



**AEI CORPORATION LTD.**  
Annual Report 2019



# CONTENTS

2

CHAIRMAN'S STATEMENT

4

BOARD OF DIRECTORS

7

OPERATIONS REVIEW

---

9

STATEMENT OF CORPORATE  
GOVERNANCE

33

DIRECTOR'S INFORMATION

37

FINANCIAL REVIEW

---

122

SHAREHOLDINGS STATISTICS

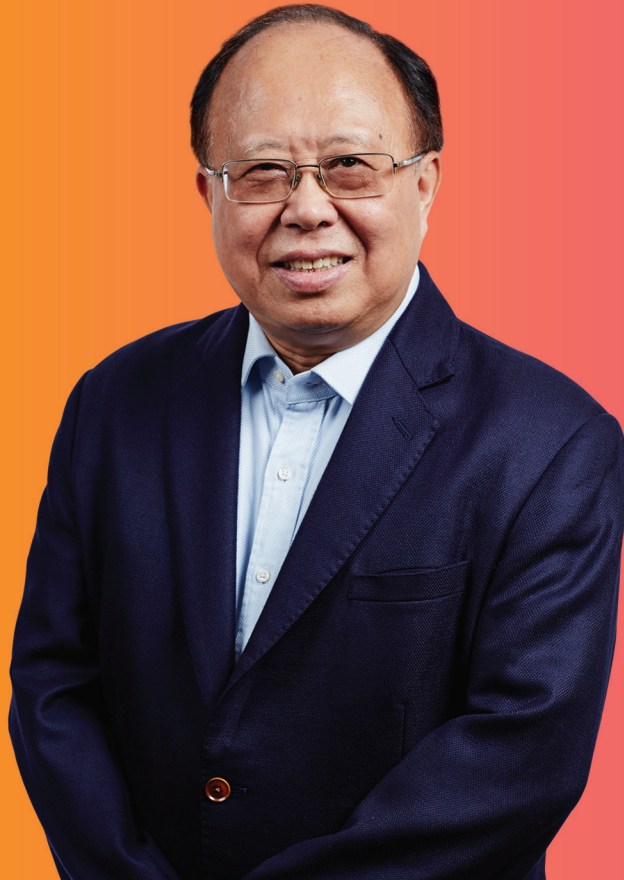
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CORPORATE INFORMATION

# CHAIRMAN'S STATEMENT

## Mr Yeung Koon Sang alias David Yeung

Independent Chairman and  
Non-Executive Director



Dear Fellow Shareholders,

It is a privilege to take over the chairmanship from Mr Sun Quan with effect from 23 March 2020.

Mr Sun Quan took over the helm of the Board in 2018 following the Group's completion of its structuring with New Impetus Strategy Fund (NISF) as its controlling shareholder. I would like to thank Mr Sun for his leadership which led the AEI Group's transformation on a path of business diversification and growth with the goal to inject viable and sustainable business into the Group. In his new role as Executive Director, Mr Sun will continue to play the key role of driving the Company's diversification efforts to acquire a business that is viable and has good growth potential.

**Going forward in 2020, we are well positioned to continue to drive our business diversification and seek new businesses. We will step up efforts to realize our objective of embarking on new initiatives to achieve growth and profitability.**

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During 2019, we devoted considerable time in screening companies across various industries and regions. We are careful with our choices as the goal is to seek businesses with profit-generating potential and viable in the long term. We have refreshed our Board with the appointment of a new director, Mr Li Zibo on 16 December 2019 whose experience in global capital markets, investment strategies and portfolio will benefit the Board in its business acquisitions and M&A. At the same time, we record our appreciation to Mr Ian Tan and Ms Sinta Muchtar who left the Board, for their past valuable contributions to the Group.

The business environment in 2019 had been challenging for the HDD industry and our current business. Due to the challenging and uncertain economic conditions caused by the outbreak of COVID-19, which is still evolving

globally, the agreement for the proposed disposal of our existing aluminium extrusion business had been terminated. Meanwhile, we continue to seek divestments which align with our business transformation. As announced on 30 December 2019, we entered into a put and call option agreement for the sale of the property at 12 Penjuru Lane. The sale is subject to fulfilment of a number of conditions precedent, including the approval of JTC and the approval of shareholders at a General Meeting. The materialisation of the sale will significantly strengthen the Group's already strong cash position.

Going forward in 2020, we are well positioned to continue to drive our business diversification and seek new businesses. We will step up efforts to realize our objective of embarking on new initiatives to achieve growth and profitability.

Last but not least, I would like to extend my sincere gratitude to the management and staff for their unwavering commitment to the Group's business. The Board would also like to express our gratitude to all our shareholders, contractors, suppliers, customers and business partners for their continuous support to bring the Group to a new platform.

**YEUNG KOON SANG  
ALIAS DAVID YEUNG****SUN QUAN****WU PINGWEI**

# BOARD OF DIRECTORS

**YEUNG KOON SANG ALIAS DAVID YEUNG**

is an Independent Chairman and Non-Executive Director of the Group. He was first appointed on 26 December 2003. He was last re-elected on 25 April 2019 as an Independent Director. He is the Audit Committee Chairman and a member of the Nominating and Remuneration Committees. Mr Yeung was appointed as the Lead Independent Director with effect from 20 March 2019. He has over 30 years' experience in public accountancy and is currently a public accountant with Kreston David Yeung PAC which he founded in 1987 and a Director with Daxin Yeung PAC.

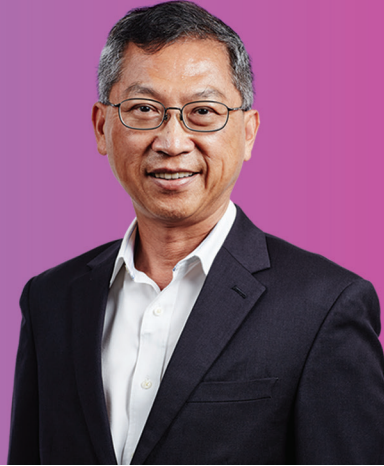
LI ZHIBO



He was conferred the Public Service Medal by the President of the Republic of Singapore in 2001. Mr Yeung holds a Master of Social Science (Accounting) from the University of Birmingham, England. He is also a Fellow of the Institute of Singapore Chartered Accountants and a Fellow of the Association of Chartered Certified Accountants, United Kingdom.

Mr Yeung also holds directorships in other Singapore-listed companies, namely, Citic Envirotech Limited (formerly known as United Envirotech Limited), Ace Achieve Infocom Limited, Southern Packaging Group Limited and CNA Group Limited. Mr Yeung is a non-executive chairman of Mary Chia Holdings Limited. Mr Yeung's past directorships was with China Flexible Packaging Holdings Limited and Shanghai Turbo Enterprises Ltd.

TENG CHEONG KWEE



### SUN QUAN

is the Executive Director of the Company. He was first appointed as a Director of the Company on 30 April 2018. Mr Sun has more than 20 years of investment and management experience in the Greater China region, Singapore, Malaysia, Thailand and Indonesia, covering a variety of business areas including high technology, pharmaceuticals, electronics, real estate, natural resources and chemical industry.

Mr Sun also serves as the Executive Director and CEO of China Capital Impetus Asset Management Pte. Ltd., Executive Director of Capital Impetus Group Limited, Executive Director of New Impetus Strategy Fund, and Non-Executive Director of RHB OSK GC-Millennium Capital Pte. Ltd.

DR VASOO SUSHILAN



Mr. Sun is the standing director of Beijing Overseas Exchange Association and Beijing Overseas Chinese Business Association. He also sits on the board of Schwarzman College at Tsinghua University.

Mr Sun holds a Bachelor of Engineering from Beijing University of Technology, and obtained his EMBA from Tsinghua University.

# BOARD OF DIRECTORS

## WU PINGWEI

is our Executive Director and was first appointed as a Director on 16 May 2018. He has a wealth of knowledge and experience in management and operations. Mr Wu is also a Director and CEO of Beijing Aozhong Shimao Property Management Co., Ltd. He is also a Director of Beijing Aozhong Xingye Real Estate Development Co., Ltd. and Beijing Aozhong Jiye Real Estate Development Co., Ltd.

Mr Wu holds a Bachelor of Philosophy from Capital Normal University.

## LI ZHIBO

is our Non-Executive Director and was first appointed as a Director of the Company on 16 December 2019. Mr Li graduated from Cornell University, Ithaca, New York in Master degree major in Applied Statistics in 2005. He also holds a Bachelor degree with triple major in Finance, Information Systems, and Economics from The Ohio State University Fisher College of Business, Columbus, Ohio.

