	–	–	(2,815)	(2,815)
At 31 December 2017	144,099	–	(64,645)	79,454

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

CONSOLIDATED STATEMENT OF **CASH FLOWS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	2018 $'000	2017 $'000
Cash flows from operating activities		
(Loss)/profit before tax	**(6,604)**	5,368
Adjustments for:		
Amortisation of intangible assets	**136**	136
Depreciation of property, plant and equipment	**1,946**	1,954
(Gain)/loss on disposal of property, plant and equipment (net)	**(2)**	27
(Write back of)/impairment loss on amounts due from associates (net) (Note 17)	**(1)**	17
Implicit interest income	**(4)**	(3)
Interest expense	**1,148**	1,118
Interest income	**(667)**	(1,887)
Loss on disposal of associates	**449**	–
Loss on disposal of a subsidiary (Note 5(c))	**–**	292
Loss on disposal of other investment	**7**	–
Share of results of associates	**(986)**	(474)
Foreign currency exchange gain	**(223)**	(1,170)
Operating cash flows before changes in working capital	**(4,801)**	5,378
Decrease in inventories	**100**	2,238
Decrease/(increase) in trade and other receivables	**20,065**	(13,369)
Decrease in financial receivable	**394**	638
Decrease in advance payment to suppliers	**952**	1,222
Decrease in prepayments	**61**	16
(Increase)/decrease in deposits	**(16)**	16
Decrease in amounts due from associates	**4**	257
Decrease/(increase) in contract assets	**104**	(103)
Decrease in trade and other payables	**(5,120)**	(3,771)
Decrease in provision	**–**	(3,641)
(Decrease)/increase in contract liabilities	**(514)**	569
Increase in provision for post-employment benefits	**19**	77
(Decrease)/increase in amounts due to associates	**(967)**	51
(Decrease)/increase in amount due to a related party	**(14)**	3
Cash flows generated from/(used in) operations	**10,267**	(10,419)
Income taxes paid	**(1,019)**	(1,008)
Interest income received	**511**	780
Net cash flows generated from/(used in) operating activities	**9,759**	(10,647)

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

CONSOLIDATED STATEMENT OF **CASH FLOWS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	2018 $'000	2017 $'000
Cash flows from investing activities:		
Interest income received	**29**	45
Investment in joint venture	**(100)**	–
Dividend received from an associate	**–**	29
Purchase of property, plant and equipment	**(300)**	(811)
Proceeds from disposal of property, plant and equipment	**3**	9
Proceeds from disposal of other investment	**13**	–
Shareholder's loans to an associate (net)	**5,092**	(118)
Net cash flows generated from/(used in) investing activities	**4,737**	(846)
Cash flows from financing activities:		
Dividend paid	**(2,815)**	(2,815)
Interest expense paid	**(1,221)**	(1,057)
Proceeds from/(repayment of) secured bank overdrafts	**2,238**	(2,902)
Drawdown of term loans	**3,067**	14,671
Repayment of term loans	**(4,254)**	(2,510)
(Decrease)/increase in trust receipts	**(13,340)**	2,190
Capital contribution from non-controlling interest of a subsidiary company	**–**	6
Purchase of treasury shares	**(25)**	–
Decrease in pledged deposits	**–**	3
Net cash flows (used in)/generated from financing activities	**(16,350)**	7,586
Net decrease in cash and cash equivalents	**(1,854)**	(3,907)
Effect of exchange rate changes on cash and cash equivalents	**68**	(873)
Cash and cash equivalents at 1 January	**10,789**	15,569
Cash and cash equivalents at 31 December (Note 37)	**9,003**	10,789

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

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

1. CORPORATE INFORMATION

Federal International (2000) Ltd (the "Company") is a limited liability company incorporated and domiciled in Singapore and is listed on the Singapore Exchange Securities Trading Limited (SGX-ST).

The registered office and principal place of business of the Company is located at 47 Genting Road, Singapore 349489.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 5.

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 the provisions of the Companies Act, Chapter 50 and Singapore Financial Reporting Standards (International) ("SFRS(I)").

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 Dollar ("SGD" or "$") and all values in the tables are rounded to the nearest thousand ($'000) as indicated.

Use of estimates and judgements

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

The areas involving a higher degree of judgement in applying accounting policies, or areas where assumptions and estimates have a significant risk of resulting in material adjustment within the next financial year are disclosed in Note 3.

New and revised standards

In December 2017, the Accounting Standards Council ("ASC") issued the Singapore Financial Reporting Standards (International) ("SFRS(I)"). SFRS(I) comprises the standards and interpretations that are identical to the International Financial Reporting Standards. As required by the listing requirements of Singapore Exchange ("SGX"), the Group has adopted SFRS(I) on 1 January 2018.

These financial statements for the year ended 31 December 2018 are the first set of financial statements of the Group prepared in accordance with SFRS(I). The Group's previously issued financial statements for periods up to and including the financial year ended 31 December 2017 were prepared in accordance with Singapore Financial Reporting Standards ("SFRS").

In adopting SFRS(I) on 1 January 2018, the Group is required to apply all of the specific transition requirements in SFRS(I) 1 First-time Adoption of SFRS(I).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

New and revised standards (Continued)

Under SFRS(I), these financial statements are required to be prepared using accounting policies that comply with SFRS(I) effective as at 31 December 2018. The same accounting policies are applied throughout all periods presented in these financial statements, subject to the mandatory exceptions and optional exemptions under SFRS(I) 1.

The Group has also presented balance sheet as at 1 January 2017, which is the date of transition to SFRS(I).

In addition to the adoption of the new framework, the Group also concurrently applied all new and revised SFRS(I) and SFRS(I) Interpretations ("SFRS(I) INT") that are effective for the current financial year. The application of these new and revised SFRS(I) and SFRS(I) INT do not have a material effect on the financial position and results of the Group and the Company.

SFRS(I) 15 Revenue from Contracts with Customers

SFRS(I) 15 replaces FRS 18 'Revenue', FRS 11 'Construction contracts' and other revenue-related interpretations. It applies to all contracts with customers, except for leases, financial instruments, insurance contracts and certain guarantee contracts and non-monetary exchange contracts. SFRS(I) 15 provides a single, principle-based model to be applied to all contracts with customers. An entity recognises revenue in accordance with the core principle in SFRS(I) 15 by applying a 5-step approach.

Under SFRS(I) 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. The entity is required to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model; to contracts with their customers. The standard also specifies the accounting for incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted SFRS(I) 15 using the full retrospective approach. The Group has elected the practical expedient to apply the standard to contracts that are not completed at the date of the initial application.

At the date of initial application, 31 December 2017 and 31 December 2018, the Group has assessed that the adoption of SFRS(I) 15 does not have any material impact to the financial position and results of the Group and the Company except for presentation on the balance sheet as stated below:

i) Presentation of contract assets

Upon adoption of SFRS (I) 15, the Group has also changed the presentation of the following amount:

a. Gross amount due from customer for construction work-in-progress of $104,000 as at 31 December 2017 and $1,000 as at 1 January 2017 were reclassified to contract assets.

b. Advance payment to suppliers of $1,841,000 as at 31 December 2017 and $3,115,000 as at 1 January 2017 were reclassified to contract liabilities.

NOTES TO THE **FINANCIAL STATEMENTS**
31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

New and revised standards (Continued)

SFRS(I) 9 Financial Instruments

SFRS(I) 9 replaces FRS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018. It includes guidance on (i) the classification and measurement of financial assets and financial liabilities; (ii) impairment requirements for financial assets; and (iii) general 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 SFRS(I) 9 are based on expected credit loss model and replace FRS 39 incurred loss model.

The Group and the Company applied SFRS(I) 9 using a modified retrospective approach, with date of initial application on 1 January 2018. The Group and the Company have not restated the comparative information, which continues to be reported under FRS 39.

The impact upon adoption of SFRS(I) 9 as at 1 January 2018 was as follows:

(a) Classification and measurement

Under SFRS(I) 9, the Group and the Company classify its financial assets based on entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The assessment of the Group's and the Company's business model was made as of the date of initial application on 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised principal and interest were made based on the facts and circumstances as at the initial recognition of the assets.

The following are the changes in classification and measurement arising from adopting SFRS(I) 9:

- Loans and receivables (including trade receivables, other receivables (excluding prepayments), amount due from a related party, subsidiaries, and associates, fixed and bank deposits and cash and bank balances) as at 31 December 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortised cost beginning 1 January 2018.

- Investment in partnership classified as available-for-sale financial assets at cost as at 31 December 2017 is classified and measured as equity instrument at fair value through profit or loss ("FVTPL") beginning 1 January 2018.

- Investment in unquoted equity shares classified as available-for-sale financial assets at cost as at 31 December 2017 are classified and measured as equity instrument designated at fair value through other comprehensive income ("FVOCI") beginning 1 January 2018. The Group elected to classify irrevocably its unquoted equity investments under this category at the date of initial application as it intends to hold these investments on a long-term basis.

The Group and the Company have not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's and the Company's financial liabilities.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

New and revised standards (Continued)

SFRS(I) 9 Financial Instruments (Continued)

(a) *Classification and measurement* (Continued)

The following summarises the Group and the Company's required or elected reclassifications as at 1 January 2018 upon adoption on SFRS(I) 9:

Group

		SFRS (I) 9 measurement category		
FRS 39 measurement category	**Original carrying amount $'000**	**FVTPL $'000**	**Amortised cost $'000**	**FVOCI $'000**
Loans and receivables				
Trade receivables	46,370	–	46,370	–
Other receivables (non-current)	13,094	–	13,094	–
Other receivables (current)	4,336	–	4,336	–
Deposits	62	–	62	–
Amount due from an associate (non-current)	4,588	–	4,588	–
Amount due from associates (current)	3,263	–	3,263	–
Amount due from a related party	6,203	–	6,203	–
Fixed and bank deposits	1,422	–	1,422	–
Cash and bank balances	10,704	–	10,704	–
Other investments				
Investment in partnership	20	20	–	–
Unquoted equity shares	538	–	–	538

Company

		SFRS (I) 9 measurement category		
FRS 39 measurement category	**Original carrying amount $'000**	**FVTPL $'000**	**Amortised cost $'000**	**FVOCI $'000**
Loans and receivables				
Other receivables (non-current)	13,022	–	13,022	–
Other receivables (current)	18	–	18	–
Deposits	10	–	10	–
Amount due from subsidiaries (non-current)	4,588	–	4,588	–
Amount due from subsidiaries (current)	7,026	–	7,026	–
Amount due from associates	49	–	49	–
Fixed and bank deposits	1,389	–	1,389	–
Cash and bank balances	599	–	599	–
Other investments				
Unquoted equity shares	538	–	–	538

(b) *Impairment*

SFRS(I) 9 requires the Group and Company to record expected credit losses on all of its financial assets at amortised cost or debt instruments at FVOCI, either on a 12-month or lifetime basis. At the date of initial application and 31 December 2018, the Group and Company have assessed that the adoption of SFRS(I) 9 does not have any material impact to the financial position and results of the Group and Company.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

New and revised standards (Continued)

New standards, amendments to standards and interpretations that have been issued at the balance sheet date but are not yet effective for the financial year ended 31 December 2018 have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group and the Company except as disclosed below:

SFRS(I) 16 Leases

SFRS(I) 16 replaces the existing FRS 17: Leases. It reforms lessee accounting by introducing a single lessee accounting model. Lessees are required to recognise all leases on their statement of financial position to reflect their rights to use leased assets (a "right-of-use" asset) and the associated obligations for lease payments (a lease liability), with limited exemptions for short term leases (less than 12 months) and leases of low value items. In addition, the nature of expenses related to those leases will change as SFRS(I) 16 replaces the straight-line operating lease expense with depreciation charge of right-of-use asset and interest expense on lease liability. The accounting for lessors will not change significantly.

The Group plans to adopt the new standard on the required effective date using the modified retrospective approach and recognises any differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SFRS(I) 16 at the date of initial application in the opening retained earnings as at 1 January 2019. Right-of-use assets are recognised at an amount equal to the lease liability (adjusted for any prepaid or accrued lease payments) on adoption.

The standard is effective for annual periods beginning on or after 1 January 2019. The Group does not expect the adoption of SFRS(I) 16 to have significant impact on its financial position and financial results of the Group and the Company for the financial year ending 31 December 2019.

2.2 Foreign currency

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

(a) Transactions and balances

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the financial year. 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 financial year are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Foreign currency (Continued)

(b) Consolidated financial statements

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

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interests 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.

2.3 Basis of consolidation and business combinations

(A) <u>Basis of consolidation</u>

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. 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 interests 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.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Basis of consolidation and business combinations (Continued)

(A) Basis of consolidation (Continued)

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

(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 SFRS(I).

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.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Transactions with non-controlling interests

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company.

Changes in the Company 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.

2.5 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment other than freehold land, leasehold land and buildings are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The accounting policy for borrowing costs is set out in Note 2.19. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Freehold land, leasehold land and buildings are measured at fair value less accumulated depreciation on leasehold land and buildings and impairment losses recognised after the date of the revaluation. Valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value of the freehold land, leasehold land and buildings at the end of the reporting period.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity under the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset carried in the revaluation reserve.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation surplus included in the revaluation reserve in respect of an asset is transferred directly to accumulated losses on retirement or disposal of the asset.

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

NOTES TO THE **FINANCIAL STATEMENTS**
31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment (Continued)

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

Leasehold land and buildings	– Remaining leasehold period of 16 to 25 years
Freehold buildings	– 50 years
Other plant and equipment	– 3 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 value, 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 on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

2.6 Intangible assets

Research and development costs

Research costs are expensed as incurred. Deferred development costs arising from development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditures during the development.

Following initial recognition of the deferred development costs as an intangible asset, it is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of the intangible asset begins when development is complete and the asset is available for use. Deferred development costs have a finite useful life and are amortised on a straight-line basis over the estimated useful life of 10 years.

2.7 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. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

NOTES TO THE **FINANCIAL STATEMENTS**
31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Impairment of non-financial assets (Continued)

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in profit or loss, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. 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 unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

2.8 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

In the Company's balance sheet, investments in subsidiaries are accounted for at cost less accumulated impairment losses. On disposal of the investment, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

2.9 Associates and joint venture

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.

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

The Group accounts for its investments in associates 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's profit or loss in the period in which the investment is acquired.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Associates and joint venture (Continued)

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

When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate and 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 its associates and joint venture. The Group determines at the end of each financial year whether there is any objective evidence that the investment in the associate and 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 associates and joint venture are prepared as of the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Upon loss of significant influence over the associate and joint venture, the Group measures any retained investment at its fair value. Any difference between the fair value of the aggregate of the retained investment and proceeds from disposal and the carrying amount of the investment at the date the equity method was discontinued is recognised in profit or loss.

In the Company's financial statements, investments in associates and joint venture are carried at cost less accumulated impairment loss. On disposal of investment in associates or joint venture, the difference between the disposal proceeds and the carrying amount of the investment is recognised in profit or loss.

2.10 Investments in partnerships

Investments in partnerships on a long term basis are stated at cost less any impairment in value. The share of partnerships' profits is recognised in the profit or loss in the financial year in which the rights to receive payment have been established.

2.11 Financial assets

The accounting policy for financial assets before 1 January 2018 are as follows:

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.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (Continued)

The accounting policy for financial assets before 1 January 2018 are as follows (Continued):

Subsequent measurement

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

(a) 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. Loans and receivables are presented as trade receivables, other receivables (excluding prepayments), amount due from a related party, subsidiaries and associates, fixed and bank deposits and cash and bank balances on the balance sheet.

(b) Available-for-sale financial assets

Available-for-sale financial assets include equity and debt 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. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

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

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

De-recognition

A financial asset is 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.

Offset

Financial asset and liabilities are offset and net amount presented on the balance sheet when, and only when the Group has legal right to offset the amounts and intends either to settle on net basis or to realise the asset and settle the liability simultaneously.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (Continued)

The accounting policy for financial assets from 1 January 2018 are as follows:

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets (other than financial assets at fair value through profit or loss) are added to the fair value of the financial assets on initial recognition. Transaction costs directly attributable to acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss. Trade receivables without a significant financing component is initially measured at transaction prices.

Classification and measurement

All financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

The Group classifies its financial assets in the measurement categories:

- Amortised cost
- Fair value through profit or loss ("FVTPL")
- Fair value through other comprehensive income ("FVOCI")

The classification is based on the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial assets. The Group reclassifies financial assets when and only when its business model for managing those assets changes.

Subsequent measurement

i) Debt instruments

Debt instruments include trade receivables, other receivables (excluding prepayments), amount due from a related party, subsidiaries, and associates, fixed and bank deposits and cash and bank balances on the balance sheet. The financial assets, depending on the Group's business model for managing the asset and cash flow characteristics of the asset, are subsequently measured at amortised cost.

Amortised cost

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (Continued)

The accounting policy for financial assets from 1 January 2018 are as follows (Continued):

Subsequent measurement (Continued)

i) Debt instruments (Continued)

Amortised cost (Continued)

Financial assets at amortised cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. Interest income from these financial assets is included in interest income using the EIR method.

ii) Equity instruments

The Group subsequently measures all its equity investments at their fair values. Equity investments are classified as FVTPL with movements in their fair values recognised in profit or loss in the period in which the changes arise and presented in "other income".

The Group has designated all of its equity investments that are not held for trading at FVOCI at initial recognition. Gains and losses arising from changes in fair value of these equity investments classified as FVOCI are presented as "fair value gains/losses" in other comprehensive income and accumulated in fair value reserve and will never be reclassified to profit or loss. On disposal of an equity investment, the difference between the carrying amount and sales proceed amount would be recognised in profit or loss except for equity investment designated at FVOCI which would be recognised in other comprehensive income. Fair value reserve relating to the disposed asset would be transferred to retained earnings upon disposal. Dividends from equity investments are recognised in profit or loss and presented in "other income". Equity investments classified as FVOCI are not subject to impairment assessment.

Offset

Financial assets and liabilities are offset and the net amount presented on the balance sheet, when and only when the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Impairment of financial assets

The accounting policy for impairment of financial assets before 1 January 2018 are as follows:

The Group assesses at the end of 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 asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

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

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

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

(b) Financial assets carried at cost

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

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Impairment of financial assets (Continued)

The accounting policy for impairment of financial assets before 1 January 2018 are as follows (Continued):

(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.

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.

The accounting policy for impairment of financial assets from 1 January 2018 are as follows:

Impairment

The Group recognises an allowance for expected credit losses ("ECLs") for financial assets carried at amortised cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

The impairment methodology applied depends on whether there has been a significant increase in credit risk. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL).

For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets that do not have a significant financing component, the Group applies a simplified approach to recognise a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted as appropriate for current conditions and forward-looking factors specific to the debtors and the economic environment.

If the Group has measured the loss allowance for a financial asset at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Group recognises an impairment in profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Cash and cash equivalents in the consolidated statement of cash flows

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.

2.14 Service concession arrangement

The Group has entered into service concession arrangement with the local government of the People's Republic of China (the "PRC") (the grantor) to supply raw water and treated industrial tap water, and operate waste water treatment plant. Under the concession arrangement, the Group will construct and/or operate the plant for concession period of 30 years. The grantor has control through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service arrangement. Such concession arrangement falls within the scope of SFRS(I) INT 12.

The Group recognises the consideration received or receivable to the extent that it has an unconditional right to receive cash or another financial asset for the construction services. Financial assets are accounted for in accordance with the accounting policy set out in Note 2.11. The receivable is presented as "financial receivable" on the balance sheet.

Operation or service revenue is recognised in the period in which the services are provided by the Group (see Note 2.22(b)). When the Group provides more than one service in a service concession arrangement, the consideration received is allocated by reference to the relative fair values of the services delivered.

2.15 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:

- Trading stocks: costs on a weighted average basis, except for fire detection and protection equipment, which is being determined on the first-in-first-out basis.

- Finished goods and work-in-progress: costs of direct materials and labour and other direct cost. These costs are assigned on a weighted-average-cost basis.

- Raw materials: purchase costs on a weighted average 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.

NOTES TO THE **FINANCIAL STATEMENTS**
31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Provisions

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

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

2.17 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 expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a 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.

2.18 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 original or modified terms of a debt instrument.

Financial guarantees are recognised initially as a liability at fair value plus transaction costs. Financial guarantees are classified as financial liabilities.

Subsequent to initial measurement, financial guarantees are stated at the higher of the initial fair values less cumulative amortisation and the expected loss computed using the impairment methodology under SFRS(I) 9. Financial guarantees contracts are amortised in the profit or loss over the period of the guarantee.

Prior to 1 January 2018, financial guarantees were subsequently measured at the higher of the initial fair value less cumulative amortisation and the expected amount payable to the holder.

NOTES TO THE **FINANCIAL STATEMENTS**
31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 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.

2.20 Employee benefits

Employee leave entitlement

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

Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the Singapore companies in the Group make contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

Defined benefit plans

The Group provides additional provisions for employee service entitlements in order to meet the minimum benefits required to be paid to qualified employees, as required under the Indonesian Labor Law No.13/2003 (the "Labor Law"). The said additional provisions, which are unfunded, are estimated using the projected unit credit method based on the report prepared by an independent firm of actuaries.

Actuarial gains or losses are recognised in the profit or loss when the net cumulative unrecognised actuarial gains or losses at the end of the previous financial year exceed 10% of the higher of the present value of the defined benefit obligation or the fair value of the plan assets, if any, at that date. Such gains or losses in excess of the 10% corridor are amortised on a straight-line method over the expected average remaining service years of the covered employees.

Past service cost arising from the introduction of a defined benefit plan or changes in the benefit payable of an existing plan is required to be amortised over the period until the benefit becomes vested. To the extent that the benefit is already vested immediately following the introduction of, or changes to, the employee benefits program, the Group recognises past service cost immediately.

The related estimated liability for employee benefits is the aggregate of the present value of the defined benefit obligation at the end of the reporting period and actuarial gains and losses not recognised, less past service cost not yet recognised.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Leases

(a) 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.

(b) As lessor

Leases where the Group does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.22(c).

Contingent rents are recognised as revenue in the period in which they are earned.

2.22 Revenue

(a) Sale of goods

Revenue from sale of goods in the ordinary course of business is recognised when the Group satisfies a performance obligation ("PO") by transferring control of a promised good to the customer. The amount of revenue recognised is the amount of the transaction price allocated to the satisfied PO. The transaction price is the amount of consideration in the sales contract to which the Group expects to be entitled in exchange for transferring the promised goods. Revenue is recognised at the point when the goods are delivered to the customer. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. For goods which require advance consideration from the customers, the advance consideration are recognised as contract liability at the time of the initial sales transaction and recognised as revenue when the Group satisfies the performance obligation under its contract.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue (Continued)

(b) Revenue from service concession arrangement

Revenue from the service concession arrangement for water treatment is recognised in accordance with Note 2.14. When the Group receives a payment during the operation phase of the concession period, it will apportion such payment between; a repayment of the financial receivable, which will be used to reduce the carrying amount of the financial receivable on its balance sheet; interest income, which will be recognised as finance income in profit or loss; and revenue from operating and maintaining the plants in profit or loss.

(c) Rental income

Income from rental of equipment and premises is recognised on a straight-line basis over the lease term.

(d) Dividend income

Dividend income is recognised when the Group's right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the Group, and the amount of the dividend can be reliably measured.

(e) Interest income

Interest income is recognised using the effective interest method.

2.23 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 which the tax is also recognised outside profit or loss (either in other comprehensive income or directly in equity respectively). 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.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Taxes (Continued)

(b) Deferred tax

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

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

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

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

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

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

– In respect of deductible temporary differences associated with investments in subsidiaries and associates, 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**

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Taxes (Continued)

(b) Deferred tax (Continued)

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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

(c) Sales tax

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

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

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

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

2.24 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results 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 44, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.25 Share capital and share issuance expenses

Ordinary shares

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.

NOTES TO THE **FINANCIAL STATEMENTS**
31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Share capital and share issuance expenses (Continued)

Treasury shares

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

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

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

2.26 Dividend

Interim dividends are recorded during the financial year in which they are declared payable.

Final dividends are recorded in the Group's financial statements in the period in which they are approved by the Company's shareholders.

2.27 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**

31 DECEMBER 2018

3. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in Note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

3.1 Judgement made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amount recognised in the consolidated financial statements:

Deferred tax assets

The Group recognises deferred income tax assets on carried forward tax losses to the extent there are sufficient estimated future taxable profits and/or taxable temporary differences against which the tax losses can be utilised and that the Group is able to comply with certain provisions of the tax legislation of the respective countries in which the companies operate.

Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits. The carrying value of deferred tax asset recognised and the unrecognised tax losses of the Group at 31 December 2018 are disclosed in Note 12.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each 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) Useful lives of property, plant and equipment

The cost of property, plant and equipment is depreciated on a straight-line basis over the asset's estimated economic useful lives. Management estimates the useful lives of these property, plant and equipment to be within the years stated in Note 2.5. These are common life expectancies applied in the industry. 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 amount of the Group's property, plant and equipment at the end of each financial year is disclosed in Note 4. A 5% difference in the expected useful lives of these assets from management's estimates would result in approximately 1.5% (2017: 1.8%) variance in the Group's (loss)/profit before tax.

(b) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

When value in use calculations are undertaken, management is required to estimate the expected future cash flows from the asset and a suitable discount rate, in order to determine the present value of those cash flows. Further details of the key assumptions applied in the impairment assessment of non-financial assets and the carrying amount of the non-financial assets, are given in Note 5.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

3. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

3.2 Key sources of estimation uncertainty (Continued)

(c) Income taxes

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the Group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amounts of the Group's and the Company's tax payables as at 31 December 2018 were $2,620,000 (2017: $3,570,000) and $Nil (2017: $1,000) respectively. The carrying amount of the Group's deferred tax liabilities at 31 December 2018 was $2,390,000 (2017: $2,367,000).

(d) Allowance for slow moving inventories

Inventories are stated at the lower of cost and net realisable value. Where necessary, allowance is provided to adjust the carrying value of inventories to the lower of cost or net realisable value. Significant management judgement is required to determine the amount of allowance to be recognised. The carrying amount of inventories is disclosed in Note 13 to the financial statements.

(e) Revaluation of property, plant and equipment

The Group carries its freehold land, leasehold land and buildings at fair value, with changes in fair values being recognised in other comprehensive income.

The fair values of the freehold land, leasehold land and buildings at 31 December 2018 are determined by independent professional valuer by reference to recent transactions of similar properties in the vicinity after adjusting for any differences in the nature, location and condition of the specific property.

The carrying amount and key assumptions used to determine the fair value of freehold land, leasehold land and buildings are explained in Note 4.

(f) Calculation of allowance for impairment for financial assets at amortised cost

When measuring ECL, the Group uses reasonable and supportable forward-looking information, which is based on assumptions and forecasts of future economic conditions. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

As the calculation of loss allowance on receivables and loans is subject to assumptions and forecasts, any changes to these estimations will affect the amounts of loss allowance recognised and the carrying amounts of receivables and loans. Details of ECL measurement and carrying values of financial assets are disclosed in Note 41(a).

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

4. PROPERTY, PLANT AND EQUIPMENT

	At valuation			At cost			
Group	**Freehold land $'000**	**Freehold buildings $'000**	**Leasehold land and buildings $'000**	**Plant and machinery $'000**	**Furniture and fittings and office equipment $'000**	**Motor vehicles $'000**	**Total $'000**
Cost or valuation:							
At 1 January 2017	9,000	2,000	14,300	13,614	4,939	577	44,430
Additions	–	–	–	278	495	38	811
Disposals/write off	–	–	–	(47)	(103)	(67)	(217)
Exchange differences	–	–	–	(944)	(21)	(2)	(967)
At 31 December 2017 and 1 January 2018	9,000	2,000	14,300	12,901	5,310	546	44,057
Additions	–	–	8	179	66	47	300
Disposals/write off	–	–	–	–	(64)	–	(64)
Reclassification	–	–	447	–	(447)	–	–
Revaluation (Note 30)	300	–	(325)	–	–	–	(25)
Exchange differences	–	–	–	(494)	(24)	–	(518)
At 31 December 2018	**9,300**	**2,000**	**14,430**	**12,586**	**4,841**	**593**	**43,750**
Accumulated depreciation and impairment loss:							
At 1 January 2017	–	–	–	5,949	4,594	461	11,004
Depreciation charge for the financial year	–	115	624	1,060	125	30	1,954
Disposals/write off	–	–	–	(47)	(67)	(67)	(181)
Elimination of accumulated depreciation on revaluation (Note 30)	–	(115)	(624)	–	–	–	(739)
Exchange differences	–	–	–	(397)	(16)	(2)	(415)
At 31 December 2017 and 1 January 2018	–	–	–	6,565	4,636	422	11,623
Depreciation charge for the financial year	–	122	654	1,032	98	40	1,946
Disposals/write off	–	–	–	–	(63)	–	(63)
Reclassification	–	–	41	–	(41)	–	–
Elimination of accumulated depreciation on revaluation (Note 30)	–	(122)	(695)	–	–	–	(817)
Exchange differences	–	–	–	(234)	(21)	–	(255)
At 31 December 2018	**–**	**–**	**–**	**7,363**	**4,609**	**462**	**12,434**
Net carrying amount:							
At 31 December 2017	9,000	2,000	14,300	6,336	674	124	32,434
At 31 December 2018	**9,300**	**2,000**	**14,430**	**5,223**	**232**	**131**	**31,316**

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	**Furniture and fittings and office equipment $'000**
Cost:	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	**66**
Accumulated depreciation:	
At 1 January 2017	64
Depreciation charge for the financial year	2
At 31 December 2017 and 1 January 2018	66
Depreciation charge for the financial year	–
At 31 December 2018	**66**
Net carrying amount:	
At 31 December 2017	–
At 31 December 2018	**–**

Revaluation of leasehold land and buildings

Leasehold land and buildings relate to a single-storey detached factory situated at 12 Chin Bee Drive on leasehold land of 7,146.3 square metres and a single-storey factory situated at 11 Tuas Avenue 1 on a leasehold land area of 4,701.4 square metres. The lease tenure of the leasehold land is 30 years effective October 2013 and 22 years effective November 2012, respectively.

The fair values of the Group's leasehold land and buildings were determined based on the properties' highest and best use by an independent external valuer using direct comparison with recent transactions of comparable properties within the vicinity at 31 December 2018.

Based on comparison approach, direct comparison was made to recent transactions of comparable properties within the vicinity and elsewhere. Adjustments are made for differences in location, land area, floor area, floor loading, ceiling height, tenure, size, shape, design and layout, age and condition of buildings, dates of transactions and the prevailing market conditions amongst other factors affecting its value. Any significant changes to the adjustments made to market value for differences in location or condition would result in higher or lower fair value measurement.

The fair value measurement is categorised under Level 3 of the fair value hierarchy.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Revaluation of freehold land and buildings

Freehold land and buildings relate to 2 and 3-storey terrace factories situated at 47 and 49 Genting Road on freehold land of 810.9 square metres.

The fair values of the Group's freehold land and buildings were determined based on the properties' highest and best use by an independent external valuer using market comparison approach and cost method.

Based on comparison approach, market comparison was made to recent transactions of comparable properties, prevailing market condition and underlying economic factors which may influence the trend of the market values.

For cost method, it involves the estimation of the value of the site as if it were vacant using the comparison method. The amount of depreciation and obsolescence is then estimated and deducted from the cost of improvements to arrive at the depreciated replacement or reproduction cost. This is then added to the land value to derive the capital value of the property.

The fair value measurement is categorised under Level 3 of the fair value hierarchy.

If the freehold land and buildings and leasehold land and buildings were measured using the cost model, the carrying amounts would be as follows:

	Group	
	2018	**2017**
	$'000	**$'000**
Freehold land at 31 December:		
Cost and net carrying amount	**2,562**	2,562
Freehold buildings at 31 December:		
Cost	**2,150**	2,150
Accumulated depreciation	**(1,526)**	(1,483)
Net carrying amount	**624**	667
Leasehold land and buildings at 31 December:		
Cost	**6,594**	6,139
Accumulated depreciation	**(3,490)**	(3,366)
Net carrying amount	**3,104**	2,773

Assets pledged as security

The Group's freehold land, freehold buildings and leasehold land and buildings with carrying amounts of approximately $9,300,000 (2017: $9,000,000), $2,000,000 (2017: $2,000,000) and $14,430,000 (2017: $14,300,000) respectively, are mortgaged to secure banking facilities and bank loans of certain subsidiaries (Note 25 and Note 26).