Mr Li was the Head of Greater China/ Head of Structured Finance in APAC (Singapore) Markit Group from 2007 to 2011. From 2012 to 2015, he was General Manager, International Business (Shanghai) in Sino-Australian International Trust (a Macquarie Group JV). From 2015 to 2019, he was Senior Managing Director, Global Capital Markets (Shanghai) in Ping An Trust (a Ping An Group subsidiary).

## TENG CHEONG KWEE

is an Independent Director of the Group and was first appointed on 26 December 2003. He was last re-elected on 27 April 2017 as an Independent Director. He is the Nominating Committee Chairman and a member of the Audit and Remuneration Committees. Mr Teng started his career in the Singapore Government Administrative Service, and subsequently served as Assistant Director and Deputy Director in the Monetary Authority of Singapore, and as Secretary of the Securities Industry Council. From 1989 to 1999, he was Executive Vice President of the Stock Exchange of Singapore. From 1999 to 2000, Mr Teng was with the Singapore Exchange as Executive Vice President and Head, Risk Management and Regulatory Division. Mr Teng graduated from the University of Newcastle, Australia, in Bachelor of Engineering (Industrial) with First Class Honours, and Bachelor of Commerce in 1977.

Mr Teng also serves as an Independent Director in Singapore-listed company, First Resources Limited. He is also a director of several unlisted companies.

## DR VASOO SUSHILAN

is an Independent Director of the Group and was first appointed on 26 December 2003. He was last re-appointed on 25 April 2019. He is the Remuneration Committee Chairman and a member of the Audit and Nominating Committees. He is currently an Associate Professional Fellow (Department of Social Work) with the National University of Singapore and Director, Taurx Pharmaceuticals Ltd. Dr Vasoo serves as an advisor to a number of social and community organisations.



# OPERATIONS REVIEW

## RECAP OF FINANCIAL YEAR ENDED 31 DECEMBER 2019

In FY2019, the Group's revenue decreased marginally by 3.6% to \$9.1 million, in the face of stagnant worldwide hard disk drive demand, from both consumers as well as OEM / component makers, in addition to facing stiff competition from lower competitive pricing by overseas extruders. Consequently, sales contribution from the Group's main Electronics & Precision Engineering customer segment came in lower at \$8.0 million, compared to \$8.7 million recorded last year.

For the same financial year just ended, the Group recorded a gross loss of \$0.02 million, compared to a gross profit of \$0.09 million in FY2018, mainly due to low sales and fixed overhead costs.

Other operating income decreased by 16.4% to \$0.2 million, compared to \$0.3 million in FY2018, in line with lower proceeds from sale of mould and die as well as old extrusion machine, and scrapping of residual parts of old extrusion lines.

Other major items in FY2019 include:

1) Decrease in administrative expenses by 18.4% to \$3.5 million from \$4.3 million in FY2018. The decrease was partly due to write back of performance bonus and reduction of salary costs and partly due to the separate classification of interest expense on lease liability as finance cost, following the adoption of SFRS (I) 16 Leases as disclosed in our previous annual results announcement.

2) Other operating expenses in FY2019 relating to impairment loss of \$1.1 million on Tuas South leasehold land (FY2018: \$1.1 million) as well as professional fees of \$0.1 million incurred in corporate actions relating to sale of Penjuru property and disposal of existing business (FY2018: \$0.5 million was incurred for the fund-raising exercise undertaken by the Group to fund future acquisitions).

Overall, at the pre-tax level, the Group reported a loss of \$5.4 million compared to a loss of \$6.1 million in FY2018.

**BUSINESS SEGMENTS PERFORMANCE****Electronics & Precision Engineering**

This segment comprises mainly of component manufacturers for the Electronics, Personal Computers, Hard Disk Drive and Consumer Products industries.

Revenue from this segment decreased by 8.5% to \$8.0 million for the year ended 31 December 2019. The Group recorded lower sales orders from this segment due to ongoing weakness in worldwide personal computer and hard disk drive shipment. However, segment results increased due to lower labour and administrative costs incurred.

**Construction & Infrastructure**

This segment comprises mainly of fabricators, contractors and stockists who serve the construction, civil engineering and infrastructure building industries.

Revenue from this segment increased by 54.7% to \$1.1 million during the year. The increase in revenue was achieved by lowering selling price amid intense competition.

**Others Segment**

Revenue from this segment relates to service fee income from associated company.

Segment loss in FY2019 mainly relates to amortisation of Tuas land. The decrease is due to lower amortisation expense after impairment of Tuas land in FY2019.

**ALUMINIUM PRICE**

Ongoing fluctuations in raw material costs, in addition to energy prices and currencies will continue to have a significant impact on our bottom line and will be monitored closely.

LME Aluminium price started the year at US\$1,858 per metric tonne, and reached a high price point of \$1,923 on 20 March 2019, before turning lower and ended the year at the price point of US\$1,800 on 31 December 2019.

# STATEMENT OF CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance and has adopted the corporate governance practices contained in the 2018 Code of Corporate Governance (“**Code**”) so as to ensure greater transparency and protection of shareholders’ interests.

This report outlines the Company’s corporate governance practices with reference to the Code.

## BOARD MATTERS

### BOARD’S CONDUCT OF ITS AFFAIRS

**Principle 1:** *The company is headed by an effective Board which is collectively responsible and works with Management for the long term success of the company.*

The present Board comprises six members. Of the six Board members, two are Executive Directors, one Non-Executive Director and three are Independent Directors.

Name of director	Board appointments			Board committees		
	Non-Executive Director	Executive Director	Independent Director	Audit Committee	Nominating Committee	Remuneration Committee
Mr Yeung Koon Sang alias David Yeung			Board Chairman	Chairman	Member	Member
Mr Sun Quan		*				
Mr Wu Pingwei		*				
Mr Li Zhibo	*					
Dr Vasoo Sushilan			*	Member	Member	Chairman
Mr Teng Cheong Kwee			*	Member	Chairman	Member

### Provision 1.1

#### Board’s Role

The Board’s primary role is not only to protect but also to enhance long-term shareholder value. It provides entrepreneurial leadership, sets the strategies for the Company and establish goals for management and sets workable and sustainable policies and procedures. To fulfil its role, the Board ensures that the necessary resources are in place for the Company to meet its strategic governance and sound risk management framework to drive and manage business, as well as monitor and manage risks. The Board supervises the management and reviews its performance.

The Board is responsible for the overall corporate governance of the Company. The Directors are fiduciaries who must act objectively in the best interests of the Company and hold Management accountable for performance. The Board puts in place a code of conduct and ethics, sets appropriate tone-from-the-top and desired organizational culture, and ensures proper accountability within the Company. Directors facing conflicts of interest recuse themselves from discussions and decisions involving the issues of conflict.

# STATEMENT OF CORPORATE GOVERNANCE

The Board sets the Company's values and standards to ensure that conduct and transactions undertaken serve the interest of the Company and its shareholders as a whole, and that obligations to shareholders and other stakeholders are understood and met. The Group also strives to strike a balance between its business sustainability and the need of the society and the environment in which the Group operates. In accordance with the listing rules of SGX-ST, the Group will issue its sustainability report in respect of its financial year ended 31 December 2019 by end May 2020 and will upload the full Sustainability Report in its website, [www.aei.com.sg](http://www.aei.com.sg).

## ***Provision 1.2***

### ***Directors' Duties and Responsibilities***

The Board exercises due diligence and independent judgment in dealing with the business affairs of the Group.

The Directors recognize that it is their duty to have a full understanding of the Company's business as well as their directorship duties (including their roles as executive, non-executive and independent directors). The Company has in place a process of induction, training and development for new and existing directors as set out herein.

The Directors are mindful of their obligations to ensure compliance with the Listing Rules of the SGX-ST. Each Director has signed the required undertaking in the form set out in Appendix 7.7 of the Listing Manual to use his best endeavors to comply with the Listing Rules and to procure that the Company shall so comply. The Directors have also procured a similar undertaking by the Chief Financial Officer ("**CFO**"), also acting as Company Secretary, in her capacity as Executive Officer.

### ***Continuous Training and Development of Directors***

A new incoming Director will be issued a formal letter of appointment setting out his duties and obligations and, where appropriate, incorporating processes to deal with possible conflicts of interest that may arise.

An incoming Director will be given briefing by the management, the Company Secretary and, where appropriate, the Company's legal advisers, on his duties and obligations as director, and on the Group's organization structure, business and governance practice and arrangements, including the Company's policies relating to the disclosure of interests in securities, disclosure of conflicts of interest in transactions involving the Company, prohibition on dealings in the Company's securities and restrictions on the disclosure of price-sensitive information. First-time Directors appointed to the Board will undergo training in the roles and responsibilities of a director of a listed issuer in the first year of his appointment as prescribed by the Singapore Exchange Securities Trading Limited ("**SGX-ST**"). Mr Li Zhibo who was appointed to the Board on 16 December 2019 will undergo the prescribed training in his first year of appointment.