NOTES TO THE **FINANCIAL STATEMENTS**
31 DECEMBER 2018

5. INVESTMENT IN SUBSIDIARIES

	Company	
	2018	**2017**
	$'000	**$'000**
Unquoted shares, at cost:		
At 1 January	**90,459**	90,464
Disposal of a subsidiary	**–**	(5)
At 31 December	**90,459**	90,459
Impairment losses	**(29,289)**	(29,289)
	61,170	61,170
Loans to subsidiaries:		
Gross amount	**101,334**	88,936
Less: Allowance for impairment	**(84,628)**	(74,761)
	16,706	14,175
Net carrying amount	**77,876**	75,345
Analysis of cost of investment impairment losses:		
At 1 January	**29,289**	28,389
Charge for the financial year	**–**	900
At 31 December	**29,289**	29,289
Analysis of loans to subsidiaries allowance for impairment:		
At 1 January		77,142
Exchange differences		(2,381)
At 31 December		74,761

Except for loans to subsidiaries of $3,817,000 (2017: $3,743,000) which bear interest at rate of 5.0% (2017: 5.0%) per annum, all other amounts are interest-free and unsecured.

Management determined that the loans to subsidiaries are quasi-equity in nature and are therefore included in the investment in subsidiaries. The quasi-equity loans have no repayment terms and are repayable only when cash flows of the subsidiaries permit.

In 2017, the Company has provided an allowance of $74,761,000 for impairment of loans to subsidiaries with a nominal amount of $74,761,000.

Loans to subsidiaries are denominated in the following currencies:

	Company	
	2018	**2017**
	$'000	**$'000**
Singapore Dollar	**10,292**	10,432
United States Dollar	**6,414**	3,743
At 31 December	**16,706**	14,175

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

5. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(a) *Details of the subsidiaries as at 31 December are:*

Name of company (Country of incorporation)	Principal activities (Place of business)	Proportion of ownership interest 2018 %	2017 %
Held by the Company			
Federal Hardware Engineering Co Pte Ltd[1] (Singapore)	Dealer in flowline control materials and services and investment holding (Singapore)	**100**	100
Alton International (S) Pte Ltd[1] (Singapore)	Engineering and dealer in flowline control materials and services and investment holding (Singapore)	**100**	100
KVC (UK) Ltd[2] (United Kingdom)	Design, manufacture and assembly of valves (United Kingdom)	**90**	90
Federal Fire Engineering Pte Ltd[1] (Singapore)	Supply and installation supervision of fire detection and protection systems and related products (Singapore)	**100**	100
Federal Offshore Services Pte. Ltd.[1] (Singapore)	Dormant (Indonesia)	**60**	60
Federal Environmental & Energy Pte. Ltd.[1] (Singapore)	Supply of flowline control products and investment holding (Singapore)	**65**	65
Federal Energi Pte. Ltd.[1] (Singapore)	Dormant (Singapore)	**100**	100
Eastern Jason Fabrication Services Pte Ltd[1] (Singapore)	Investment holding and offshore marine projects (Singapore)	**100[5]**	100[5]
Federal Capital Pte. Ltd.[1] (Singapore)	Investment holding (Singapore)	**100**	100
PT Federal International[2] (Indonesia)	Provision of management and business consultation services, and operating and maintenance of oil and gas facility services (Indonesia)	**100[3]**	100[3]

NOTES TO THE **FINANCIAL STATEMENTS**
31 DECEMBER 2018

5. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(a) *Details of the subsidiaries as at 31 December are* (Continued)*:*

Name of company (Country of incorporation)	Principal activities (Place of business)	Proportion of ownership interest 2018 %	2017 %
Held by the Company *(Continued)*			
*FI (2000) UK Limited [7] (United Kingdom)	Manufacture of valves for the oil and petrochemical industries (United Kingdom)	**100**	100
Held by subsidiaries			
PT Fedsin Rekayasa Pratama (Indonesia)[2]	Hardware merchant and investment holding (Indonesia)	**100**	100
PT Federal International (Indonesia)[2]	Provision of management and business consultation services and operating and maintenance of oil and gas facility services (Indonesia)	**99[3]**	99[3]
Federal International (Shanghai) Co., Ltd.[2] (PRC)	Trader and agent of flowline control products (PRC)	**65**	65
Alton International (Thailand) Co., Ltd [4] (Thailand)	Dealer in hardware and oilfield engineering materials (Thailand)	**100**	100
Alton International Resources Pte. Ltd.[1] (Singapore)	Dormant (Singapore)	**70**	70
*PT Alton International Resources (Indonesia)	Dormant (Indonesia)	**69.3**	69.3
*PT Mega Federal Energy (Indonesia)	Dormant (Indonesia)	**60**	60
Federal Environmental Engineering (Shanghai) Co Ltd[2] (PRC)	Water and wastewater treatment projects (PRC)	**65**	65
FEE Investment Management Consultants (Shanghai) Co Ltd[2] (PRC)	Provision of management and consultancy services for environmental-related projects (PRC)	**65**	65

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

5. **INVESTMENT IN SUBSIDIARIES** (CONTINUED)

(a) *Details of the subsidiaries as at 31 December are* (Continued):

Name of company (Country of incorporation)	Principal activities (Place of business)	Proportion of ownership interest 2018 %	2017 %
Held by subsidiaries *(Continued)*			
Federal Environmental Engineering (Suzhou) Co. Ltd[(2)] (PRC)	Provision of management and consultancy services for environmental-related projects (PRC)	**65**	65
Federal Environmental (Southwest China) Pte. Ltd.[(1)] (Singapore)	Investment holding (Singapore)	**65**	65
Federal Environmental (Chengdu) Pte. Ltd.[(1)] (Singapore)	Investment holding (Singapore)	**65**	65
Federal Water (Chengdu) Co., Ltd.[(2)] (PRC)	Supply of raw water, treated industrial tap water and project consultancy services (PRC)	**58.5**	58.5
*Federal-WH Marathon Ltd (British Virgin Islands)	Dormant (British Virgin Islands)	**51**	51
Federal DNV India Private Ltd[(6)] (India)	Dormant (India)	**51**	51

* Not required to be audited under the laws of the respective countries of incorporation

(1) Audited by Baker Tilly TFW LLP
(2) Audited by independent overseas member firms of Baker Tilly International
(3) This comprised 1% direct equity interest held by the Company and indirect equity interest of 99% held by a wholly-owned subsidiary
(4) Audited by JTT Accounting & Auditing Partnership Limited, Thailand
(5) This comprised 92.5% direct equity interest held by the Company and indirect equity interest of 7.5%
(6) Audited by C. J. K. Associates, India
(7) No share capital is contributed into the subsidiary as at 31 December 2018 and 31 December 2017.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

5. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(b) Summarised financial information of subsidiaries with material non-controlling interests ("NCI")

The Group has the following subsidiaries that have NCI that are considered by management to be material to the Group:

Name of subsidiary	Principal place of business/ Country of incorporation	Ownership interests held by NCI	
		2018	**2017**
		%	**%**
FEE subgroup	Singapore and PRC	**35**	35
AIR subgroup	Singapore and Indonesia	**30**	30

FEE subgroup comprises Federal Environmental & Energy Pte. Ltd., Federal Environmental Engineering (Shanghai) Co Ltd., FEE Investment Management Consultants (Shanghai) Co Ltd., Federal Environmental Engineering (Suzhou) Co. Ltd., Federal Environmental (Southwest China) Pte. Ltd., Federal Water (Chengdu) Co., Ltd. and Federal Environmental (Chengdu) Pte. Ltd.

AIR subgroup comprises Alton International Resources Pte. Ltd. and PT Alton International Resources.

The following are the summarised financial information of each of the Group's subsidiaries with NCI that are considered by management to be material to the Group. These financial information include consolidation adjustments but before inter-company eliminations.

Summarised Balance Sheets

	FEE subgroup		AIR subgroup	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Non-current assets	**79**	82	**21**	22
Non-current liabilities	**(4,906)**	(5,001)	**(11)**	(11)
Current assets	**9,669**	10,625	**–**	–
Current liabilities	**(28,250)**	(27,853)	**(33,475)**	(33,382)
Net liabilities	**(23,408)**	(22,147)	**(33,465)**	(33,371)
Net liabilities attributable to NCI	**(8,193)**	(7,751)	**(10,040)**	(10,011)

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

5. **INVESTMENT IN SUBSIDIARIES** (CONTINUED)

(b) *Summarised financial information of subsidiaries with material non-controlling interests ("NCI")* (Continued)

Summarised Statements of Comprehensive Income

	FEE subgroup		AIR subgroup	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Revenue	**4,558**	6,853	**–**	–
(Loss)/profit before tax	**(1,449)**	(939)	**(102)**	418
Income tax credit/ (expense)	**17**	(1)	**–**	–
(Loss)/profit after tax from continuing operations	**(1,432)**	(940)	**(102)**	418
Other comprehensive income	**169**	161	**9**	125
Total comprehensive (loss)/income	**(1,263)**	(779)	**(93)**	543
(Loss)/profit allocated to NCI	**(501)**	(329)	**(31)**	125

Summarised Statement of Cash Flows

	FEE subgroup		AIR subgroup	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Cash flows used in operating activities	**(487)**	(1,054)	**(149)**	(16)
Cash flows generated from financing activities	**387**	119	**149**	15
Net decrease in cash and cash equivalents	**(100)**	(935)	**–**	(1)

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

5. **INVESTMENT IN SUBSIDIARIES** (CONTINUED)

(c) *Disposal of a subsidiary*

The Members' Voluntary Liquidation of a subsidiary, GV Oilfield Engineering Private Limited, was completed in 2017. The effect of the disposal on the financial position of the Group in the previous financial year was as follows:

Effect of disposal on the financial position of the Group

	Group 2017 $'000
Asset:	
Other receivables	81
Liabilities:	
Other payables	(1)
Provision for taxation	(1)
	(2)
Net assets derecognised	79
Consideration received, satisfied in cash	–
Cash and cash equivalents disposed of	–
Net cash outflow	–
Loss on disposal:	
Consideration received	–
Net assets derecognised	(79)
Cumulative foreign currency exchange differences in respect of the net assets of the subsidiary reclassified to profit or loss on loss of control of subsidiary	(408)
	(487)
Non-controlling interest	195
	(292)

(d) *Company level – Impairment review of investment in subsidiaries*

During the financial year, management performed an impairment test for the quasi-equity loan to PT Fedsin Rekayasa Pratama as this subsidiary incurred losses in the past few years. An impairment loss of $3,400,000 (2017: $Nil) was recognised for the year ended 31 December 2018 to write down this quasi-equity loan to its recoverable amount of $7,032,000 (2017: $10,432,000). The recoverable amount of the investment in this subsidiary has been determined on the basis of its fair value less cost of disposal. The fair value less cost of disposal was determined based on the adjusted net assets of the subsidiary, which take into account potential fair value gain arising from property, plant and equipment. The fair value measurement is categorised in Level 3 of the fair value hierarchy.

In 2017, management performed an impairment test for the investment in Federal Environmental & Energy Pte. Ltd. as this subsidiary incurred losses in the financial year ended 2017. An impairment loss of $900,000 was recognised for the year ended 31 December 2017 to write down this subsidiary to its recoverable amount of $851,000. The recoverable amount of the investment in this subsidiary was determined based on a value in use calculation using cash flow projections from forecasts approved by management covering a five-year period. The discount rate applied to the cash flow projection and the forecasted growth rate used to extrapolate cash flow projections beyond the five year period were 14.95% and 5% respectively.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

5. INVESTMENT IN SUBSIDIARIES (CONTINUED)

(e) *Significant restriction*

Cash and cash equivalents of $709,000 (2017: $407,000) are held in the People's Republic of China and are subject to local exchange control regulations. These regulations place restrictions on the amount of currency being exported from the country, other than through dividends.

6. INVESTMENT IN ASSOCIATES AND JOINT VENTURE

	Group		Company	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Unquoted shares, at cost	**4,332**	4,512	**885**	1,088
Share of post-acquisition reserves	**2,095**	1,525	**–**	–
Impairment loss	**(575)**	(575)	**(153)**	(356)
Currency realignment	**142**	(714)	**–**	–
Net carrying amount	**5,994**	4,748	**732**	732
Net carrying amount represented by:				
Investment in associates	**5,931**	4,748	**732**	732
Investment in joint venture	**63**	–	**–**	–
	5,994	4,748	**732**	732
Analysis of impairment losses:				
At 1 January	**575**	575	**356**	356
Disposal	**–**	–	**(203)**	–
At 31 December	**575**	575	**153**	356

Name of company (Country of incorporation)	**Principal activities (Place of business)**	**Proportion of ownership interest 2018 %**	**2017 %**
Associates			
Held By The Company			
*KVC Co., Ltd (Japan)	Manufacture and export of valves (Japan)	**50**	50
Federal JWR Energy Pte. Ltd.[(a)] (Singapore)	Dormant (Indonesia)	**–**	40
Sapex International Pte. Ltd.[(1)] (Singapore)	Dormant (Singapore)	**50**	50

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

6. INVESTMENT IN ASSOCIATES AND JOINT VENTURE (CONTINUED)

Name of company (Country of incorporation)	Principal activities (Place of business)	Proportion of ownership interest 2018 %	2017 %
Associates			
Held by subsidiaries			
*Federal-Applied Industrial Services Co Ltd (Thailand)	Dormant (Thailand)	**49**	49
PT Eastern Jason[2] (Indonesia)	Chartering of vessels (Indonesia)	**30**	30
*PT Fedco Rekayasa Indonesia (Indonesia)	Procurement services for the flowline control procedures and services, and other oilfield related equipment (Indonesia)	**49**	49
PAE-Federal International Co. Ltd.[b] (Thailand)	Dormant (Thailand)	**–**	45
Joint venture			
Held by subsidiary			
Federal Destini (S) Pte Ltd[1] (Singapore)	Offshore marine projects and provision of services in oil and gas industry including transportation, installation, well abandonment, field decommissioning, downhole and well workover (Singapore)	**50**	–

* Not required to be audited under the laws of the respective countries of incorporation

(1) Audited by Baker Tilly TFW LLP
(2) Audited by Kosasih, Nurdiyaman, Tjahjo & Rekan, Indonesia

(a) The company was struck off during the financial year. The Group reclassified cumulative share of foreign currency translation reserve amounting to $690,000 to profit or loss and recognised income of $248,000 for amount due to associate being written off upon striking off of the associate.
(b) The company was voluntarily wound up during the financial year. The Group reclassified cumulative share of foreign currency translation reserve amounting to $7,000 to profit or loss upon winding up of the associate.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

6. INVESTMENT IN ASSOCIATES AND JOINT VENTURE (CONTINUED)

Summarised financial information for associates of the Group, which in the opinion of the management are material to the Group based on their IFRS financial statements (not adjusted for the Group's share of those amounts) and a reconciliation to the carrying amounts of the investments in the consolidated financial statements are as follows:

Summarised Statements of Comprehensive Income

	PT Eastern Jason		KVC Co., Ltd	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Revenue	**19,909**	13,000	**12,938**	11,845
Profit/(loss) after tax from continuing operations	**3,041**	1,963	**222**	(229)
Other comprehensive income/(loss)	**290**	(829)	**145**	(119)
Total comprehensive income/(loss)	**3,331**	1,134	**367**	(348)
Dividend received from associate	**–**	–	**–**	29

Summarised Balance Sheets

	PT Eastern Jason		KVC Co., Ltd	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Non-current assets	**46,122**	53,483	**1,280**	1,466
Current assets	**4,672**	9,826	**5,375**	7,000
Non-current liabilities	**(28,694)**	(25,196)	**(1,096)**	(1,469)
Current liabilities	**(7,849)**	(27,193)	**(2,247)**	(4,052)
Net assets	**14,251**	10,920	**3,312**	2,945
Proportion of the Group's ownership	**30%**	30%	**50%**	50%
Group's share of net assets based on proportion of ownership interest	**4,275**	3,276	**1,656**	1,472
Carrying amount of investment	**4,275**	3,276	**1,656**	1,472

Aggregate information about the Group's investments in associates and joint venture that are not individually material are as follows:

	2018	**2017**
	$'000	**$'000**
Loss after tax		
– Joint venture	**(75)**	–
Other comprehensive loss	**–**	–
Total comprehensive loss	**(75)**	–

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

6. INVESTMENT IN ASSOCIATES AND JOINT VENTURE (CONTINUED)

These associates and joint venture are measured using the equity method. The activities of the associates and joint venture are strategic to the Group.