The Directors are continually and regularly updated on the Group's business and governance practices, as well as changes to the accounting standards and regulatory requirements. The Company Secretary circulates to the Board articles, reports and press releases to keep the Directors updated on current industry trends and issues. Our Directors are also encouraged to become members of the Singapore Institute of Directors (SID) and participate in courses and seminars offered by SID. In FY2019, the Directors had received various briefings, updates and training, including:

- Briefings given by the external auditors to the AC members at each AC meeting on developments in accounting and auditing standards, and governance requirements;
- Briefings given by the Company Secretary to the Board on changes to the requirements of the SGX-ST Listing Manual (“**Listing Manual**”), the Code of Corporate Governance and relevant legislation, including amendments to the Companies Act;
- Briefings and updates given by the Management to the Board at each meeting on business and strategic developments on salient issues, including risk management considerations and industry developments; and
- Appropriate courses, conferences and seminars, including those organized by the Singapore Exchange, the Singapore Institute of Directors, Institute of Singapore Chartered Accountants and auditing firms, attended by the Directors.

### **Provision 1.3**

#### **Matters Requiring Board Approval**

Matters which are specifically reserved for the Board’s approval:

- half-yearly and year-end results announcement;
- annual operating plan and budget;
- annual reports and accounts;
- strategic policies of the Group;
- share issuances, dividends and other returns to shareholders;
- convening of shareholders’ meetings;
- taking steps for audit control;
- material acquisitions and disposal of assets; and
- major investments, key human resource matters and funding.

### **Provision 1.4**

#### **Delegation of Authority to Board Committees**

To ensure efficient discharge of its responsibilities and to provide independent oversight of management, the Board has established the Audit Committee (“**AC**”), Nominating Committee (“**NC**”), Remuneration Committee (“**RC**”).

The various Board Committees function within clearly defined terms of references and operating procedures, which are reviewed on a regular basis. The Board also constantly reviews the effectiveness of each Committee. The composition and activities of the NC, RC and AC are set out in the following segments of this report under Principle 4 to 10.

To facilitate operational and management efficiency, the Board has delegated certain of its powers and authority to the management. Subject to such delegation of authority, certain matters, such as major acquisitions, investments and disposals, and funding decisions require the approval of the Board.

# STATEMENT OF CORPORATE GOVERNANCE

## **Provision 1.5**

### **Meetings of Board and Board Committees**

The Board meets regularly and as warranted by particular circumstances or as deemed appropriate by the Board members. The Company Secretary is present at such meetings to record the proceedings.

The Company's Constitution allows the Board meetings to be conducted by way of telephonic or video conference meetings.

The table below sets out the number of Board and Board Committee meetings which were convened during FY2019:

	Board	Audit Committee	Remuneration Committee	Nominating Committee
<b>Number of meetings held</b>	2	2	1	1
<b>Name of Directors</b>	<b>Number of meetings attended</b>			
Mr Sun Quan**	2	2*	N.A.	N.A.
Mr Wu Pingwei	-	N.A.	N.A.	N.A.
Mr Tan Chu En lan#	2	2*	1*	N.A.
Ms Sinta Muchtar#	1	1*	1*	N.A.
Mr Yeung Koon Sang @ David Yeung&	2	2	1	1
Dr Vasoo Sushilan	2	2	1	1
Mr Teng Cheong Kwee	2	2	1	1

\*\* Mr Sun Quan relinquished his position as Chairman w.e.f. 23 March 2020

# Mr Tan Chu En lan and Ms Sinta Muchtar resigned on 11 November 2019

\* Attended meetings as invitee.

& Mr David Yeung was appointed Chairman w.e.f. 23 March 2020

N.A. - Not applicable, as the Directors are non-members of the Board Committees.

The above table excludes Mr Li Zhibo who was appointed on 16 December 2019.

Besides formal meetings, Board members also had informal meetings to discuss specific issues related to the Company's development. While the Board considers Directors' attendance at Board meetings to be important, it does not consider that to be the only criterion to measure their contributions. Other than participating in these meetings, Board members also rendered comments, guidance and advice on various matters relating to the Group and convened discussions when needed.

## **Provision 1.6**

### **Board's Access to information**

All Directors are, from time to time and when necessary, furnished with information concerning the Company and its affairs and on matters to be

put before the Board and its Committees to enable them to be apprised of the decisions and actions of the Company's executive management and of major developments in the Group. The Board has unrestricted access to the Company's records and information.

Senior members of the management staff are available to provide further information and details via informal briefings to the Directors or formal presentations at Board meetings. Where external consultants or advisers are engaged on specific projects, arrangements will be made for the consultants or advisers to provide briefings to the Board, and to address any questions and issues that the Board members may have.

### **Provision 1.7**

#### **Board's Access to Management, Company Secretary and External Advisers**

The Board has separate and independent access to the Company Secretaries and to other senior management executives of the Group at all times in carrying out their duties.

The Company Secretaries attended all meetings of the Board and Board Committees of the Company and they ensured that Board procedures were followed and that applicable rules and regulations were complied with. The minutes of all Board and Committees' meetings are circulated to the Board. The appointment and removal of the Company Secretary is subject to the approval of the Board.

Each Director has the right to seek independent legal and other professional advice, at the Company's expense, concerning any aspect of the Group's operations or undertakings in order to fulfill his duties and responsibilities as Director.

## **BOARD COMPOSITION AND GUIDANCE**

**Principle 2:** *The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.*

### **Provision 2.1**

#### **Independent element on the board**

The Board of Directors currently comprises six Directors, of whom the Chairman is a Non-Executive Director, two are Executive Directors and three are Independent Directors. As at the date of this Report, the Board members are:

Mr Yeung Koon Sang alias David Yeung <sup>1</sup>	(Non-Executive Chairman)
Mr Sun Quan <sup>2</sup>	(Executive Director)
Mr Wu Pingwei	(Executive Director)
Mr Li Zhibo <sup>3</sup>	(Non-Executive Director)
Dr Vasoo Sushilan	(Independent Director)
Mr Teng Cheong Kwee	(Independent Director)

1 Mr David Yeung was appointed Chairman w.e.f. 23 March 2020

2 Mr Sun Quang relinquished his appointment as Chairman on 23 March 2020

3 Mr Li Zibo was redesignated from Executive to Non-Executive Director w.e.f. 16 March 2020

# STATEMENT OF CORPORATE GOVERNANCE

The criterion for independence is based on the definition given in the Code. The Code has defined an “Independent” Director as one who is independent in conduct, character and judgement, and has no relationship with the company, its related corporations, its substantial shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director’s independent business judgement in the best interests of the Company. Under the Listing Rules of SGX-ST, an independent director is not one who is or has been employed by the Company or any of its related corporations for the current or any of the past three financial years; or not one who has an immediate family member who is, or has been in any of the past three financial years, employed by the Company or any of its related corporations and whose remuneration is determined by the RC.

Each of the Independent Directors, namely Dr Vasoo Sushilan, Mr David Yeung and Mr Teng Cheong Kwee, has confirmed his independence. Dr Vasoo, Mr Yeung and Mr Teng have confirmed that they have no relationship or association with the Company, its related corporations, its substantial shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Directors’ independent business judgment and they are independent in accordance with the Listing Rules. The NC reviews the independence of each Director annually. Taking into consideration the declaration provided by each Director and his conduct and exercise of judgment at the Board and Committee meetings, the NC considers Dr Vasoo, Mr Yeung and Mr Teng to be independent.

Dr Vasoo, Mr Yeung and Mr Teng have each served on the Board as Independent directors for more than nine years. Taking into account the views of the NC, the Board concurs with the NC that the length of service of a Director should not determine the effectiveness of independence of an Independent Director. The NC and the Board consider it more appropriate to have regard to the Director’s contribution in terms of professionalism, integrity, objectivity and the actual display of objectivity and independence in his exercise of judgment in the interest of the Company. The Board is of the view that the Independent Directors have over the years developed significant insights into the Group’s business and operations, and continue to provide significant and valuable contribution to the Board as a whole. Although each of the independent Directors has served more than 9 years, this has not, in any way, compromised their exercise of judgement independently and objectively in the interest of the Company and its shareholders.