The Group's share of unrecognised losses during the financial year and cumulatively were $2,000 (2017: $4,000) and $22,000 (2017: $20,000) respectively. The movement of the Group's cumulative share of unrecognised losses arose from current year loss incurred by Sapex International Pte. Ltd.. The Group has no obligation in respect of these losses.

7. INTANGIBLE ASSETS

Group	**Goodwill $'000**	**Development costs $'000**	**Total $'000**
Cost			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	**1,044**	**2,061**	**3,105**
Accumulated amortisation and impairment loss			
At 1 January 2017	1,044	138	1,182
Amortisation charge	–	136	136
Exchange differences	–	1	1
At 31 December 2017 and 1 January 2018	1,044	275	1,319
Amortisation charge	–	136	136
At 31 December 2018	**1,044**	**411**	**1,455**
Net carrying amount:			
At 31 December 2017	–	1,786	1,786
At 31 December 2018	**–**	**1,650**	**1,650**

Development costs

Development costs relate to testing and design development projects/prototypes.

Impairment testing of goodwill

Goodwill arising from business combinations has been allocated to Manufacturing/Design/Research and Development segment, a single cash-generating unit ("CGU"), which is also a reportable operating segment. The carrying amount of goodwill has been fully impaired to its recoverable amount of $Nil (2017: $Nil).

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

8. OTHER INVESTMENTS

	Group		Company	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Available-for-sale financial assets				
Investment in partnership, at cost (unquoted)*	–	20	–	–
Unquoted equity shares, at fair value	–	538	–	538
	–	558	–	538
Unquoted equity shares, at cost	–	29	–	–
Impairment loss	–	(29)	–	–
	–	–	–	–

* In 2017, the Group has a 20% equity interest in a partnership entity that was held through a subsidiary. This partnership was set-up in Brunei Darussalam and was principally engaged in the supply of valves, fitting and instruments. The partnership has been wound up during the financial year.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Company	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Equity investments designated at FVOCI				
Unquoted equity shares#	**538**	–	**538**	–

\# These investments in unquoted equity shares in 2 companies incorporated in Indonesia are not held for trading. Accordingly, management has elected to designate these investments in equity shares at fair value through other comprehensive income. It is the Group's strategy to hold these investments for long-term purposes. These investments are categorised under Level 3 fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

10. OTHER RECEIVABLES (NON-CURRENT)

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Deposits	**73**	72	**–**	–
Loan to a shareholder of an investee company	**13,022**	13,022	**13,022**	13,022
	13,095	13,094	**13,022**	13,022

The loan to a shareholder of an investee company is secured by the shareholder's shares of the investee company, bears interest at 7% (2017: 7%) per annum and is repayable at the fifth anniversary of the loan in financial year ending 2021.

Management assessed the impairment of the loan to a shareholder of an investee company using the expected credit loss model and by taking into consideration the fair value of the pledged shares. The fair value of the pledged shares is determined by reference to the equity value of the investee company based on valuation performed by an independent external valuer. The equity value of the investee company is determined by the independent external valuer using income approach and cross checked with market approach.

The valuation using income approach has been determined based on discounted cash flow analysis from forecast provided by the investee company covering a five-year period. The pre-tax discount rate applied to the cash flow projection and forecasted growth rate used to extrapolate cash flow projection beyond five-year period are 16.58% (2017: 16.70%) and 5.3% (2017: 5.5%) respectively.

11. FINANCIAL RECEIVABLE

	Group	
	2018	2017
	$'000	$'000
Current		
Financial receivable	**300**	707

Financial receivable is stated after impairment of allowance of $3,385,000 (2017: $3,507,000).

	Group
	2017
	$'000
Movement of allowance account:	
At 1 January	3,557
Exchange differences	(50)
At 31 December	3,507

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

11. **FINANCIAL RECEIVABLE** (CONTINUED)

The Group has entered into service concession arrangement as discussed below:

The Group entered into a service concession arrangement with the local government of Xinjin for the construction of water treatment facility and provision of raw water and industrial tap water services over a concession period of 30 years (from year 2009 till year 2039) via its 58.5% owned subsidiary Federal Water (Chengdu) Co., Ltd., incorporated in the PRC. Based on the concession agreement, the Group is entitled to receive fixed minimum guaranteed fees during the concession period. Such concession arrangement falls within the scope of SFRS(I) INT 12 and the Group has accordingly recognised a financial receivable as the Group has a right to receive a fixed and determinable amount of payments during the concession period irrespective of the utilisation of the water treatment facility. The financial receivable is carried at $300,000 (2017: $707,000) on the balance sheet as at 31 December 2018.

Key assumptions applied in deriving the carrying value of financial receivable are as follows:

- A discount rate ranging from 8% (2017: 8%) has been applied to the cash flow projections. The discount rate was pre-tax and reflected specific risks relating to the industry.

- The projected water volume for the concession arrangement was based on historical production trend, over the concession period.

- The projected fee for sales of water was based on the higher of minimum guaranteed sum or actual treatment volume multiplied by the unit rate, according to the signed service concession arrangement.

12. **DEFERRED TAX**

	Group		Company	
	2018	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000
At 1 January	**(1,702)**	(1,415)	**–**	–
Movement in temporary differences:				
Recognised directly in profit or loss	**145**	(112)	**–**	–
Recognised directly in other comprehensive income (Note 30)	**(83)**	(126)	**–**	–
Exchange differences	**(28)**	(49)	**–**	–
At 31 December	**(1,668)**	(1,702)	**–**	–

NOTES TO THE **FINANCIAL STATEMENTS**
31 DECEMBER 2018

12. DEFERRED TAX (CONTINUED)

Deferred tax as at 31 December relates to the following:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Deferred tax liabilities				
Differences in depreciation for tax purposes	**46**	42	**–**	–
Revaluations to fair value of leasehold land, freehold and leasehold buildings	**2,159**	2,186	**–**	–
Other items	**190**	142	**–**	–
	2,395	2,370	**–**	–
Deferred tax assets				
Provisions	**56**	51	**–**	–
Difference in depreciation for tax purpose	**647**	593	**–**	–
Other items	**24**	24	**–**	–
	727	668	**–**	–

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The amounts determined after appropriate offsetting are included in the balance sheet as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Deferred tax liabilities	**(2,390)**	(2,367)	**–**	–
Deferred tax assets	**722**	665	**–**	–

Unrecognised tax losses

At the end of the financial year, the Group has unabsorbed tax losses of approximately $25,436,000 (2017: $23,808,000) that are available for offset against future taxable profits of the subsidiaries in which the losses arose for which no deferred tax assets is recognised due to uncertainty of their recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate.

The income tax benefits from the unabsorbed tax losses carried forward is available for an unlimited period subject to the conditions imposed by law, except for unabsorbed tax losses of $4,515,000 (2017: $2,756,000) which will expire progressively over the next 5 years up till 2023, subject to the conditions imposed by the Indonesian tax authorities.

At the end of the financial year, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is $338,000 (2017: $462,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

13. INVENTORIES

	Group	
	2018	**2017**
	$'000	**$'000**
Balance Sheet:		
Trading stocks	**10,230**	11,661
Goods-in-transit	**1,636**	461
Work-in-progress	**652**	479
Raw materials	**107**	195
	12,625	12,796
Income Statement:		
Inventories recognised as an expense in cost of sales	**32,093**	105,756
Allowance for slow moving inventories	**927**	733

The Group has subjected trading stocks amounting to $9,802,000 (2017: $10,822,000) to a floating charge as security for trust receipts and bank overdrafts (Note 25).

14. TRADE RECEIVABLES (CURRENT)

	Group	
	2018	**2017**
	$'000	**$'000**
Trade receivables		
– Third parties	**26,357**	48,701
Less: Allowance for impairment	**(2,490)**	(2,331)
Trade receivables, net	**23,867**	46,370

Receivables that are past due but not impaired

The Group has trade receivables amounting to $13,476,000 (2017: $27,635,000) that are past due at the end of the financial year but not impaired. These receivables are unsecured and the analysis of their ageing at the end of the financial year is as follows:

	Group	
	2018	**2017**
	$'000	**$'000**
Trade receivables past due:		
Less than 30 days	**2,338**	7,900
30 to 60 days	**1,057**	11,406
61 to 90 days	**500**	2,869
91 to 120 days	**433**	1,643
More than 120 days	**9,148**	3,817
	13,476	27,635

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

14. TRADE RECEIVABLES (CURRENT) (CONTINUED)

Receivables that are impaired

	Group individually impaired 2017 $'000
Trade receivables – nominal amounts	2,401
Less: Allowance for impairment	(2,331)
	70
Movements in allowance account:	
At 1 January	713
Charge for the financial year	1,721
Written back	(54)
Exchange differences	(49)
At 31 December	2,331

Trade receivables that are individually determined to be impaired at the end of financial year relate to debtors that are in significant financial difficulties and are not able to meet its debt obligations. These receivables are not secured by any collateral or credit enhancements except for an amount of $1,619,000 (2017: $1,644,000) which is secured either by corporate guarantee or personal guarantee.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

15. OTHER RECEIVABLES (CURRENT)

	Group		Company	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Amount due from an investee company	**6,197**	3,382	**38**	6
Recoverable	**174**	269	**1**	8
Sundry debtors	**488**	685	**7**	4
	6,859	4,336	**46**	18

Amount due from an investee company is non-trade in nature, unsecured, non-interest bearing and has no fixed repayment terms.

Sundry debtors are unsecured and non-interest bearing.

Other receivables that are impaired

	Group
	2017
	$'000
Other receivables – nominal amounts	2,197
Less: Allowance for impairment	(2,197)
	–

Movements in allowance account:

At 1 January	2,382
Charge for the financial year	6
Written off	(6)
Exchange differences	(185)
At 31 December	2,197

Other receivables that are individually determined to be impaired at the end of the financial year relate to debtors that are in significant financial difficulties and are not able to meet its debt obligations. These receivables are not secured by any collateral or credit enhancements.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

16. AMOUNTS DUE FROM SUBSIDIARIES

	Company	
	2018	**2017**
	$'000	**$'000**
Non-current		
Non-trade	–	10,490
Allowance for impairment	–	(5,902)
	–	4,588
Current		
Trade	**724**	1,195
Non-trade	**2,928**	5,598
	3,652	6,793
Allowance for impairment	**(2,220)**	(2,201)
	1,432	4,592
Dividend receivable	**443**	2,434
	1,875	7,026

The trade balances and transactions mainly relate to management fees while the non-trade balances and transactions mainly relate to loans, interest on loans and payments made on behalf of the subsidiaries.

Non-trade amounts due from subsidiaries are unsecured, interest-free and expected to be settled in cash or via inter-company settlement within the next twelve months for the current portion.

In 2017, the Company has provided an allowance of $8,103,000 for impairment of unsecured non-trade amounts due from subsidiaries with a nominal amount of $16,220,000.

	Company
	2017
	$'000
Movements in allowance account:	
At 1 January	8,377
Charge for the financial year	86
Exchange differences	(360)
At 31 December	8,103

Amounts due from subsidiaries are denominated in the following currencies:

	Company	
	2018	**2017**
	$'000	**$'000**
Singapore Dollar	**1,026**	6,128
United States Dollar	**849**	5,486
At 31 December	**1,875**	11,614

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

17. AMOUNT DUE FROM AN ASSOCIATE AMOUNTS DUE FROM ASSOCIATES

	Group		Company	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Non-current				
Non-trade	**–**	4,588	**–**	–
Current				
Non-trade	**2,979**	3,263	**50**	49

Amounts due from associates are interest-free, unsecured and expected to be settled in cash within the next twelve months. The non-trade balances and transactions mainly relate to loans and payments made on behalf of the associates.

Amounts due from associates that are impaired

	Group	Company
	2017	**2017**
	$'000	**$'000**
Amounts due from associates		
– nominal amounts	524	41
Less: Allowance for impairment	(521)	(41)
	3	–
Movements in allowance account:		
At 1 January	535	44
Charge for the financial year	17	–
Exchange differences	(31)	(3)
At 31 December	521	41

18. AMOUNT DUE FROM A RELATED PARTY

The related party refers to a non-controlling interest of a subsidiary.

Amount due from a related party is secured by corporate guarantee provided by the holding company of the related party, interest-free and is expected to be settled within the next twelve months.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

19. CONTRACT ASSETS AND CONTRACT LIABILITIES

Contract assets relate to the Group's rights to consideration for work completed but not billed at the reporting date. Contract liabilities relate to advance consideration received from customers.

The following table provides information about contract assets from contracts with customers:

	Group	
	2018	**2017**
	$'000	**$'000**
Contract assets	**–**	104
Contract liabilities	**924**	1,841

There were no significant changes in the contract assets and contract liabilities during the financial year.

20. PROVISIONS

Movements in provision for probable penalty for the late delivery of a vessel are as follows:

	Group	
	2018	**2017**
	$'000	**$'000**
At 1 January	**–**	4,312
Unused amounts reversed during the year	**–**	(2,297)
Utilised during the financial year	**–**	(1,749)
Exchange differences	**–**	(266)
At 31 December	**–**	–

Movements in provision for commissioning work of a vessel are as follows:

	Group	
	2018	**2017**
	$'000	**$'000**
At 1 January	**–**	599
Unused amounts reversed during the year	**–**	(558)
Exchange differences	**–**	(41)
At 31 December	**–**	–

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

21. OTHER PAYABLES

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Accruals	**8,562**	9,267	**446**	958
Sundry creditors	**1,214**	1,234	**203**	123
Accrual for foreign tax liabilities	**212**	362	**–**	–
Amount payable to non-controlling shareholder	**19**	234	**–**	–
	10,007	11,097	**649**	1,081

22. AMOUNTS DUE TO SUBSIDIARIES

Non-current

The amount is non-trade related, unsecured, interest-free and repayment of this amount is neither planned nor likely to occur in the foreseeable future.

Current

Amounts due to subsidiaries are unsecured and interest-free.

The non-trade balance mainly relates to payments made on behalf of the Company by the subsidiaries.

Amounts due to subsidiaries are denominated in the following currencies:

	Company	
	2018	2017
	$'000	$'000
Singapore Dollar	**499**	504
United States Dollar	**20,443**	22,048
At 31 December	**20,942**	22,552

23. AMOUNTS DUE TO ASSOCIATES

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Trade	**10**	10	**–**	–
Non-trade	**–**	1,206	**–**	243
	10	1,216	**–**	243

The non-trade balances are unsecured, interest-free and expected to be settled in cash within the next twelve months.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

24. AMOUNT DUE TO A RELATED PARTY

	Group	
	2018	**2017**
	$'000	**$'000**
Amount owing to a director of certain subsidiaries	**1,926**	2,009

Amount due to a related party is unsecured, interest-free, and expected to be settled in cash within the next twelve months.

25. AMOUNTS DUE TO BANKERS

	Group	
	2018	**2017**
	$'000	**$'000**
Bank overdrafts, secured	**2,960**	738
Trust receipts, secured	**5,107**	18,573
	8,067	19,311

Bank overdrafts bear interest at 3.40% – 6.00% (2017: 3.40% – 6.00%) per annum ("p.a.") and are repayable on demand. Trust receipts bear interest at 2.77% – 4.92% (2017: 2.93% – 3.81%) p.a..

Amounts due to bankers are denominated in the following currencies:

	Group	
	2018	**2017**
	$'000	**$'000**
Singapore Dollar	**4,993**	723
United States Dollar	**2,405**	17,846
Euro	**248**	–
Great Britain Pound	**421**	742
At 31 December	**8,067**	19,311

Securities

Bank overdrafts and trust receipts of certain subsidiaries are secured by legal mortgages on the Group's freehold land, leasehold land and buildings and inventories (Note 4 and Note 13).

The Group obtained other credit facilities from various financial institutions. Among others, one of the financial institutions, in its financial covenants requirements, sets a threshold of $60,000,000 (2017: $60,000,000) of minimum consolidated total net worth (defined as paid-up capital and capital reserves/revaluation reserves/accumulated losses/retained earnings) for the Group.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

25. AMOUNTS DUE TO BANKERS (CONTINUED)

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Bank overdrafts $'000	Trust receipts $'000	Sub-total $'000	Bank overdrafts, trust receipts – Accrued interest* $'000	Total $'000
Balance at 1 January 2018	738	18,573	19,311	102	19,413
Changes from financing cash flows:					
– Proceeds	–	26,393	26,393	–	26,393
– Repayments	–	(39,733)	(39,733)	–	(39,733)
– Changes in bank overdrafts	2,238	–	2,238	–	2,238
– Interest paid	–	–	–	(431)	(431)
Non-cash changes:					
– Interest expense	–	–	–	339	339
Effect of changes in foreign exchange rates	(16)	(126)	(142)	(1)	(143)
Balance at 31 December 2018	**2,960**	**5,107**	**8,067**	**9**	**8,076**

* Included as accruals (Note 21)

26. TERM LOANS

	Group 2018 $'000	Group 2017 $'000
Amounts repayable within one year – secured	**8,535**	7,438
Amounts repayable after one year – secured	**7,352**	9,742

26. TERM LOANS (CONTINUED)

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Term loans $'000	Term loans – Accrued interest* $'000	Total $'000
Balance at 1 January 2018	17,180	–	17,180
Changes from financing cash flows:			
– Proceeds	3,067	–	3,067
– Repayments	(4,254)	–	(4,254)
– Interest paid	–	(790)	(790)
Non-cash changes:			
– Interest expense	–	809	809
Effect of changes in foreign exchange rates	(106)	–	(106)
Balance at 31 December 2018	**15,887**	**19**	**15,906**

In addition to the basic loan terms and specific clauses defining default events, certain term loans with amount $1,400,000 (2017: $1,254,000) also include an overriding repayment on demand clause which gives the lender the right to demand repayment at any time at their sole discretion irrespective of whether a default event has occurred. These loans are scheduled for repayment within twelve months have been classified as current.

* Included as accruals (Note 21)

(a) *SGD bank loan at bank's cost of funds + variable rates*

Loan of $3,000,000 (2017: $3,000,000) is secured by a legal mortgage on the Group's freehold land and buildings (Note 4), on one of the Group's leasehold land and building (Note 4) and a corporate guarantee provided by the Company (Note 39) and is repayable within one month to four months. This loan bears interest at 3.97% (2017: 3.03%) p.a..

(b) *SGD bank loan at fixed rate 5.5% p.a.*

Loan of $2,324,000 (2017: $3,959,000) is secured by a corporate guarantee provided by the Company (Note 39). Repayment of this loan is in an arrangement of monthly installments beginning from May 2017 to April 2020. This loan bears interest at 5.5% (2017: 5.5%) p.a..

(c) *SGD bank loan at fixed rate 5.5% p.a.*

Loan of $2,418,000 (2017: $2,957,000) is secured by a corporate guarantee provided by the Company (Note 39). Repayment of this loan is in an arrangement of monthly installments beginning from December 2017 to November 2022. This loan bears interest at 5.5% (2017: 5.5%) p.a..

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

26. TERM LOANS (CONTINUED)

(d) *SGD bank loan at fixed rate 5.25% p.a.*

Loan of \$5,000,000 (2017: \$5,000,000) is secured by a corporate guarantee provided by the Company (Note 39) and a personal guarantee from a key management personnel of a subsidiary. Repayment of this loan is in an arrangement of monthly installments beginning from December 2019 to November 2023. This loan bears interest at 5.25% (2017: 5.25%) p.a..

(e) *RMB bank loan at 150% (2017: 130%) of the China Central Bank base interest rate p.a.*

Loan of \$856,000 (RMB4,320,000) (2017: \$585,000 (RMB2,849,000)) is secured by a Standby Letter of Credit issued by a financial institution, guaranteed by the Company and a related company and is repayable from January through June 2019 (2017: January through June 2018). This loan bears interest at 6.53% (2017: 5.66%) p.a..

(f) *RMB bank loan at China Central Bank base interest rate + 1.5% (2017: 1.8%) p.a.*

Loan of \$544,000 (RMB2,743,000) (2017: \$669,000 (RMB3,259,000)) is secured by a Standby Letter of Credit issued by a financial institution, guaranteed by a related company and is repayable from January through June 2019 (2017: January through June 2018). This loan bears interest at 5.85% (2017: 6.15%) p.a..

(g) *GBP bank loan at Bank of England base rate + 1.45% p.a.*

Loan of \$553,000 (£318,000) (2017: \$697,000 (£387,000)) is secured by a Standby Letter of Credit issued by a financial institution, guaranteed by a related company and is repayable in monthly installments commencing from June 2008 through May 2023.

(h) *GBP bank loan at Bank of England base rate +3.75% p.a.*

Loan of \$201,000 (£116,000) (2017: \$313,000 (£173,000)) is secured by a Standby Letter of Credit issued by a financial institution, guaranteed by a related company and is repayable in monthly installments commencing from October 2010 through September 2020.

(i) *RMB bank loan at 110% of the China Central Bank base interest rate p.a.*

Loan of \$991,000 (RMB5,000,000) (2017: \$Nil) is secured and guaranteed by a personal guarantee and pledge of real property by a director of a subsidiary and is repayable in June 2019 and October 2019. This loan bears interest at 4.79% (2017: Nil) p.a..

The loan contains a covenant stating that the ratio of total debt over total assets of the subsidiary shall not be more than 70%, otherwise the loan will be repayable on demand. The subsidiary has breached the loan covenant as at 31 December 2018. However, the bank did not demand immediate repayment and the subsidiary did not receive any demand letter from the bank.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

27. SHARE CAPITAL AND TREASURY SHARES

(a) Share capital

	Group and Company			
	2018		2017	
	No. of shares '000	$'000	No. of shares '000	$'000
Issued and fully paid ordinary shares				
At 1 January and 31 December	**140,767**	**144,099**	140,767	144,099

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.

(b) Treasury shares

	Group and Company			
	2018		2017	
	No. of shares '000	$'000	No. of shares '000	$'000
At 1 January	**–**	**–**	–	–
Share buyback	**100**	**25**	–	–
At 31 December	**100**	**25**	–	–

Treasury shares relate to ordinary shares of the Company that is held by the Company.

The Company acquired 100,000 (2017: Nil) shares in the Company through market purchases on the stock exchange during the financial year. The total amount paid to acquire the shares was $25,000 (2017: Nil) and this was recorded as a component within shareholders' equity.

28. FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve represents 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	
	2018 $'000	2017 $'000
At 1 January	**(4,860)**	(4,575)
Net effect of exchange differences arising from translation of financial statements of foreign operations	**256**	(222)
Share of other comprehensive income/(loss) of associates	**159**	(308)
Foreign currency translation on loss of control reclassified to profit or loss	**–**	245
Foreign currency translation on disposal of associates reclassified to profit or loss (Note 6)	**697**	–
At 31 December	**(3,748)**	(4,860)

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

29. CAPITAL RESERVE

The capital reserve relates mainly to an adjustment for changes in an associate's equity arising from other reserve.

30. REVALUATION RESERVE

The revaluation reserve represents increases in the fair value of freehold and leasehold land and buildings, net of tax, and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in other comprehensive income.

	Group	
	2018	**2017**
	$'000	**$'000**
At 1 January	**17,073**	16,460
Surplus on revaluation of freehold/leasehold land and buildings	**792**	739
Deferred tax liabilities on revaluation surplus of leasehold land, freehold and leasehold buildings (Note 12)	**(83)**	(126)
At 31 December	**17,782**	17,073

31. OTHER RESERVES

	Group	
	2018	**2017**
	$'000	**$'000**
Statutory reserve fund	**248**	248
Premium paid on acquisition of non-controlling interests	**(1,223)**	(1,223)
Share of other reserve of an associate	**(1)**	(1)
	(976)	(976)

Statutory reserve fund

In accordance with the Foreign Enterprise Law applicable to the subsidiaries in the PRC, the subsidiary is required to make appropriation to a Statutory Reserve Fund ("SRF"). At least 10% of the statutory after tax profits as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF until the cumulative total of the SRF reaches 50% of the subsidiary's registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiary. The SRF is not available for dividend distribution to shareholders.

Premium paid on acquisition of non-controlling interests

This represents the differences between consideration paid and the carrying value of the additional interest acquired from non-controlling interests without a change in control.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

32. REVENUE

	Group	
	2018	**2017**
	$'000	**$'000**
Sale of products	**42,888**	129,625
Service concession income	**347**	333
	43,235	129,958

Sale of products include trading of flowline control products, fire detection and protection systems and steel plates.

33. (LOSS)/PROFIT BEFORE TAX

	Group	
	2018	**2017**
	$'000	**$'000**
Other income		
Gain on disposal of property, plant and equipment	**3**	8
Implicit interest income	**4**	3
Interest on income from banks and fixed deposits	**33**	45
Interest on trade overdues	**634**	1,842
Share of profits from partnership	**136**	143
Fee from litigation funding agreement	**300**	–
Rental and related income	**303**	300
Sundry income	**1,256**	670
	2,669	3,011
Selling and distribution costs		
Depreciation of property, plant and equipment	**31**	22
Staff costs (including directors)		
– salaries and other emoluments	**3,463**	3,527
– defined pension contributions	**428**	449
Administrative and general costs		
Amortisation of intangible assets	**136**	136
Depreciation of property, plant and equipment	**1,915**	1,932
Directors' fees	**198**	190
Staff costs (including directors)		
– salaries and other emoluments	**4,238**	4,705
– defined pension contributions	**392**	492
Audit fees		
– auditor of the Company	**296**	292
– other auditors	**74**	78
Non-audit fees		
– auditor of the Company	**75**	110
– other auditors	**7**	8
Operating lease expense	**639**	719

NOTES TO THE **FINANCIAL STATEMENTS**
31 DECEMBER 2018

33. (LOSS)/PROFIT BEFORE TAX (CONTINUED)

	Group	
	2018	**2017**
	$'000	**$'000**
Other operating expenses		
Allowance for slow moving inventories	**927**	733
Bad debts recovered	**–**	(44)
Foreign currency exchange loss	**322**	1,913
Impairment loss on doubtful receivables	**423**	1,727
Impairment loss on amount due from associates	**3**	17
Inventories written off	**189**	23
Loss on disposal of associates	**449**	–
Loss on disposal of property, plant and equipment	**1**	35
Loss on disposal of a subsidiary	**–**	292
Loss on disposal of other investment	**7**	–
Other expenses	**342**	36
Reversal of accruals and provisions for vessel disposed	**–**	(3,780)
Write back of provision for legal claim	**–**	(423)
Write back of impairment loss on doubtful receivables	**(147)**	(54)
Write back of impairment loss on amount due from associates	**(4)**	–
	2,512	475
Finance costs		
Bank overdrafts	**123**	105
Term loans	**809**	402
Trust receipts	**216**	611
	1,148	1,118

34. EMPLOYEE BENEFITS

The breakdown of employee benefits expense (including directors) is as follows:

	Group	
	2018	**2017**
	$'000	**$'000**
Salaries and bonuses	**7,701**	8,232
Employer's contribution to defined contribution plans including Central Provident Fund	**820**	941
	8,521	9,173

35. INCOME TAX (CREDIT)/EXPENSE

The major components of income tax (credit)/expense for the years ended 31 December 2018 and 2017 are:

	Group	
	2018	**2017**
	$'000	**$'000**
Income Statement		
Current income tax		
– Current income taxation	**108**	1,355
– Over provision in respect of previous years	**(66)**	(20)
	42	1,335
Deferred income tax		
– Origination and reversal of temporary differences	**(80)**	(97)
– (Over)/under provision in respect of previous years	**(65)**	209
	(145)	112
Income tax (credit)/expense recognised in profit or loss	**(103)**	1,447

Tax expense relating to each component of other comprehensive income is as follows:

	2018			2017		
	Before tax	**Tax charge**	**After tax**	**Before tax**	**Tax charge**	**After tax**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Group						
Revaluation adjustment on leasehold land, freehold and leasehold buildings	**792**	**(83)**	**709**	739	(126)	613

Relationship between tax (credit)/expense and accounting (loss)/profit

A reconciliation between tax (credit)/expense and the product of accounting (loss)/profit multiplied by the applicable corporate tax rate for the years ended 31 December 2018 and 2017 is as follows:

	Group	
	2018	**2017**
	%	**%**
Tax at the domestic rates applicable to profits in the countries where the Group operates	**(22.4)**	8.0
Adjustments:		
Non-deductible expenses	**18.5**	19.5
Income not subject to taxation	**(6.5)**	(15.1)
Deferred tax assets not recognised	**12.8**	16.6
Effect of partial tax exemption	**–**	(4.1)
(Over)/under provision in respect of previous years	**(2.0)**	3.5
Share of result of associates	**(2.5)**	(1.5)
Others	**0.5**	0.1
	(1.6)	27.0

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

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

35. INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

The corporate tax rates applicable to companies incorporated in Singapore and foreign subsidiaries of the Group are 17% (2017: 17%) and from 19% to 25% (2017: 19% to 25%) respectively for the year of assessment 2019 onwards.

36. (LOSS)/EARNINGS PER SHARE

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

As at 31 December 2018 and 2017, diluted earnings per share is similar to basic earnings per share as there were no potential dilutive ordinary shares.

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

	Group	
	2018 **$'000**	**2017** **$'000**
(Loss)/profit net of tax attributable to owners of the Company used in the computation of (loss)/earnings per share	**(5,802)**	4,232

	2018 **No. of shares** **'000**	**2017** **No. of shares** **'000**
Weighted average number of ordinary shares for (loss)/earnings per share computation*	**140,740**	140,767

* The weighted average number of shares takes into account the weighted average effect of changes in treasury shares transactions during the financial year.

37. CASH AND CASH EQUIVALENTS

Cash and bank balances and fixed bank deposits earn interest at floating rates based on daily bank deposit rates. Fixed deposits are placed with banks and mature within 1 month to 12 months from the balance sheet date and earn interests at the respective short-term deposit rates.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at the end of the financial year.

	Group	
	2018 **$'000**	**2017** **$'000**
Cash and bank balances and fixed and bank deposits	**10,366**	12,126
Less: Bank deposits pledged	**(1,363)**	(1,337)
Cash and cash equivalents	**9,003**	10,789

The deposits are pledged for banking facilities granted to certain subsidiaries of the Group.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

38. DIVIDENDS

	Group and Company	
	2018	**2017**
	$'000	**$'000**
Dividends paid		
Final tax exempt dividend of 1.5 cents (2017: 1.5 cents) per share and special tax exempt dividend of 0.5 cents (2017: 0.5 cents) per share paid in respect of the previous financial year ended 31 December 2017 and 2016	**2,815**	2,815

The directors have proposed a final tax exempt dividend for the financial year ended 31 December 2018 of Nil (2017: 1.5 cents) and special tax exempt dividend of Nil (2017: 0.5 cents) per share of approximately $Nil (2017: $2,815,000).

39. COMMITMENTS AND CONTINGENCIES

Operating lease commitments – lessee

The Group leases certain plant and equipment under lease agreements that are non-cancellable within a year. These leases have an average life of between 1 to 25 years with no escalation clauses included in the contracts. Certain leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

Certain leases contain renewal options. There were no contingent rent provisions included in contracts. There are no restrictions placed upon the Group by entering into these leases.

Operating lease expenses incurred for the current financial year amounted to approximately $639,000 (2017: $719,000).

Future minimum lease payments for all non-cancellable leases at the end of the financial year are as follows:

	Group	
	2018	**2017**
	$'000	**$'000**
Not later than one year	**538**	506
Later than one year but not later than five years	**1,473**	1,198
Later than five years	**4,417**	4,523
	6,428	6,227

Contingent liability

Guarantees

The Company has provided corporate guarantees of $20.3 million (2017: $33.5 million) to financial institutions in relation to certain subsidiaries' bank facilities.

Capital commitments

Capital expenditure contracted for as at the end of the financial year but not recognized in the financial statements in respect of property, plant and equipment is $157,000 (2017: $Nil).