In its review of the effectiveness of independence of the independent Directors, the Board conducted a rigorous review of the relationship between the independent Directors and the key management team, and the independent Directors’ participation on the Board, their exercise of judgement and the discharge of their duties and responsibilities as Directors. Specifically, the review included critical examination of any conflicts of interest, as well as each director’s involvement in affairs of the Company, including board and committee meetings, discussions, views and comments expressed and decisions taken on matters and proposals put before the Board. The review also took into account findings of board performance evaluation and assessment of director’s performance, as well as feedback from fellow directors including executive directors. Through this exercise, the Board sought to ascertain the independence of each Independence director, and his contribution to the effectiveness of the Board’s oversight role and in the discharge of its duties and responsibilities in ensuring that the Company is run and managed in the interest of the Company and that of its shareholders. In assessing the independence of the independent Directors, the NC and the Board had noted that, there had been a change in controlling shareholder and key management structure at the Company following the subscription of new shares by New Impetus Strategy Fund (“**NISF**”) in April 2018. Following the share subscription, two representatives of NISF were appointed to the Board, namely Mr Joe Sun as Non-Executive Chairman and Mr Wu Pingwei as Executive Director. The independent Directors’ involvement as directors of the Company under the new shareholder’s control and management has thus been fairly recent. None of the independent Directors have any relationship with or interest, direct or indirect, in NISF nor its representatives on the Board.

Dr Vasoo, Mr Yeung and Mr Teng had each abstained from the NC’s and Board’s deliberation on the matter pertaining to their individual position.



**Provisions 2.2 and 2.3****Composition of Independent Directors and Non-Executive Directors on the Board**

Under the Listing Rules of SGX-ST, the Independent Directors should make up one-third of the Board. Under Provision 2.3 of the Code, the Non-Executive Directors should make up a majority of the Board.

The three Independent Directors make up more than one-third of the Board of six members. The composition of the Board complies with the requirements of the Listing Rules of SGX-ST. The four Non-Executive Directors (among whom three are Independent Directors) make up the majority of the Board in compliance with Provision 2.3 of the Code.

The Board believes that given the current structure on the Board with an Independent Chairman, and with Independent Directors making up half the Board and with all the Board Committees comprising Independent Directors, there is a strong independent element on the Board.

**Provision 2.4****Composition and Competency of the Board**

The NC is of the view that the Board's current size is adequate for effective decision making, taking into account the nature, size and scope of the Company's operations.

The current Board members comprise persons who, as a group, possess diverse skills and experience, and core competencies such as finance and accounting, business management, industry knowledge and strategic planning. On an annual basis, the NC would review the composition of the Board with a view to considering if it has the appropriate mix of expertise and experience and if, collectively, it possesses the necessary core competencies for effective functioning and informed decision-making. The Board also considers that talent diversity, including gender diversity, can contribute to the quality of its decision making. It is a factor that the Board will take into consideration when deciding on Board appointments. Nevertheless, each candidate will still be considered on his or her own merits and suitability.

Key information regarding the Board and their appointments on various Board Committees are presented under the profile of the Board of Directors in the annual report.

**Provision 2.5****Role of Non-Executive Directors**

At Board and committee meetings as well as at informal meetings held in the course of the year, the Non-Executive Directors participated in the review and discussion of matters placed before them, including business strategies and proposals put forward by management. The Non-Executive Directors reviewed the matters, provided comments, raised questions and sought clarifications on the bases, assumptions and justifications, and, where appropriate, raised modified or alternative scenarios or approaches for consideration and debate. The Non-Executive Directors served as a constructive sounding board to the Management's ideas and proposals. As part of the Board, they help monitor Management's progress in implementing agreed plans and business strategies.

For the year under review, the Non-Executive Directors held discussions among themselves without the presence of Management to consider specific issues, including business strategy and operational developments. Following the discussions, the Lead Independent Director among the Non-Executive Directors, provided inputs to the Chairman or Board when appropriate. The Management has ready access to the Directors for guidance and exchange of views both within and outside the formal confine of the Board and Board committee meetings.

# STATEMENT OF CORPORATE GOVERNANCE

## **CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

**Principle 3:** *There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision-making.*

### **Provisions 3.1 and 3.2**

#### **Separate role of Chairman and CEO**

Mr David Yeung was appointed Independent Chairman w.e.f. 23 March 2020 in place of Mr Sun Quan who relinquished his position as the Non-Executive and Non-Independent Chairman on 23 March 2020. Mr Tan Chu En resigned as Executive Director and CEO on 11 November 2019. In the interim pending the appointment of a CEO, the Executive Directors in consultation with the Chairman oversee the day-to-day management of the Company and the Group's affairs.

The CEO heads the management and is responsible for the day-to-day management and business affairs of the Group. The CEO reports to the Board and is responsible for ensuring that policies and strategies adopted by the Board are implemented.

The Non-Executive Chairman ensures that the board meetings are held when necessary and sets the board meeting agenda in consultation with the CEO. The Non-Executive Chairman and the CEO ensure that Board members are provided with complete, adequate and timely information on a regular basis to enable them to be fully apprised of the affairs of the Company and to make informed judgment on matters tabled before the Board. Board papers incorporating sufficient information from the management are forwarded to the Board members in advance of a Board Meeting to enable each member to be adequately prepared.

### **Provision 3.3**

#### **Lead Independent Director**

Mr Yeung Koon Sang @ David Yeung was appointed the Lead Independent Director on 20 March 2019 to 23 March 2020. With Mr Yeung's appointment as Independent Chairman with effect from 23 March 2020, there is no longer a requirement for a designated Lead Independent Director under the Code. The Company has ceased to have a Lead Independent Director from 23 March 2020.

For the year under review, as Lead Independent Director, Mr Yeung was available to shareholders where the normal channels of the Chairman and CEO or CFO failed to resolve their concerns or was inappropriate. The independent directors, led by the Lead Independent Director, meet amongst themselves without the presence of the other Directors and the Lead Independent Director had provided feedback to the then Non-Executive Chairman after such meetings.

**BOARD MEMBERSHIP**

**Principle 4:** *The Board has a formal and transparent process for the appointment and re-appointment of directors, taking into account the need for progressive renewal of the Board*

**Provisions 4.1 and 4.2****Nominating Committee**

The NC comprises three members, all of whom, including the Chairman, are independent. The members of the NC are:

Chairman	Mr Teng Cheong Kwee	(Independent Director)
Member	Mr Yeung Koon Sang alias David Yeung	(Independent Director)
Member	Dr Vasoo Sushilan	(Independent Director)

The NC operates in accordance with its terms of reference, which sets out the key functions of the NC as follows:

- (a) review and recommend the nomination or re-nomination of Directors (including Independent Directors of the Company);
- (b) determine annually whether a Director is independent, in accordance with the guidelines in the Code;
- (c) review Board succession plans for Directors, in particular, the appointment and/or replacement of the Chairman, CEO and key management personnel;
- (d) develop a process for evaluation of the performance of the Board, its committees and Directors, and undertake assessment of the effectiveness of the Board, Board Committees and individual Directors, including reviewing multiple board representations of Directors;
- (e) review the training and professional development programs for the Directors;
- (f) review the composition of the Board to consider if the Board possesses the appropriate mix of expertise and experience, and whether, collectively, it possesses the necessary core competencies for effective functioning and informed decision-making. Where appropriate, the NC will consider new appointments or Board renewal as part of its review of Board succession plans for Directors. The NC will also review succession planning for the CEO.

Succession planning

The NC is responsible for reviewing Board succession plans for Directors, and will seek to refresh the Board membership in an orderly manner where it deems it necessary. The NC will also ensure that the Company has succession planning for its Executive Directors and key management personnel, including appointing, training and mentoring successors. The NC has reviewed contingency arrangements for any unexpected incapacity of the CEO or any of the top management personnel and is satisfied with procedures in place to ensure a transition to a full operational management team.

# STATEMENT OF CORPORATE GOVERNANCE

## **Provision 4.3**

### **Process for the Selection, Appointment of New Directors**

When it is required to source and appoint a new Director to the Board, the NC would, in consultation with the Board and management, identify the core competencies in terms of the skills and experience that such a candidate should possess. The Company would then source for candidates who would meet the established criteria through a network of contacts. Where necessary, external consultants would be engaged. The NC will review the candidates' curriculum vitae and background, including references, and conduct interviews with short-listed candidates to assess their suitability and capacity to contribute to the needs of the Board. Selected candidate will be nominated to the Board for consideration and approval for appointment as a Director.

The Constitution of the Company requires one-third of the Board to retire from office at the Annual General Meeting ("**AGM**"). Accordingly, the Directors will retire and may submit themselves for re-nomination and re-election at least once every three years.

Mr Wu Pingwei and Mr Teng Cheong Kwee will retire by rotation pursuant to Article 104 of the Constitution of the Company at the forthcoming AGM. Being eligible, they have offered themselves for re-election. The NC has reviewed and agreed to their nomination for re-election. In making this, the NC has taken into consideration their contributions and performance. Mr Teng had abstained from the NC's and the Board's deliberation in respect of his nomination for re-election.

The Constitution of the Company requires a Director appointed by the Board to retire and be eligible for appointment at the first general meeting following their appointment. Accordingly, Mr Li Zhibo who was appointed on 16 December 2019 will retire at the forthcoming AGM, and being eligible have consented to be put up for re-election at the forthcoming AGM. The NC has recommended his nomination for re-election. Mr Li did not participate in the Board's deliberation on his nomination.

In accordance with the Listing Rules of SGX-ST, the information as set out in Appendix 7.4.1 of the Listing Manual in respect of Mr Teng, Mr Wu and Mr Li are provided on pages 34 to 36 of this Annual Report.

## **Provision 4.4**

### **Determining Directors' Independence**

The NC has conducted an annual review of the independence of the Independent Directors, using the criteria of independence in the Listing Rules of SGX-ST and as set out under Provision 2.2 of the Code, and taking into consideration their participation in Board and Committee discussions and deliberations, and their exercise of judgment in the discharge of their duties as directors, has ascertained that they are independent.

## **Provision 4.5**

### **Multiple Board Representations**

The NC ensures that new directors are aware of their duties and obligations and devote sufficient time in discharging the same. In assessing a Director's commitment to devote sufficient time and attention to the affairs of the Company in discharge of his duties, the Board is of the view that it would not be appropriate to set a limit on the number of listed company Board representations that a Director may hold. Each Director should personally determine the demands of his competing directorships and obligations and ensure that sufficient time and attention is given to the affairs of the Group. The Board is of the view that it is more appropriate to consider the time and attention devoted by and contribution

given by each Director to the affairs of the Company. In this respect, the Board, having reviewed each director's involvement and participation in meetings of the Board, and Committee, where applicable, is satisfied that each Director is able to and has been adequately carrying out his duties as a Director of the Company. The NC would continue to review from time to time the Board representations and other principal commitments of each Director to ensure that the Directors continue to be able to meet the commitment of time, attention and diligence required from each director in the discharge of their duties as a director of the Board.

There are currently no Alternative Directors on the Board.

Details of the Directors' principal commitments and outside directorships are set out on pages 4 to 6 of this Annual Report.

## **BOARD PERFORMANCE**

**Principle 5:** *The Board undertakes a formal annual assessment of its effectiveness as a whole, and that of each of its board committees and individual directors.*

### **Provisions 5.1 and 5.2**

#### **Conduct of Board Performance**

The NC carried out an evaluation exercise to assess the performance of the Board and Board Committees as well as the contributions of each Director to the effectiveness of the Board. The assessment carried out was based on the framework and process that the Board has adopted.

This process entailed having each Director complete a performance evaluation to assess the performance and effectiveness of the Board and Board Committees in key aspects of the functions and responsibilities of the Board and Board Committees. It also included a self-assessment by each Director of his own performance as a Director. The Company Secretary compiles the evaluation into a consolidated report which was submitted to the NC.

The NC, with the participation of the Executive Directors reviewed and discussed the results of the evaluation at a meeting of the NC. The Board received a report of the NC's deliberations on the matter, and also discussed areas where enhancements could be considered.

#### *Performance Criteria for Board Evaluation*

The performance criteria cover various aspects of Board performance, such as Board's level of governance, effective delegation to the Board committees, leadership and accountability, conduct of meetings, involvement in strategy formulation, risk management and internal controls, and communication with stakeholders.

#### *Evaluation of the Board and Board Committees*

For the year under review, based on the consolidated results of evaluation and the discussion at the NC meeting, with the participation of the Executive Directors, the NC is satisfied that the Board has been effective in the conduct of its duties and the directors have each contributed to the effectiveness of the Board and Board committees. The Board received a report of the NC's deliberations on the matter, and also discussed areas where enhancements could be considered.

# STATEMENT OF CORPORATE GOVERNANCE

## *Evaluation of Individual Director*

For the year under review, the NC evaluated individual Director's performance. The assessment of individual Director encompassed his knowledge of the Group's business and operations, business acumen, knowledge of corporate governance, contribution and engagement, communication and integrity. In respect of a Director who has multiple board representations, the NC reviewed the Director's participation in the Board and Committee meetings and their contributions to the discussions and decision making to assess if he has been adequately carrying out his duties as a Director of the Company.

Taking into account the report and assessment of the NC, the Board is satisfied that each Director has discharged their duties satisfactorily and has devoted sufficient time and resources to the affairs of the Company.

The Company does not use any external professional facilitator for the assessments of the Board, Board Committees and individual Directors, and will consider the use of such facilitator as and when appropriate.

## **REMUNERATION MATTERS**

### **PROCEDURES FOR DEVELOPING REMUNERATION POLICIES**

**Principle 6:** *The Board has a formal and transparent procedure for developing policies on director and executive remuneration, and for fixing the remuneration packages of individual directors and key management personnel. No director is involved in deciding his or her own remuneration*

### **Provisions 6.1 and 6.2**

#### **Remuneration Committee**

The RC comprises three members, all of whom are independent.

Chairman:	Dr Vasoo Sushilan	(Independent Director)
Members:	Mr Yeung Koon Sang alias David Yeung	(Independent Director)
	Mr Teng Cheong Kwee	(Independent Director)

The RC carried out its duties in accordance with the terms of reference approved by the Board and which included the following:

- (a) review and recommend to the Board a framework for remuneration for the directors and key management personnel of the Company.
- (b) review and recommend Directors' fees for approval at the AGM.
- (c) determine specific remuneration packages for each Executive Director as well as key management personnel.

- (d) review the Group's obligations arising in the event of termination of the Executive Directors' and key management personnel's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous.
- (e) review the remuneration of employees who are immediate family members of a director or the CEO to ensure that the remuneration of each such employee is commensurate with his or her duties and responsibilities, and no preferential treatment is given to him or her.

The Company has in place a framework for the Directors' and Executives Officers' remunerations recommended by the RC and which the Board had approved. Each year, the RC would review and determine the specific remuneration package for each Executive Director depending of the Company's annual performance. The RC would also review and recommend Director's fee to be paid, and submit it for the Board's review and approval.

### ***Provision 6.3***

#### ***Review of remuneration***

During the year under review, the RC reviewed and recommended the remunerations of the Executive Directors. The remunerations included, but are not limited to Director's fee, salaries, allowances, bonus, ex-gratia payments, options and benefits in kind. The RC's recommendations were submitted for endorsement by the Board. No member of the RC or any Director was involved in the deliberations and decision in respect of any remuneration, compensation, options or any form of benefits to be granted to him.

The RC also reviewed the remuneration of key management personnel.

Each of the Executive Directors and key management personnel have a service agreement or employment contract with the Company which can be terminated by either party giving notice of resignation/termination. Each appointment is on a continuing basis and not subject to onerous removal clauses.

### ***Provision 6.4***

#### ***Engagement of remuneration consultants***

The RC is provided with access to expert professional advice on remuneration matters as and when necessary. The expenses of such service shall be borne by the Company.

For the year under review, the RC does not use any external remuneration consultant and will consider the use of such consultant as and when appropriate.

# STATEMENT OF CORPORATE GOVERNANCE

## LEVEL AND MIX OF REMUNERATION

**Principle 7:** *The level and structure of remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value creation of the company, taking into account the strategic objectives of the company.*

### **Provision 7.1**

#### **Remuneration of Executive Directors and Key Management Personnel**

The Executive Directors and key management personnel have service agreements. The service agreements cover the terms of employment, salaries and a variable bonus, which is tied to the level of the group profits, and other benefits.

The RC considers that the level and structure of remuneration of the Executive Directors is aligned with the long-term interest and risk policies of the company, and is appropriate, in the Company's current financial circumstances, and are adequate to attract, retain and motivate the key management personnel to successfully manage the company.

There are no contractual provisions in the Company's service agreements or employment contracts that would enable the Company to reclaim incentive components of remuneration from Executive Directors and key management personnel. The Board is of the view that as the Group pays performance bonuses based on the actual performance of the operating unit (and not on forward-looking results) as well as the performance of the individual employee, it may not be essential or appropriate to incorporate "claw-back" provisions in the service agreements.