NOTES TO THE **FINANCIAL STATEMENTS**
31 DECEMBER 2018

40. FAIR VALUE OF ASSETS AND LIABILITIES

A) Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

B) Assets and liabilities measured at fair value

The following table shows an analysis of each class of assets measured at fair value at the balance sheet date:

	Group 2018 Fair value measurements at the balance sheet date			
	Quoted prices in active markets for identical instruments (Level 1) $'000	Significant observable inputs other than quoted prices (Level 2) $'000	Significant unobservable inputs (Level 3) $'000	Total $'000
Recurring fair value measurements				
Non-financial assets				
Property, plant and equipment				
Freehold land	–	–	9,300	9,300
Freehold buildings	–	–	2,000	2,000
Leasehold land and buildings	–	–	14,430	14,430
Total property, plant and equipment	–	–	25,730	25,730
Financial assets at FVOCI				
Unquoted equity shares	–	–	538	538

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

40. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

B) Assets and liabilities measured at fair value (Continued)

	Group 2017 Fair value measurements at the balance sheet date			
	Quoted prices in active markets for identical instruments (Level 1) $'000	Significant observable inputs other than quoted prices (Level 2) $'000	Significant unobservable inputs (Level 3) $'000	Total $'000
Recurring fair value measurements				
Non-financial assets				
Property, plant and equipment				
Freehold land	–	–	9,000	9,000
Freehold buildings	–	–	2,000	2,000
Leasehold land and buildings	–	–	14,300	14,300
Total property, plant and equipment	–	–	25,300	25,300
Available-for-sale financial assets				
Unquoted equity shares	–	–	538	538

Level 3 fair value measurements

Financial assets at FVOCI – Unquoted equity shares

The fair values of the unquoted equity shares are determined by reference to the equity value of the investee company based on valuation performed by an independent external valuer. The equity value of the investee company is determined by the independent valuer using income approach and cross checked with market approach. The valuation using income approach has been determined based on discounted cash flow analysis from forecast provided by the investee company covering a five-year period. The pre-tax discount rate applied to the cash flow projection and forecasted growth rate used to extrapolate cash flow projection beyond five-year period are 16.58% (2017: 16.70%) and 5.3% (2017: 5.5%) respectively.

Available-for-sale financial assets – Unquoted equity shares

In 2017, the fair value of unquoted equity shares that are not traded in an active market is determined by reference to a valuation report prepared by an independent external valuer.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

40. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

B) Assets and liabilities measured at fair value (Continued)

Level 3 fair value measurements (Continued)

The following table shows the significant unobservable inputs used in the valuation model:

Description	Fair value as at 31 December 2018 $'000	Valuation technique	Significant unobservable input	Range
Freehold land	**9,300**	Direct comparison method	Price per square foot[1]	$1,014 – $1,582
Freehold buildings	**2,000**	Direct comparison method	Price per square foot[1]	$1,014 – $1,582
Leasehold land and buildings	**14,430**	Direct comparison method	Price per square foot[1]	$82 – $197

Description	Fair value as at 31 December 2017 $'000	Valuation technique	Significant unobservable input	Range
Freehold land	9,000	Direct comparison method	Price per square foot[1]	$1,170 – $2,336
Freehold buildings	2,000	Direct comparison method	Price per square foot[1]	$1,170 – $2,336
Leasehold land and buildings	14,300	Direct comparison method	Price per square foot[1]	$79 – $268

[1] Any significant isolated increases (decreases) in the inputs would result in a significantly higher (lower) fair value measurement.

40. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

C) *Movements in Level 3 assets and liabilities measured at fair value*

The following table shows a reconciliation from the beginning balances to the ending balances for Level 3 fair value measurements:

	2018 Freehold/ leasehold land and buildings $'000	2017 Freehold/ leasehold land and buildings $'000
Balance at beginning of financial year	**25,300**	25,300
Additions	**8**	–
Reclassification	**406**	–
Surplus recognised in other comprehensive income	**792**	739
Depreciation charge	**(776)**	(739)
	25,730	25,300
Total gains for the financial year included:		
Other comprehensive income for the year, net of tax:		
Revaluation adjustment on property, plant and equipment	**709**	613

D) *Valuation process applied by the Group*

For all significant financial reporting valuations using valuation models and significant unobservable input, it is the Group's policy to engage external valuation experts to perform the valuation. The management is responsible for selecting and engaging valuation experts that possess the relevant credentials and knowledge on the subject of valuation, valuation methodologies and SFRS(I) 13 fair value measurement guidance.

For valuation performed by external valuation experts, management reviews the appropriateness of the valuation methodologies and assumptions adopted, including the appropriateness and reliability of the inputs used in the valuations.

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

The carrying amounts of financial assets and liabilities including current trade and other receivables and payables, deposits, cash and cash equivalents, financial receivable, amounts due to bankers, loans and borrowings (current), amounts due from/to subsidiaries/associates and a related party and other receivables (non-current) are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are repriced to market interest rates on or near the end of the financial year.

The carrying amount of other receivables (non-current) approximates its fair value as the interest rate of 7% (2017: 7%) per annum is similar to the current market interest rate for similar financial instruments.

The carrying amount of floating rate loans approximate fair value as the loans are repriced within 1 to 6 months from the end of the financial year. The fair value determination is classified in Level 3 of the fair value hierarchy.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

40. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

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

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

	2018		2017	
	Carrying amount $'000	**Fair Value $'000**	**Carrying amount $'000**	**Fair Value $'000**
Group				
Financial assets:				
Investment in partnership, at cost	–	–	20	(a)
Amount due from a related party (non-current)	–	–	6,203	(b)
Amount due from an associate (non-current)	–	–	4,588	(c)
Company				
Financial assets:				
Loans to subsidiaries	**12,888**	**(d)**	10,432	(d)
Amounts due from subsidiaries	–	–	4,588	(c)
Financial liability:				
Amounts due to subsidiaries	**19,716**	**(e)**	21,335	(e)

(a) Fair value information has not been disclosed for the Group's investment in equity instruments that are carried at cost because fair value cannot be measured reliably. The equity instrument represents ordinary shares in a Brunei partnership entity that is not quoted on any market and does not have any comparable industry peer that is listed.

(b) Fair value information has not been disclosed for the Group's amount due from a related party because fair value cannot be measured reliably. The amount has no repayment terms and is not expected to be repaid in the near future.

(c) Fair value information has not been disclosed for the Company's amounts due from subsidiaries and the Group's amount due from an associate (non-current) because fair value cannot be measured reliably. The amount has no repayment terms and is not expected to be repaid in the near future.

(d) Fair value information has not been disclosed for the Company's loans to subsidiaries because fair value cannot be measured reliably. Management determined that the loans to subsidiaries are quasi-equity in nature which have no repayment terms and are repayable only when cash flows of the subsidiaries permit.

(e) Fair value information has not been disclosed for the Company's amounts due to subsidiaries because fair value cannot be measured reliably. The amount has no repayment terms and is not expected to be repaid in the near future.

NOTES TO THE **FINANCIAL STATEMENTS**
31 DECEMBER 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group and the Company are exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks comprise credit risk, liquidity risk, interest rate risk and foreign currency risk. The board of directors reviews and agrees policies and procedures for the management of these risks, which are executed by the Chief Financial Officer. The Audit Committee provides independent oversight to the effectiveness of the risk management process.

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 has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures these 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 and the Company's exposure to credit risk arises primarily from trade and other receivables, amounts due from subsidiaries, associates and a related party and financial receivable. For other financial assets (including other investments, fixed and bank deposits and cash and bank balances), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis to reduce the Group's exposure to bad debt. For transactions that do not occur in the country of the relevant operating unit, the Group does not offer credit terms without the approval of the directors. Trade receivables are arranged to be settled via letters of credits issued by reputable banks in countries where the customers are based for first-time customers who wish to trade on credit terms in order to mitigate heightened credit risks arising from revenue growth strategies.

The following sets out the Group's internal credit evaluation practices and basis for recognition and measurement of expected credit losses (ECL):

Description of evaluation of financial assets	**Basis for recognition and measurement of ECL**
Counterparty has a low risk of default and does not have any past due amounts	12-month ECL
Contractual payments are more than 60 days past due or where there has been significant increase in credit risk since initial recognition. The presumption of significant increase in credit risk after 30 days past due is not suitable for application in the industries that the Group operates in.	Lifetime ECL- not-credit-impaired
Contractual payments are more than 120 days past due and there is evidence of credit impairment	Lifetime ECL – credit-impaired
There is evidence indicating that the Group has no reasonable expectation of recovery of payments such as when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.	Write-off

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) *Credit risk* (Continued)

Significant increase in credit risk

In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial asset as at the reporting date with the risk of a default occurring on the financial asset as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information, such as future economic and industry outlook, that is available without undue cost or effort.

In particular, the Group considers the following information when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in the value of the security or collateral provided by the debtor; and
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Regardless of the evaluation of the above factors, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 60 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group also assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if the borrower has a strong capacity to meet its contractual cash flow obligations in the near term or the contractual cashflow obligation is secured by the borrower's assets; and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Credit risk (Continued)

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet the following criteria are generally not recoverable.

- Information developed internally or obtained from external sources indicates that the debtor (without collaterals held by the Group) is in significant financial difficulty such that it will have insufficient liquid assets to pay its creditors, including the Group, in full, including:

  – Failure of projects carried out by the debtor, in which the Group is acting as the supplier for the debtor under the project; and

  – Loss of sole or primary source of recurring income by the debtor.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 120 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred such as evidence that the borrower is in significant financial difficulty, there is a breach of contract such as default or past due event; there is information that it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Estimation techniques and significant assumptions

There has been no change in the estimation techniques or significant assumptions made during the current financial year for recognition and measurement of credit loss allowances.

Exposure to credit risk

As the Group and the Company does not hold any collateral except for loan to shareholder of an investee company (Note 10) and a trade receivable (Note 14), the maximum exposure to credit risk is represented by:

– the carrying amount of each class of financial assets recognised in the balance sheets and

– a nominal amount of $20.3 million (2017: $33.5 million) relating to corporate guarantees provided by the Company to financial institutions in relation to certain subsidiaries' bank facilities.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) ***Credit risk*** (Continued)

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country and industry sector profile of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's trade receivables at the end of the financial year is as follows:

	Group			
	2018		2017	
	$'000	% of total	$'000	% of total
By country:				
Singapore	**2,569**	**10.8**	2,723	5.9
Indonesia	**15,691**	**65.7**	39,613	85.4
Malaysia	**705**	**3.0**	164	0.4
People's Republic of China	**2,048**	**8.6**	1,713	3.7
United Arab Emirates	**64**	**0.3**	136	0.3
Canada	**130**	**0.5**	224	0.5
Vietnam	**223**	**0.9**	301	0.6
Thailand	**2,081**	**8.7**	1,065	2.3
Others	**356**	**1.5**	431	0.9
	23,867	**100.0**	46,370	100.0
By industry sectors:				
Oil and Gas	**13,231**	**55.4**	39,973	86.2
Marine	**1,096**	**4.6**	1,020	2.2
Infrastructure	**5,691**	**23.9**	2,821	6.09
Others	**3,849**	**16.1**	2,556	5.51
	23,867	**100.0**	46,370	100.0

At the end of the financial year, approximately:

– 75.5% (2017: 85.4%) of the Group's trade receivables were due from 5 major customers who are from the oil and gas, infrastructure and others industries located in the Asia Pacific region, of which 32.2% (2017: 72.4%) were due from the Group's largest customer;

– 17.5% (2017: 18.1%) of the Group's trade and other receivables were due from related parties while none of the Company's other receivables were balances with related parties; and

– 45% (2017: 41%) of the Group's other receivables and 87% (2017: 53%) of the Company's other receivables were due from one external debtor.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) ***Credit risk*** (Continued)

Trade receivables

The Group has applied the simplified approach to measure the lifetime expected credit loss allowance for trade receivables.

The Group estimates the expected credit loss rates for each category of past due status of the debtors based on historical credit loss experience adjusted as appropriate to reflect current conditions and forecasts of future economic conditions.

The Group recognised a loss allowance of 100% against certain trade receivables over 360 days past due because of historical experience has indicated that these receivables are generally not recoverable.

No loss allowance is provided for certain customers as the Group's credit risk is managed through payments from the end customer (who are mainly reputable companies) to the Group's customer into a joint account. Such joint accounts would have the Group as a mandatory payment signatory and hence limit the Group's credit risk exposure.

A trade receivable is written off when there is information indicating that there is no realistic prospect of recovery from the debtor.

Credit quality of financial assets

The table below details the credit quality of the Group's financial assets as at 31 December 2018:

Group	12-month or lifetime ECL	Gross carrying amount $'000	Loss allowance $'000	Net carrying amount $'000
Trade receivables	Lifetime	**26,357**	**(2,490)**	**23,867**
Other receivables	12-month	**19,954**	**–**	**19,954**
	Lifetime	**2,266**	**(2,266)**	**–**
Deposits	Not applicable (Exposure limited)	**78**	**–**	**78**
Financial receivable	Lifetime	**3,685**	**(3,385)**	**300**
Amount due from associates	12-month	**2,979**	**–**	**2,979**
	Lifetime	**456**	**(456)**	**–**
Amount due from a related party	12-month	**6,327**	**–**	**6,327**
Fixed and bank deposits	Not applicable (Exposure limited)	**1,398**	**–**	**1,398**
Cash and bank balances	Not applicable (Exposure limited)	**8,968**	**–**	**8,968**

NOTES TO THE **FINANCIAL STATEMENTS**
31 DECEMBER 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) ***Credit risk*** (Continued)

Credit quality of financial assets (Continued)

The table below details the credit quality of the Company's financial assets as at 31 December 2018:

Company	12-month or lifetime ECL	Gross carrying amount $'000	Loss allowance $'000	Net carrying amount $'000
Loans to subsidiaries	Lifetime	**101,334**	**(84,628)**	**16,706**
Other receivables	12-month	**13,068**	–	**13,068**
Deposits	Not applicable (Exposure limited)	**24**	–	**24**
Amount due from subsidiaries	12-month	**1,875**	–	**1,875**
	Lifetime	**2,220**	**(2,220)**	–
Amount due from associates	12-month	**50**	–	**50**
	Lifetime	**42**	**(42)**	–
Fixed and bank deposits	Not applicable (Exposure limited)	**1,363**	–	**1,363**
Cash and bank balances	Not applicable (Exposure limited)	**188**	–	**188**

Loan to a shareholder of an investee company

For loan to a shareholder of an investee company, which is secured by the shareholder's shares in the investee company, impairment loss allowance is measured using 12-month ECL and by taking into consideration the fair value of the pledged shares. The Group assessed the fair value of the pledged shares by reference to the equity value of the investee company based on valuation performed by an independent external valuer and concluded that there has been no significant increase in the credit risk since the initial recognition of the loan. Accordingly, the Group measured the impairment loss allowance using 12-month ECL and determined that the ECL is insignificant.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) ***Credit risk*** (Continued)

Movements in credit loss allowance

There are no movement in the allowance for impairment of financial assets under SFRS (I) 9 during the financial year for the Group and Company except for the following:

	Trade receivables $'000	Other receivables $'000	Financial receivables $'000	Amount due from associates $'000
Group				
Balance at 1 January 2018	**2,331**	**2,197**	**3,507**	**521**
Loss allowance measured/(reversed):				
Lifetime ECL				
– Credit-impaired	**399**	**24**	**–**	**3**
Receivables written off as uncollectable	**(67)**	**–**	**–**	**(72)**
Written back	**(147)**	**–**	**–**	**(4)**
Exchange differences	**(26)**	**45**	**(122)**	**8**
Balance at 31 December 2018	**2,490**	**2,266**	**3,385**	**456**

	Loans to subsidiaries $'000	Amount due from subsidiaries $'000	Amount due from associates $'000
Company			
Balance at 1 January 2018	**74,761**	**8,103**	**41**
Loss allowance measured/(reversed):			
Lifetime ECL			
– Credit-impaired	**3,400**	**–**	**–**
Reclassification from amount due from subsidiaries	**5,955**	**–**	**–**
Reclassification to investment in subsidiaries	**–**	**(5,955)**	**–**
Exchange differences	**512**	**72**	**1**
Balance at 31 December 2018	**84,628**	**2,220**	**42**

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) ***Credit risk*** (Continued)

Financial guarantee

The Company has issued financial guarantees to banks for borrowings of its subsidiaries. These guarantees are subject to the impairment requirements of SFRS(I) 9. The Company has assessed that its subsidiaries have strong financial capacity to meet the contractual cash flow obligations and does not expect significant credit losses arising from these guarantees.