### **Provision 7.2**

#### **Remuneration of Non-Executive Directors**

The Non-Executive Directors have no service contract, other than letters of appointment as non-Executive Directors. In setting remuneration packages, the RC will take into consideration the pay and employment conditions within the industry and in comparable companies. The Company submits the proposed quantum of Directors' fee each year to the shareholders for approval at each AGM.

The RC has reviewed the fee structure for the directors taking into account their responsibilities and work commitments. The proposed directors' fee for Financial Year 2019 will be subject to shareholders' approval at the Company's forthcoming annual general meeting.

### **Provision 7.3**

#### **Appropriate remuneration to attract, retain and motivate key management personnel and Directors**

The Company has in place share incentive schemes, namely AEI Performance Share Plan ("**APSP**"). The objective of the share schemes is to attract, retain and motivate key management personnel and where applicable Executive Directors and Non-Executive Directors.

Apart from employees, Non-Executive Independent Directors and Non-Executive Non-Independent Directors are also eligible for participation in the above share scheme. No share awards have been granted since inception of the schemes.

## DISCLOSURE ON REMUNERATION

**Principle 8:** *The company is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation*



### **Provision 8.1**

#### **Remuneration Report**

#### Remuneration of Directors and the CEO

The remuneration paid to or accrued to each individual Director and the CEO for FY2019 is as follows:

	Fee %	Salary %	AWS %	Other benefits %	Total %
<b>\$250,000 to \$500,000</b>					
Mr Tan Chu En Ian (also CEO) *	10.34	85.81	3.85	0.00	100.00
Ms Sinta Muchtar *	11.27	84.91	3.82	0.00	100.00
<b>Below \$250,000</b>					
Mr Yeung Koon Sang @ David Yeung	100.00	0.00	0.00	0.00	100.00
Dr Vasoo Sushilan	100.00	0.00	0.00	0.00	100.00
Mr Teng Cheong Kwee	100.00	0.00	0.00	0.00	100.00
Mr Sun Quan	100.00	0.00	0.00	0.00	100.00
Mr Wu Pingwei	100.00	0.00	0.00	0.00	100.00
Mr Li Zhibo	100.00	0.00	0.00	0.00	100.00

\* resigned as director on 11 Nov 2019

#### Remuneration of Key Management Personnel (who are not Directors or CEO)

Remuneration of key executives (who are not directors or the CEO) for FY2019 are set out in bands of \$250,000.

	Fee %	Salary %	AWS %	Other benefits & allowances %	Total %
<b>Below \$250,000</b>					
Employee 1	0.00	95.53	4.47	0.00	100.00
Employee 2	0.00	95.78	4.22	0.00	100.00
Employee 3	0.00	76.33	4.12	19.55	100.00
Employee 4	0.00	77.04	3.99	18.96	100.00
Employee 5	0.00	68.63	4.62	26.75	100.00

The aggregate remuneration including basic/fixed salary, variable bonuses, benefit-in-kinds, allowances, CPF etc. paid to the top five key management personnel (who are not Directors or the CEO) for the year ended 31 December 2019 were \$630,534.

# STATEMENT OF CORPORATE GOVERNANCE

Given the keen competition for labour in the industry, coupled with sensitivity with regard to the remuneration of individual staff, the Company has only disclosed the remuneration mix and remuneration band of each individual Director on a named basis and, in the case of the key management staff, on an unnamed basis. The manpower landscape of the electronic industry in Singapore and the region has become more competitive in the recent years and as such any information on remuneration for key management staff could be used by competitors to poach talents which are critical for efficient manufacturing operation of the electronic end products.

The Board is of the view that the information disclosed would be sufficient for shareholders to have an adequate understanding of the Company's remuneration policies and practice, and the broad remuneration level of the key management staff. The Board believes that the disclosure provided is in the interest of the Company.

## **Provision 8.2**

### **Remuneration of Immediate Family Member of Directors or the CEO**

Save for Mr Tan Chu En Ian and Ms Sinta Muchtar who are spouses, there are no other employee of the Group who is an immediate family member of the Directors or Substantial Shareholders and whose remuneration exceeds \$100,000 during FY2019. Mr Tan resigned as Executive Director and CEO on 11 November 2019. Ms Muchtar resigned as Executive Director on 11 November 2019.

## **Provision 8.3**

### **Employee Share Scheme**

#### **AEI Performance Share Plan**

The Company has adopted the AEI Performance Share Plan ("APSP") which is intended to serve as a means to incentivize staff to achieve higher performance goals and to recognize exceptional achievement as well as to reward, retain and motivate employees. The APSP was approved by the shareholders at the Extraordinary General Meeting held on 28 April 2014. To date, no shares have been granted under the APSP.

## **ACCOUNTABILITY AND AUDIT**

### **RISK MANAGEMENT AND INTERNAL CONTROLS**

**Principle 9:** *The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the company and its shareholders.*

## **Provision 9.1**

### **Risk Management and Internal Controls System**

The Board is responsible for the governance of risk, including determining the nature and extent of the significant risks which the company is willing to take. The responsibility of overseeing the Company's risk management framework and policies is undertaken by the AC. Having considered the Company's business operations, taking into account its current nature, scope and scale, as well as its existing internal control and risk management systems, the Board is of the view that a separate risk committee is not required for the time being.

Risk-based internal audits are carried out with the primary objectives of:

- (a) assessing if adequate systems of internal controls are in place to protect the funds and assets of the Company and to control commitment and disbursement of expenditure and other outlay;
- (b) assess if operations of the business processes under review are conducted efficiently and effectively, and in compliance with the Company's internal procedures and controls; and
- (c) identify internal control improvement opportunities.

### **Provision 9.2**

#### **Assurances to the Board**

The Board has received the following assurances from the Chairman and CFO that as at 31 December 2019 that the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and from the CEO and the CFO in her capacity as Chief Risk officer that the Group's risk management and internal control systems were adequate and effective to address key financial, operational, compliance and information technology risks.

#### **Board's Comment on Adequacy and Effectiveness of Internal Controls**

Based on the review of the key risks identified, and the internal controls established and information maintained by the Group, statutory audit review by the external auditors, the assurances from the Chairman and the CFO on the effectiveness of the Group's risk management and internal control systems, and their assurance that the financial records have been properly maintained and that the financial statements give true and fair view of the Group's operations and finances, as well as reviews performed by management, various Board committees and the Board, the Board is of the opinion that the Group's risk management and internal control systems, including financial, operational, information technology and compliance controls, addressing financial, operational and compliance risks as at 31 December 2019 were adequate and effective. The AC concurs with the Board.

## **AUDIT COMMITTEE**

**Principle 10:** *The Board has an Audit Committee which discharges its duties objectively.*

### **Provisions 10.1 and 10.2**

#### **AC Membership**

The AC comprises the following three independent directors:

Chairman	Mr Yeung Koon Sang alias David Yeung	(Independent Director)
Member	Mr Teng Cheong Kwee	(Independent Director)
Member	Dr Vasoo Sushilan	(Independent Director)

# STATEMENT OF CORPORATE GOVERNANCE

## *Expertise of AC Members*

The AC members bring with them extensive professional expertise in the accounting and financial management domains. The Chairman of the AC, Mr David Yeung, has over 20 years of experience in public accountancy and had worked previously with Deloitte & Touche, UK and Ernst & Young, Singapore. The other members of the AC have many years of experience in business management, finance and regulatory compliance. The Board is satisfied that the members of the AC have recent and relevant accounting or related financial management expertise or experience to discharge the AC's functions. The experience and qualifications of the AC members are set out in the Directors' Profile section of the annual report.

All the AC members keep up to date with changes in accounting standards and issues through updates from the external auditors and, where appropriate, through attendance of relevant training courses and seminars.

## *Roles, Responsibilities and Authorities of AC*

The AC functions under the terms of reference approved by the Board, and its responsibilities include:

- (a) reviewing with the external auditors the audit plan, their evaluation of the system of internal accounting controls, their audit report, their management letter and the management's response;
- (b) reviewing with the internal auditor its internal audit plans and internal audit findings;
- (c) reviewing the half-yearly and annual financial statements and results announcements before submission to the Board for approval, focusing in particular, on significant financial reporting issues and judgements, changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, the going concern statement, compliance with accounting standards as well as compliance with any stock exchange and statutory/regulatory requirements so as to ensure the integrity of the financial statements of the Company;
- (d) reviewing the internal control and procedures and ensure co-ordination between the external auditors and the management, reviewing the assistance given by management to the auditors and discuss problems and concerns, if any, arising from the audits, and any matters which the auditors may wish to discuss (in the absence of management where necessary);
- (e) reviewing and discussing with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Company's operating results or financial position, and the management's response;
- (f) reviewing the assurance from the CEO or the Chairman (in the absence of an CEO) and the CFO on the financial records and financial statements;
- (g) reviewing at least annually the adequacy and effectiveness of the company's internal controls and risk management systems;
- (h) reviewing the adequacy, effectiveness, independence, scope and results of the external audit and the company's internal audit function;
- (i) considering and recommending the appointment or re-appointment of the external auditors and matters relating to the resignation or dismissal of the auditors;
- (j) reviewing interested person transactions falling within the scope of Chapter 9 of the Listing Manual;

- (k) reviewing potential conflicts of interest, if any;
- (l) undertaking such other reviews and projects as may be requested by the Board and reporting to the Board its findings from time to time on matters arising and requiring the attention of the AC; and
- (m) generally undertaking such other functions and duties as may be required by the statute or the Listing Manual, or by such amendments as may be made thereto from time to time.

In connection with the audit for FY2019, the external auditor has identified two key audit matters (“**KAM**”) set out in the auditor’s report for FY2019. The KAMs identified are: 1. Impairment of buildings and improvements and leasehold land and in relation thereto, the external auditor has set out the work it performed to ensure that the accounting impact of impairment of buildings and improvements and leasehold land by the Group is in accordance with accounting standards, and 2. Assessment of impairment for subsidiary of AEI Corporation (Singapore) Pte Ltd. The AC has considered the appropriateness of the external auditor’s work and findings and concurs with the external auditor.

The AC has the power to conduct or authorize investigations into any matters within the AC’s scope of responsibility. The AC is authorized to obtain independent professional advice if it deems it necessary in the discharge of its responsibilities. Such expenses are to be borne by the Company.

Each member of the AC shall abstain from voting on any resolutions in respect of matters he is interested in.

#### *Independence of External Auditors*

The AC had reviewed and was satisfied that the engagement of Ernst & Young LLP as the external auditors of the Company and of its subsidiaries and the engagement of other suitable audit firms for its foreign subsidiaries was in compliance with Rules 712, 715 and 716 of the Listing Manual. The AC reviews the independence of the external auditors annually. During the year, the fees paid to the external auditors of the Company was approximately S\$159,000 of which non-audit fees amounted to approximately S\$48,000. Having reviewed the range and value of non-audit services performed by the Ernst & Young LLP, the AC was satisfied that the nature and extent of such services would not prejudice the independence and objectivity of the external auditors. The AC has recommended that Ernst & Young LLP be re-appointed as Auditors subject to approval of shareholders at the forthcoming AGM.

#### *Whistle-blowing*

The Company has in place a whistle-blowing procedure which allows staff of the Company to raise concerns about improprieties or potential improprieties to the AC Chairman on a confidential basis.

Employees are free to bring complaints to the attention of their supervisors or the Human Resources Department, as they would in any other workplace concern. The recipient of such complaints shall forward them promptly to the AC Chairman. The Group will treat all information received confidentially and protect the identity and the interest of all whistleblowers. Following investigation and evaluation of a complaint, the AC Chairman shall report to the AC on the outcome of the investigation, and where a breach or non-compliance was established, recommend disciplinary or remedial action, if any. The AC shall review the matter and report to the Board on its finding and recommendation on the action to be taken by the Board or by appropriate members of senior management.

The policy is communicated to all employees as part of the Group’s efforts to promote awareness of fraud control.

# STATEMENT OF CORPORATE GOVERNANCE

**Provision 10.3****Partners or Directors of the Company's Auditing Firm**

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

**Provision 10.4****Internal Audit Function**

The Company outsourced internal audit function to a competent professional firm which is independent of the Company's directors and management. The internal auditors report to the Chairman of the AC. The AC is satisfied that the internal audit function is independent and adequately resourced. There was no internal audit carried out in FY2019 as the AC was of the opinion that it would not be prejudicial to the interest of the Company given the lower level of business transactions during the period and that there had not been any material change in the Company's internal control and risk management systems and environment. Furthermore, pursuant to a sale and purchase contract entered into during the year, the key operating subsidiaries were to be disposed of which would have resulted in the main activities of the Group being that of investment holdings. While shareholders had, at the extraordinary general meeting held on 27 March 2018, approved the expansion and diversification of the Company's existing core business to the infrastructure business, the process of identifying the project was still on-going during the financial year. The internal audit shall resume when the diversification is entered into and completed.

Risks arising from the Group's financial operations are separately discussed in Note 31 to the Financial Statements on pages 95 to 103.

*Adequacy and Effectiveness of Internal Audit Function*

For the financial year ended 31 December 2019, the Board has received letters of assurance from the Chairman and the CFO that the financial records had been properly maintained and that the financial statements gave a true and fair view of the Group's operations and finances, and regarding the effectiveness of the company's risk management systems and internal controls system.

In assessing the effectiveness of internal controls, the AC's key objectives are to check that material assets are properly safeguarded, fraud or errors in the accounting records are prevented or detected, accounting records are accurate and complete, and reliable financial information is prepared in compliance with applicable internal policies, laws and regulations.

The Audit Committee has reviewed the Company's internal control assessment and based on the external auditors' reports, the assurance from the Chairman and CFO and the internal controls in place, it is satisfied that there are adequate and effective internal controls to meet the needs of the Group in its current business environment.

**Provision 10.5:****Meeting with external and internal auditors without presence of the Management**

The AC meets with both the internal and external auditors without the presence of the Management at least once a year. The AC met with the external auditors without the presence of the Management once to provide a forum for the external auditors to exchange views and information in confidence regarding or arising from the audit.

## **SHAREHOLDER RIGHTS AND ENGAGEMENT**

### **SHAREHOLDER RIGHTS AND CONDUCT OF GENERAL MEETINGS**

**Principle 11:** *The company treats all shareholders fairly and equitably in order to enable them to exercise shareholders' rights and have the opportunity to communicate their views on matters affecting the company. The company gives shareholders a balanced and understandable assessment of its performance, position and prospects.*

#### **Provision 11.1**

##### **Providing Opportunity for Shareholders to Participate and Vote at General Meetings**

The Company's AGM, and Extraordinary General meeting ("EGM") when that is required to be held for specific purpose, are the principal forums for dialogues with shareholders.

Shareholders are encouraged to attend AGM / EGM to stay apprised of the Group's business developments, strategy and goals. Notice of the meetings will be advertised in newspapers and announced on SGXNET at least 14 days before the meeting so that sufficient notice of meeting is given to shareholders to attend the meeting or appoint proxies to attend and vote in their stead.

All resolutions at general meetings are put to vote by electronic poll to allow greater transparency and more equitable participation by shareholders. Voting and vote tabulation procedures are disclosed at the general meetings. Votes cast for, or against, each resolution will be displayed live-on-screen to shareholders immediately at the general meetings. The total numbers of votes cast for or against the resolutions are also announced after the general meetings via SGXNET. An independent scrutineer firm was present to validate the votes at the last AGM. The results of the electronic poll voting on each resolution tabled at the last AGM, including the total number of votes cast for or against each resolution, were also announced after the said meeting via SGXNet.

#### **Provision 11.2**

##### **Separate resolutions at general meetings**

The Company will have separate resolutions at general meetings on each distinct issue. For resolutions that are special business, explanations are given in the accompanying notes to the Notice of the AGM. For resolutions on the election or re-election of directors, information on the Directors as set out in Appendix 7.4.1 of the Listing Manual are given in this Annual Report.

#### **Provision 11.3**

##### **Attendance of Directors and auditors at general meetings**

In 2019, the Company held one general meeting was attended by most of the Directors. The Directors, including the chairpersons of each of the Board Committees will be present at the meetings to address shareholders' queries. The external auditors shall also be present to assist the Directors in addressing any relevant queries by the shareholders.

# STATEMENT OF CORPORATE GOVERNANCE

## **Provision 11.4**

### **Absentia voting**

The Company's Constitution allows a member (other than a relevant intermediary as defined in section 181 of the Companies Act) to appoint one or two proxies to attend and vote at its general meetings on his behalf in his absence. The Companies Act allows relevant intermediaries which include CPF and/or SRS Approved Nominees to appoint multiple proxies, and empower CPF and/or SRS investors to attend and vote at general meetings of the Company as their CPF Approved Nominees' proxies. This would enable holders of shares purchased through CPF Investment Scheme to attend and exercise their voting right at general meetings. If the CPF Investors who are unable to attend the AGM but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the AGM.