Previous accounting policy for impairment of financial assets

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. Fixed and bank deposits, cash and bank balances and other investments 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 14 and Note 15 (Current trade and other receivables) and Notes 16 to 18 (Amounts due from subsidiaries, associates and a related party).

(b) ***Liquidity risk***

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group's and the Company's liquidity risk management policy is that the maturity of loans and borrowings would match that of the estimated future cash flows of the projects and trading activities. The Group maintains sufficient liquid financial assets and stand-by credit facilities with 8 different financial institutions. At the end of the financial year, approximately 69% (2017: 73%) of the Group's loans and borrowings (Note 25 and Note 26) will mature in less than one year based on the carrying amount reflected in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) *Liquidity risk* (Continued)

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

	2018				2017			
	1 year or less $'000	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**	**1 year or less $'000**	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
Group								
Financial assets:								
Trade and other receivables	**30,726**	**13,022**	**198**	**43,946**	50,706	–	13,227	63,933
Deposits	**78**	**–**	**–**	**78**	62	–	–	62
Financial receivable	**2,507**	**–**	**–**	**2,507**	762	1,407	–	2,169
Fixed and bank deposits, cash and bank balances	**10,390**	**–**	**–**	**10,390**	12,141	–	–	12,141
Amounts due from associates	**2,979**	**–**	**–**	**2,979**	3,263	4,588	–	7,851
Amount due from a related party	**6,327**	**–**	**–**	**6,327**	–	–	6,203	6,203
Total undiscounted financial assets	**53,007**	**13,022**	**198**	**66,227**	66,934	5,995	19,430	92,359
Financial liabilities:								
Trade and other payables	**17,902**	**–**	**–**	**17,902**	23,122	–	–	23,122
Amounts due to associates	**10**	**–**	**–**	**10**	1,216	–	–	1,216
Amount due to a related party	**1,926**	**–**	**–**	**1,926**	2,009	–	–	2,009
Loans and borrowings	**17,202**	**8,048**	**–**	**25,250**	27,450	9,631	1,273	38,354
Total undiscounted financial liabilities	**37,040**	**8,048**	**–**	**45,088**	53,797	9,631	1,273	64,701
Total net undiscounted financial assets/ (liabilities)	**15,967**	**4,974**	**198**	**21,139**	13,137	(3,636)	18,157	27,658

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) ***Liquidity risk*** (Continued)

	2018				2017			
	1 year or less $'000	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**	**1 year or less $'000**	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
Company								
Financial assets:								
Trade and other receivables	**46**	**13,022**	**–**	**13,068**	18	–	13,022	13,040
Deposits	**24**	**–**	**–**	**24**	10	–	–	10
Amounts due from subsidiaries	**1,875**	**–**	**–**	**1,875**	7,026	4,588	–	11,614
Loans to subsidiaries	**–**	**–**	**17,761**	**17,761**	–	–	15,263	15,263
Amounts due from associates	**50**	**–**	**–**	**50**	49	–	–	49
Cash and fixed deposits	**1,575**	**–**	**–**	**1,575**	2,003	–	–	2,003
Total undiscounted financial assets	**3,570**	**13,022**	**17,761**	**34,353**	9,106	4,588	28,285	41,979
Financial liabilities:								
Trade and other payables	**490**	**–**	**–**	**490**	947	–	–	947
Amounts due to associates	**–**	**–**	**–**	**–**	243	–	–	243
Amounts due to subsidiaries	**1,226**	**–**	**19,716**	**20,942**	1,217	–	21,335	22,552
Total undiscounted financial liabilities	**1,716**	**–**	**19,716**	**21,432**	2,407	–	21,335	23,742
Total net undiscounted financial assets/ (liabilities)	**1,854**	**13,022**	**(1,955)**	**12,921**	6,699	4,588	6,950	18,237

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) ***Liquidity risk*** (Continued)

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.

	2018				2017			
	1 year or less $'000	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**	**1 year or less $'000**	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
Company								
Financial guarantees*	**20,322**	**–**	**–**	**20,322**	33,500	–	–	33,500

* At the balance sheet date, the maximum exposure of the Company in respect of the intra-group financial guarantee based on facilities drawndown by the subsidiaries is $20,322,000 (2017: $33,500,000). The Company does not consider it probable that a claim will be made against the Company under the intra-group financial guarantee.

(c) ***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 and the Company's exposure to interest rate risk arises primarily from their loans and borrowings and interest-bearing loans given to related parties.

The Group's policy is to manage interest cost by using a mix of fixed and floating rate debts. At the end of the financial year, 45% (2017: 33%) of the Group's borrowings are at fixed rates of interest.

Sensitivity analysis for interest rate risk

The sensitivity analysis for interest rate is not disclosed as the effect on the profit or loss is considered not significant.

(d) ***Foreign currency risk***

The Group has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currencies of Group entities, primarily SGD, USD, GBP and THB. The foreign currencies in which these transactions are denominated are mainly USD and SGD.

The Group and the Company also hold cash and cash equivalents denominated in foreign currencies for working capital purposes. At the end of the financial year, such foreign currency balances are mainly in USD for the Group and the Company.

The Group does not use derivative financial instruments to protect against the volatility associated with its foreign currency investments. The Group is also exposed to currency translation risk arising from its net investments in foreign operations, including United Kingdom, Indonesia, the PRC and Thailand. The Group's investment in its Singapore incorporated subsidiaries are hedged by USD denominated bank loans, which mitigates structural currency in exposures arising from the subsidiaries' net assets. The Group's net investments in subsidiaries in USD, GBP, IDR, RMB and THB functional currency are not hedged as these currencies positions are considered to be long-term in nature.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) ***Foreign currency risk*** (Continued)

The Group's and the Company's major foreign currency exposure against the respective functional currencies of the Group and the Company entities based on the information provided by key management is as follows:

Group

	Denominated in USD $'000
2018	
Financial assets	
– Trade receivables	**8,192**
– Other receivables	**6,173**
– Amounts due from associates	**11**
– Amounts due from related companies	**8,187**
– Fixed deposits	**1,363**
– Cash and bank balances	**5,253**
	29,179
Financial liabilities	
– Trade payables	**2,136**
– Other payables	**195**
– Amounts due to bankers	**2,202**
– Amounts due to related companies	**14,410**
	18,943
Currency exposure on net financial assets	**10,236**
2017	
Financial assets	
– Trade receivables	33,300
– Other receivables	3,540
– Amounts due from associates	13
– Amounts due from related companies	10,231
– Fixed deposits	1,389
– Cash and bank balances	6,515
	54,988
Financial liabilities	
– Trade payables	4,310
– Other payables	220
– Amounts due to bankers	17,760
– Amounts due to related companies	14,178
	36,468
Currency exposure on net financial assets	18,520

NOTES TO THE **FINANCIAL STATEMENTS**
31 DECEMBER 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) ***Foreign currency risk*** (Continued)

Company

	Denominated in USD $'000
2018	
Financial assets	
– Other receivables	**7**
– Amount due from associates	**11**
– Amounts due from subsidiaries	**849**
– Loans to subsidiaries	**6,414**
– Fixed deposits	**1,363**
– Cash and bank balances	**14**
	8,658
Financial liabilities	
– Other payables	**195**
– Amounts due to subsidiaries	**20,443**
	20,638
Currency exposure on net financial liabilities	**(11,980)**
2017	
Financial assets	
– Other receivables	4
– Amount due from associates	11
– Amounts due from subsidiaries	5,486
– Loans to subsidiaries	3,743
– Fixed deposits	1,389
– Cash and bank balances	26
	10,659
Financial liabilities	
– Other payables	191
– Amounts due to subsidiaries	22,047
	22,238
Currency exposure on net financial liabilities	(11,579)

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) ***Foreign currency risk*** (Continued)

Sensitivity analysis for foreign currency risk

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

	Increase/(decrease)	
	Loss net of tax	**Profit net of tax**
	2018	**2017**
	$'000	**$'000**
Group		
USD – strengthened 5.0% (2017: 5.0%)	**(425)**	769
– weakened 5.0% (2017: 5.0%)	**425**	(769)
Company		
USD – strengthened 5.0% (2017: 5.0%)	**497**	(481)
– weakened 5.0% (2017: 5.0%)	**(497)**	481

42. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratio in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 2017.

As disclosed in Note 31, subsidiaries in the PRC are required by the Foreign Enterprise Law of the PRC to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the above-mentioned subsidiaries for the financial years ended 31 December 2018 and 2017.

The Group monitors capital using a gearing ratio, which is total debt divided by equity. The Group's policy is to ensure that the gearing ratio does not exceed 2.0. The Group's total debt includes amounts due to bankers and term loans. Equity includes the amount attributable to the owners of the Company less other reserves (Note 31).

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

42. CAPITAL MANAGEMENT (CONTINUED)

	Group	
	2018	**2017**
	$'000	**$'000**
Amounts due to bankers (Note 25)	**8,067**	19,311
Term loans (Note 26)	**15,887**	17,180
	23,954	36,491
Equity attributable to the owners of the Company	**80,631**	87,452
Less: Other reserves (Note 31)	**976**	976
Total equity	**81,607**	88,428
Gearing ratio	**0.29**	0.41

43. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Set out below are the carrying amounts of the Group's and Company's financial assets and financial liabilities that are carried on the balance sheets:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets				
Loans and receivables (including cash and bank balances)	**–**	90,749	**–**	40,876
Available-for-sale financial assets	**–**	558	**–**	538
Financial assets at fair value through other comprehensive income (Note 9)	**538**	–	**538**	–
Financial assets at amortised costs	**63,871**	–	**33,274**	–
	64,409	91,307	**33,812**	41,414
Financial liabilities				
At amortised cost	**43,792**	62,838	**21,432**	23,742

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

44. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services, and has six reportable operating segments as follows:

I. Trading segment is a supply of assembly and distribution of flowline control products, distribution of oilfield drilling equipment for use on onshore and offshore rigs and drilling platforms, provision of complete fire protection and detection systems, as well as electrical products for the marine, coal mining, oil and gas, petrochemical and pharmaceutical industries. In these respects, the Group offers products and related services in the areas of oil and gas, power, petrochemical and pharmaceutical industries.

II. Manufacturing/Design/Research and Development segment is involved in research, development, design and manufacture of flowline control products, high pressure and temperature valves and related oilfield products.

III. Marine Logistics segment is in the business of chartering of vessels to the offshore oil and gas and other related industries.

IV. Energy and Utilities segment is involved in procurement and construction projects of waste water treatment facility and provision of wastewater treatment services to the end-users.

V. Resources segment is in the business of sales and mining of coal and other natural resources.

VI. Corporate and Others segment is involved in Group level corporate services and treasury functions and operating and maintenance of oil and gas facility services.

Geographical Information

The Group's geographical segments are based on the location of the Group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers. Others include countries such as India, Australia, Denmark and Netherlands.

Non-current assets consist of property, plant and equipment, investment in associates and intangible asset (excluding goodwill) as presented in the Group's balance sheet.

Information about major customers

During the financial year, there was 1 customer (2017: 1 customer) which contributed at least 10% of the Group's revenue of $4,882,000 (2017: $91,414,000). The revenue is attributable to the trading segment.

44. SEGMENT INFORMATION (CONTINUED)

Business segments

	Trading		Manufacturing/ Design/Research and Development		Marine Logistics		Energy and Utilities		Resources		Corporate/Others		Eliminations		Note	Per consolidated financial statements	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000		2018 $'000	2017 $'000
Revenue:																	
External customers	**39,821**	127,390	**2,926**	1,731	**–**	–	**488**	837	**–**	–	**–**	–	**–**	–		**43,235**	129,958
Intersegment sales	**209**	115	**1,043**	999	**–**	–	**–**	–	**–**	–	**2,902**	2,904	**(4,154)**	(4,018)	A	**–**	–
Total revenue	**40,030**	127,505	**3,969**	2,730	**–**	–	**488**	837	**–**	–	**2,902**	2,904	**(4,154)**	(4,018)		**43,235**	129,958
Result:	**(930)**	7,771	**(66)**	(274)	**(289)**	(4,119)	**(550)**	(409)	**(824)**	(2,629)	**(552)**	795	**(429)**	3,275	B	**(3,640)**	4,410
Depreciation and amortisation	**(1,030)**	(1,002)	**(42)**	(34)	**–**	–	**(2)**	(4)	**–**	–	**(1,008)**	(1,050)	**–**	–		**(2,082)**	(2,090)
Other non-cash (expenses)/income	**(1,738)**	(3,882)	**(62)**	–	**–**	3,780	**(10)**	(22)	**–**	423	**(3,400)**	(986)	**3,819**	2,489	C	**(1,391)**	1,802
Finance costs	**(1,264)**	(1,222)	**(90)**	(198)	**–**	–	**–**	–	**–**	–	**–**	–	**206**	302		**(1,148)**	(1,118)
Interest income																**671**	1,890
Share of results of associates and joint venture																**986**	474
(Loss)/profit before tax																**(6,604)**	5,368
Income tax credit/ (expense)																**103**	(1,447)
(Loss)/profit for the year																**(6,501)**	3,921

NOTES TO THE **FINANCIAL STATEMENTS**
31 DECEMBER 2018

44. **SEGMENT INFORMATION** (CONTINUED)

Business segments (Continued)

	Trading		Manufacturing/ Design/Research and Development		Marine Logistics		Energy and Utilities		Resources		Corporate/Others		Eliminations		Note	Per consolidated financial statements	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017		2018	2017
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000		$'000	$'000
Assets:	**125,373**	146,848	**2,714**	2,689	**20,402**	24,956	**8,051**	9,054	**–**	–	**100,935**	109,659	**(146,446)**	(152,722)	D	**111,029**	140,484
Investment in associates and joint venture	**63**	–	**–**	–	**4,275**	3,276	**–**	–	**–**	–	**1,656**	1,472	**–**	–		**5,994**	4,748
Unallocated assets																**722**	665
Total assets																**117,745**	145,897
Liabilities:	**(67,501)**	(83,891)	**(6,376)**	(6,236)	**(91,784)**	(94,708)	**(11,952)**	(12,609)	**(54,311)**	(53,811)	**(58,783)**	(60,311)	**245,442**	246,401	E	**(45,265)**	(65,165)
Unallocated liabilities																**(5,010)**	(5,937)
Total liabilities																**(50,275)**	(71,102)
Other segment information:																	
Additions to non-current assets	**98**	530	**103**	18	**–**	–	**–**	–	**–**	–	**99**	263	**–**	–	F	**300**	811

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

44. SEGMENT INFORMATION (CONTINUED)

Business segments (Continued)

Notes:

A Inter-segment revenue are eliminated on consolidation.

B The following items are (deducted from)/added to segment (loss)/profit to arrive at the segment results.

	2018 $'000	2017 $'000
Interest income from inter-segments	**490**	318
Interest expense from inter-segments	**(480)**	(322)
Profit/(loss) from inter-segments operation	**133**	(3,396)
Exchange differences on quasi-equity loans	**(72)**	9,945
Dividend from an associate	**–**	(29)
Dividend from subsidiaries	**(500)**	(3,241)
	(429)	3,275

C Other non-cash (expenses)/income consist of write back of impairment loss on doubtful receivables, allowance for slow moving inventories, inventories written off, impairment loss on doubtful receivables and other receivables and impairment loss on amount due from associates as presented in the respective notes to the financial statements.

D The elimination refers to inter-segment assets.

E The elimination refers to inter-segment liabilities.

F Additions to non-current assets consist of additions to property, plant and equipment and intangible assets.

Geographical segments

Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follows:

	Revenue		Non-current assets	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
People's Republic of China	**7,227**	8,556	**12**	17
Canada	**1,639**	773	**–**	–
Indonesia	**11,583**	103,806	**9,330**	9,500
Japan	**8**	3	**1,656**	1,471
Malaysia	**1,013**	501	**–**	–
Philippines	**691**	941	**–**	–
Qatar	**126**	220	**–**	–
Singapore	**13,521**	8,834	**27,679**	27,750
Thailand	**4,205**	3,526	**–**	1
United States of America	**315**	294	**–**	–
United Kingdom	**210**	217	**283**	229
United Arab Emirates	**429**	177	**–**	–
Vietnam	**1,211**	1,260	**–**	–
Others	**1,057**	850	**–**	–
Consolidated	**43,235**	129,958	**38,960**	38,968

Non-current assets information presented above consist of property, plant and equipment, investment in associates and intangible assets (excluding goodwill) as presented in the Group's balance sheet.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

45. RELATED PARTY TRANSACTIONS

(a) Sale and purchase of goods and services

In addition to those 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	
	2018 **$'000**	**2017** **$'000**
Sales of goods and services to associates	**–**	3
Shareholder's loans to an associate	**–**	(118)
Repayment of shareholder's loan received from an associate	**5,092**	–
Dividend income from an associate	**–**	29
Rental paid to a director of certain subsidiaries	**(37)**	(37)
Fee from litigation funding agreement entered with a director of certain subsidiaries	**300**	–
(Repayment to)/amount owing to a director of certain subsidiaries	**(14)**	3
Secretarial fee paid to a director-related firm	**(21)**	(24)
Professional fees paid to director-related firms	**(128)**	(169)

Company/firm related to the directors

During the financial year, three of the directors of the Company who are also the directors of a secretarial and professional firm, respectively provided secretarial and professional services to the Group for total amount of approximately $149,000 (2017: $193,000). Approximately $20,000 (2017: $104,000) was outstanding at the end of the financial year.

(b) Compensation of key management personnel

	Group	
	2018 **$'000**	**2017** **$'000**
Directors' fees	**198**	190
Short-term employee benefits	**1,755**	2,159
Defined contributions	**91**	109
Other short-term benefits	**66**	66
Total compensation paid to key management personnel	**2,110**	2,524
Comprise of amounts paid to:		
Directors of the Company	**1,363**	1,790
Other key management personnel	**747**	734
	2,110	2,524

46. AUTHORISATION OF FINANCIAL STATEMENT FOR ISSUE

The financial statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 2 April 2019.

STATISTICS OF **SHAREHOLDINGS**

AS AT 18 MARCH 2019

Class of shares	:	Ordinary shares
Total number of shares (including treasury shares)	:	140,767,484 ordinary shares
Total number of shares (excluding treasury shares)	:	140,667,484 ordinary shares
Number and percentage of treasury shares held	:	100,000 (0.07%)
Number of subsidiary holdings held	:	Nil
Voting rights (excluding treasury shares)	:	One vote per ordinary share

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholding	Number of Shareholders	%	Number of Shares	%
1 – 99	193	4.69	2,919	0.00
100 – 1,000	718	17.45	390,749	0.28
1,001 – 10,000	2,146	52.15	9,571,722	6.80
10,001 – 1,000,000	1,042	25.32	48,553,871	34.52
1,000,001 and above	16	0.39	82,148,223	58.40
Total	4,115	100.00	140,667,484	100.00

TWENTY LARGEST SHAREHOLDERS

No.	Name of Shareholders	Number of Shares	%
1.	Citibank Nominees Singapore Pte Ltd	18,645,636	13.25
2.	KGI Securities (Singapore) Pte. Ltd.	14,634,900	10.40
3.	DBS Nominees Pte Ltd	13,204,245	9.39
4.	Koh Kian Kiong	9,500,000	6.75
5.	United Overseas Bank Nominees Pte Ltd	8,693,570	6.18
6.	Phillip Securities Pte Ltd	2,680,220	1.91
7.	Hong Leong Finance Nominees Pte Ltd	2,484,100	1.77
8.	Koh May Ling Judy (Xu Meiling Judy)	2,128,400	1.51
9.	Ling Kee Poh	1,650,000	1.17
10.	UOB Kay Hian Pte Ltd	1,572,965	1.12
11.	RHB Securities Singapore Pte Ltd	1,493,300	1.06
12.	OCBC Nominees Singapore Pte Ltd	1,255,512	0.89
13.	Koh Yan Yock	1,119,200	0.80
14.	Raffles Nominees (Pte) Limited	1,039,704	0.74
15.	OCBC Securities Private Ltd	1,034,587	0.74
16.	CGS-CIMB Securities (Singapore) Pte Ltd	1,011,884	0.72
17.	Chan Keng Mun	798,500	0.57
18.	Tang Joo Kok	787,700	0.56
19.	Chan Tat Soon	780,000	0.55
20.	Phang Yeh Fenn	754,300	0.54
	Total	85,268,723	60.62

STATISTICS OF **SHAREHOLDINGS**

AS AT 18 MARCH 2019

SHAREHOLDING OF THE SUBSTANTIAL SHAREHOLDERS
(As recorded in the Register of Substantial Shareholders as at 18 March 2019)

Name	Direct Interest	%	Deemed Interest	%
Fame Asia Limited	16,055,989	11.41	–	–
Leung Kwok Hung, Jonathan[(i)]	–	–	16,055,989	11.41
Yang Yi-Chung	8,608,174	6.12	–	–
Koh Kian Kiong[(ii)]	9,500,000	6.75	18,150,000	12.90

Notes:

(i) Mr Leung Kwok Hung, Jonathan has a deemed interest in 16,055,989 ordinary shares held by Fame Asia Limited.

(ii) Mr Koh Kian Kiong has 6,750,000 ordinary shares held under the name of United Overseas Bank Nominees Pte Ltd and 11,400,000 ordinary shares held under the name of KGI Securities (Singapore) Pte Ltd.

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

Based on information available to the Company as at 18 March 2019, there were approximately 60.06% of the Company's total number of issued ordinary shares (excluding preference shares, convertible equity securities and treasury shares) held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

NOTICE OF **ANNUAL GENERAL MEETING**

NOTICE IS HEREBY GIVEN that the Annual General Meeting of FEDERAL INTERNATIONAL (2000) LTD (the "**Company**") will be held at 47 Genting Road, Singapore 349489 on Tuesday, 30 April 2019 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 for the financial year ended 31 December 2018 together with the Auditor's Report thereon. **(Resolution 1)**

2. To re-elect the following Directors of the Company retiring pursuant to Regulation 91 of the Constitution of the Company:

   Mr Koh Beng Guan, Don **(Resolution 2)**

   Mr Khoo Boo Yeow, Andrew **(Resolution 3)**

   Mr Khoo Boo Yeow, Andrew will, upon re-election as a Director of the Company, remain as a member of Audit Committee and Remuneration Committee of the Company. Mr Khoo Boo Yeow, Andrew will be considered independent for the purpose of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**").

3. To re-elect Mr Loh Eu Tse, Derek, who is retiring pursuant to Regulation 97 of the Constitution of the Company, as a Director of the Company. **(Resolution 4)**

   Mr Loh Eu Tse, Derek will, upon re-election as a Director of the Company, remain as a member of Audit Committee and Nominating Committee of the Company. Mr Loh Eu Tse Derek will be considered independent for the purpose of Rule 704(8) of the Listing Manual of the SGX-ST.

4. To approve the payment of additional Director's fee of S$8,334 to Non-Executive and Independent Director of the Company for the financial year ended 31 December 2018. **(Resolution 5)**

5. To approve the Directors' fees of S$240,000 to Non-Executive and Independent Directors of the Company for the financial year ending 31 December 2019, to be paid quarterly in arrears (FY2018: S$190,000). **(Resolution 6)**

6. To re-appoint Baker Tilly TFW LLP as the Auditor of the Company and to authorise the Directors of the Company to fix its remuneration. **(Resolution 7)**

7. To transact any other ordinary business which may be properly transacted at the Annual General Meeting of the Company.

AS SPECIAL BUSINESS

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

8. **Authority to issue shares**

   That pursuant to Section 161 of the Companies Act (Cap. 50) ("**Companies Act**") and Rule 806 of the Listing Manual 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,

   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

NOTICE OF **ANNUAL GENERAL MEETING**

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

provided that:

(1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed 50% of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a pro rata basis to shareholders of the Company shall not exceed 20% of the total number of issued shares (excluding treasury shares and subsidiary holdings) 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 that may be issued, the total number of issued shares (excluding treasury shares and subsidiary holdings) shall be based on the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

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

(b) new shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution, provided the share options or share awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST; and

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

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST 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, such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (i)] **(Resolution 8)**

9. **Proposed Renewal of Share Buyback Mandate**

That:

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

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

NOTICE OF **ANNUAL GENERAL MEETING**

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

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

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

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

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

(ii) the date on which the Share Buyback Mandate has been carried out to the full extent mandated; or

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

(d) in this Resolution:

"**Average Closing Price**" means the average of the closing market prices of a Share over the last five consecutive Market Days on which the Shares are transacted on the SGX-ST or, as the case may be, such securities exchange on which the Shares are listed or quoted, immediately preceding the date of the Market Purchase by the Company or, as the case may be, the date of the making of the offer pursuant to the Off-Market Purchase, and deemed to be adjusted, in accordance with the Listing Manual, for any corporate action that occurs after the relevant five-day period;

"**date of the making of the offer**" means the day on which the Company announces its intention to make an offer for the purchase of Shares from the Shareholders, stating the purchase price (which shall not be more than the Maximum Price calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase;

"**Market Day**" means a day on which the SGX-ST is open for trading in securities;

"**Maximum Limit**" means 10% of the issued shares of the Company (excluding treasury shares and subsidiary holdings) as at the date of passing of this Resolution, unless the Company has, at any time during the Relevant Period, reduced its share capital in accordance with the applicable provisions of the Companies Act, in which event the issued ordinary share capital of the Company shall be taken to be the amount of the issued ordinary share capital of the Company as altered (excluding any treasury shares and subsidiary holdings that may be held by the Company from time to time);

NOTICE OF **ANNUAL GENERAL MEETING**

"**Maximum Price**" in relation to the Shares to be purchased or acquired, means the purchase price (excluding brokerage, commissions, stamp duties, applicable goods and services tax, clearance fees and other related expenses) to be paid by the Company for the Shares as determined by the Directors, not exceeding:

(i) in the case of a Market Purchase, 105% of the Average Closing Price; or

(ii) in the case of an Off-Market Purchase, 120% of the Average Closing Price,

in either case, excluding related expenses of the purchase or acquisition;

(e) the Directors of the Company be and are hereby authorised to deal with the Shares purchased or acquired by the Company pursuant to the Share Purchase Mandate in any manner as they think fit, which is permissible under the Companies Act; and

(f) the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated by this Resolution.

[See Explanatory Note (ii)] **(Resolution 9)**

By Order of the Board

Sam Kwai Hoong
Noraini Binte Noor Mohamed Abdul Latiff

Company Secretaries
Singapore, 15 April 2019

NOTICE OF **ANNUAL GENERAL MEETING**

Explanatory Note

(i) Resolution 8, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding the aggregate 50% of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company, of which up to 20% of the total number of issued shares (excluding treasury shares and subsidiary holdings) may be issued other than on a pro-rata basis to shareholders of the Company, 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 Resolution 8 is passed and any subsequent bonus issue, consolidation or subdivision of shares.

(ii) Resolution 9, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or the date on which the Share Buyback Mandate has been carried out to the full extent mandated, or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to purchase or otherwise acquire ordinary shares in the capital of the Company not exceeding in aggregate 10% per cent of the issued ordinary share capital of the Company excluding any treasury shares and subsidiary holdings at such price up to the Maximum Price (as defined above) as at the date of the passing of Resolution 9. The details of the proposed renewal of the share buyback mandate are set out in the Letter to Shareholders accompanying the Annual Report of the Company.

Notes

1. A member of the Company, who is not a relevant intermediary (defined under Section 181 of the Companies Act, Chapter 50 of Singapore) entitled to attend and vote at the Annual General Meeting of the Company, is entitled to appoint not more than two (2) proxies to attend and vote in his/her stead at the Annual General Meeting of the Company. A proxy need not be a member of the Company. Where a member of the Company appoints more than one (1) proxy, the member shall specify the number of shares to be represented by each proxy.

2. A member of the Company, who is a relevant intermediary (defined in Section 181 of the Companies Act, Chapter 50 of Singapore) entitled to attend and vote at the Annual General Meeting of the Company, is entitled to appoint more than two (2) proxies to attend and vote at the Annual General Meeting of the Company. A proxy need not be a member of the Company. Where a member of the Company appoints more than one (1) proxy, the member shall specify the number of shares to be represented by each proxy.

3. If the appointor is a corporation, the instrument appointing a proxy or proxies must be executed under its seal or under the hand of an officer or attorney duly authorised in writing.

4. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 47 Genting Road, Singapore 349489 not less than forty-eight (48) hours before the time appointed for holding the Annual General Meeting of the Company.

Personal Data Privacy

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

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FEDERAL INTERNATIONAL (2000) LTD

(Incorporated In the Republic of Singapore)
(Company Registration No. 199907113K)

IMPORTANT:
For CPF/SRS investors who have used their CPF monies to buy Federal International (2000) Ltd's shares, this Proxy Form is not valid for use and shall be ineffective for all intents and purposes if used or purported to be used by them. CPF/SRS investors should contact their respective agents if they have any queries regarding their appointment as proxies.

PROXY FORM

(Please see notes overleaf before completing this Proxy Form)

*I/We, ______________________________ NRIC/Passport/Registration No. ______________

of ____

of being a member/members of FEDERAL INTERNATIONAL (2000) LTD (the "**Company**"), hereby appoint:

Name	**NRIC/Passport No.**	**No. of Share to be represented by Proxy**
Address		

and/or (delete as appropriate)

Name	**NRIC/Passport No.**	**No. of Share to be represented by Proxy**
Address		

or failing *him/her, the Chairman of the Meeting as *my/our *proxy/proxies to vote for *me/us on *my/our behalf at the Annual General Meeting (the "**Meeting**") of the Company to be held on Tuesday, 30 April 2019 at 47 Genting Road Singapore 349489 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 for, against or abstain from voting at *his/her discretion.

No.	Ordinary Resolutions relating to	No. of Shares For**	No. of Shares Against**
1.	To receive and adopt Directors' Statement and Audited Financial Statements of the Company for financial year ended 31 December 2018 together with Auditor's Report thereon		
2.	To re-elect Mr Koh Beng Guan, Don as a Director of the Company		
3.	To re-elect Mr Khoo Boo Yeow, Andrew as a Director of the Company		
4.	To re-elect Mr Loh Eu Tse, Derek as a Director of the Company		
5.	To approve the payment of additional Director's fee of S$8,334 to Non-Executive and Independent Director of the Company for financial year ended 31 December 2018		
6.	To approve the Directors' fees of S$240,000 to Non-Executive and Independent Directors of the Company for financial year ending 31 December 2019, to be paid quarterly in arrears		
7.	To re-appoint Baker Tilly TFW LLP as Auditor of the Company and to authorise the Directors to fix its remuneration		
8.	To approve the authority to issue shares		
9.	To approve the proposed renewal of Share Buyback Mandate		

** Delete where inapplicable*
*** Each share shall have one vote. 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 ______________ 2019

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

____
Signature of Shareholder(s)/
Common Seal of Corporate Shareholder

Notes

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register, 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, who is not a relevant intermediary (defined under Section 181 of the Companies Act, Chapter 50 of Singapore) and entitled to attend and vote at the Annual General Meeting of the Company, is entitled to appoint not more than two (2) proxies to attend and vote in his/her stead at the Annual General Meeting of the Company. A proxy need not be a member of the Company. Where a member of the Company appoints more than one (1) proxy, the member shall specify the number of Shares to be represented by each proxy.

3. A member of the Company, who is a relevant intermediary (defined under Section 181 of the Companies Act, Chapter 50 of Singapore) and entitled to attend and vote at the Annual General Meeting of the Company, is entitled to appoint more than two (2) proxies to attend and vote at the Annual General Meeting of the Company. A proxy need not be a member of the Company. Where a member of the Company appoints more than one (1) proxy, the member shall specify the number of Shares to be represented by each proxy.

4. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 47 Genting Road, Singapore 349489 not less than forty-eight (48) hours before the time appointed for the holding the Annual General Meeting of the Company.

5. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his/her attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised in writing.

6. 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 appointing a proxy or proxies, failing which, the instrument appointing proxy or proxies may be treated as invalid.

7. A corporation which is a member of the Company may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at the Annual General Meeting of the Company, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

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/her name in the Depository Register as at seventy-two (72) hours before the time appointed for holding the Annual General Meeting of the Company, as certified by The Central Depository (Pte) Limited to the Company.

Personal Data Privacy

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member of the Company accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 15 April 2019.

FEDERAL INTERNATIONAL (2000) LTD
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