## **Provision 11.5**

### **Minutes of general meetings**

The Company prepares minutes of general meetings detailing the proceedings and questions raised by shareholders and answers given by the Board and Management. The minutes will be taken and published in the Company's corporate website at [www.aei.com.sg](http://www.aei.com.sg)

## **Provision 11.6**

### **Dividends**

The details of dividend payment, if any, would be disclosed via the release of the announcements through SGXNET. The Company does not have a policy on payment of dividend. The Board will consider the Group's level of cash and retained earnings and projected capital expenditure and investments when deciding whether to propose the payment of a dividend.

## **ENGAGEMENT WITH SHAREHOLDERS**

**Principle 12:** *The company communicates regularly with its shareholders and facilitates the participation of shareholders during general meetings and other dialogues to allow shareholders to communicate their views on various matters affecting the company.*

## **Provision 12.1**

### **Avenues for communication between the Board and shareholders**

In accordance with the Listing Rules of the SGX-ST, the Board's policy is to make timely public announcement of all major developments that may have a material impact on the Group. The Company does not practice selective disclosure and price sensitive information is publicly released on an immediate basis where required under the Listing Rules.

Information is disseminated to shareholders on a timely basis through:

- a. SGXNET announcements and news release;
- b. Annual Report prepared and issued to all shareholders;
- c. Press release on major developments of the Group;
- d. Notice of and explanatory memorandum for AGM and extraordinary general meetings ("**EGM**"); and
- e. Company's website at [www.aei.com.sg](http://www.aei.com.sg) where shareholders can access information on the Group.



The Company's annual general meeting is a forum for the shareholders to engage the Board to ask questions on the resolutions tabled at the annual general meeting and to express their views.

The Company will consider the use of other forums such as analyst briefings as and when applicable.

### **Provisions 12.2 and 12.3**

#### **Investor Relations**

The Company's investor relations policy is to communicate with its shareholders and the investment community through the timely release of announcements to the SGX-ST via SGXNET. The Company does not practice selective disclosure and price sensitive information is publicly released on an immediate basis where required under the Listing Rules.

Price sensitive information will be publicly released either before the Company meets with any group of investors or analysts or simultaneously with such meetings. Financial results and annual reports are announced or issued within legally prescribed periods. The Board also ensures timely and full disclosure of material corporate developments to shareholders. The Board also reviews regulatory compliance reports from management to ensure that the Group complies with the relevant regulatory requirements.

To further enhance its communication with the investors, the Company's website allows the public to have access to information on the Group including the Company's announcements made to the SGX-ST and the contact email, [aei@aei.com.sg](mailto:aei@aei.com.sg).

## **ENGAGEMENT WITH STAKEHOLDERS**

**Principle 13:** *The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the company are served.*

### **Provisions 13.1 and 13.2**

#### **Engage with its material stakeholder groups**

The Group's material stakeholders are its shareholders, customers, employees, business partners and the community and the Company engages with them through its sustainability initiatives and corporate social responsibility programmes as set out in its Sustainability Report for FY2018 posted on SGXNET on 24 May 2019.

The Group's sustainability efforts are guided by our Board of Directors. The Board ensures that sustainability thinking is integrated into the Group's strategies, and provides direction for the formulation of policies and best practices. The senior management team and department heads are jointly responsible for the execution of sustainability in the Group's daily operations. The key areas of focus in relation to the management of stakeholder relationships are corporate governance, social responsibility and sustainable environment.

Please refer to the Sustainability Report for FY2018 for details. The Company will release its Sustainability Report for FY2019 by end May 2020.

# STATEMENT OF CORPORATE GOVERNANCE

## **Provision 13.3**

### **Corporate website to communicate and engage with stakeholders.**

The Group maintains a corporate website at /www.aei.com.sg which stakeholders can access information on the Group. The website provides, inter alia, corporate announcements, press releases and profiles of the Group. Shareholders and stakeholders are provided with an investor relations contact at aei@aei.com.sg to contact the Company.

## **OTHER CORPORATE GOVERNANCE MATTERS**

### Interested Person Transactions

The Company has established internal control policies to ensure that transactions with interested persons are properly reviewed and approved and are conducted at arms' length basis. During the year, the Company had not entered into any interested persons transactions.

Name of Interested Person	Nature of relationship	Aggregate value of all interested person transactions conducted (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
MTBL Global Pte Ltd	Associated with a director	\$1,518,000 *	NIL

\* one-off business joint venture transaction on the sales of goods

## **DEALINGS IN SECURITIES**

In line with SGX-ST Listing Rule 1207(19) on Dealings in Securities, the Company has in place a policy prohibiting share dealings by Directors and employees of the Company for the period of one month before the announcement of the Company's half yearly and yearly financial statements. Directors and employees who are in possession of unpublished material price-sensitive information of the Group should not deal in the Company's securities on short term consideration and are expected to observe the insider trading laws at all times even when dealing in securities outside the restricted trading period.

The Company has complied with the best practice pursuant to Listing Rule 1207(19)(c) in not dealing in its own securities during the restricted trading periods.

## **MATERIAL CONTRACTS**

The Company has not entered into any contract during the financial year that involved the interests of the Chief Executive Officer, a Director or the controlling shareholder.

# DIRECTOR'S INFORMATION

Information on Directors nominated for re-election at the forthcoming annual general meeting as set out in Appendix 7.4.1 pursuant to Rule 720(6) of the SGX-ST Listing Manual.

	Name of directors to be re-elected		
	Mr Teng Cheong Kwee	Mr Wu Pingwei	Mr Li Zhibo
<b>Date of appointment</b>	26/12/2003	16/5/2018	16/12/2019
<b>Date of last re-appointment (if applicable)</b>	27/4/2017	25/4/2019	N.A.
<b>Age</b>	67	61	38
<b>Country of principal residence</b>	Singapore	China	China
<b>The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)</b>	The re-election of Mr Teng Cheong Kwee as the Independent Director was recommended by the Nominating Committee and the Board has accepted the recommendation, after taking into consideration his qualifications, expertise, past experiences and overall contribution since his appointment.	The re-election of Mr Wu Pingwei as the Executive Director was recommended by the Nominating Committee and the Board has accepted the recommendation, after taking into consideration his qualifications, expertise, past experiences and overall contribution since his appointment.	The re-election of Mr Li Zhibo as the non-executive and non-independent director was recommended by the Nominating Committee and the Board has accepted the recommendation, after taking into consideration his qualifications, expertise, past experiences and overall contribution since his appointment.

# DIRECTOR'S INFORMATION

	Name of directors to be re-elected		
	Mr Teng Cheong Kwee	Mr Wu Pingwei	Mr Li Zhibo
<b>Whether appointment is executive, if so, the area of responsibility</b>	Non-Executive	Executive, Business development	Non-Executive
<b>Job Title (e.g. Lead ID, AC Chairman, AC member, etc.)</b>	Independent Director, Nominating Committee Chairman and Member of Remuneration and Audit Committees	Executive Director	Non-executive and non-independent director
<b>Professional qualifications</b>	Mr Teng graduated from the University of Newcastle, Australia, in Bachelor of Engineering (Industrial) with First Class Honours, and Bachelor of Commerce in 1977.	Mr Wu holds a Bachelor of Philosophy from Capital Normal University.	Mr Li graduated from Cornell University, Ithaca, New York in Master degree major in Applied Statistics in 2005. He also holds a Bachelor degree with triple major in Finance, Information Systems, and Economics from The Ohio State University Fisher College of Business, Columbus, Ohio.

	Name of directors to be re-elected		
	Mr Teng Cheong Kwee	Mr Wu Pingwei	Mr Li Zhibo
<b>Working experience and occupation(s) during the past 10 years</b>	Mr Teng serves as an Independent Director in other Singapore-listed company, First Resources Limited. He is also a director of several unlisted companies.	Mr Wu is a Director and CEO of Beijing Aozhong Shimao Property Management Co., Ltd. He is also a Director of Beijing Aozhong Xingye Real Estate Development Co., Ltd. and Beijing Aozhong Jiye Real Estate Development Co., Ltd.	Mr Li was the Head of Greater China/ Head of Structured Finance in APAC (Singapore) Markit Group from 2007 to 2011. From 2012 to 2015, he was General Manager, International Business (Shanghai) in Sino-Australian International Trust (a Macquarie Group JV). From 2015 to 2019, he was Senior Managing Director, Global Capital Markets (Shanghai) in Ping An Trust (a Ping An Group subsidiary).
<b>Shareholding interest in the listed issuer and its subsidiaries</b>	Direct interest of 10,000 shares and 10,000 warrants of the Company.	No	No
<b>Any relationship (including immediate family relationships) with any existing director, existing executive office, the issuer and/or substantial shareholder of the listed issuer or of any of its principle subsidiaries</b>	No	No	No
<b>Conflict of interests (including any competing business)</b>	No	No	No

# DIRECTOR'S INFORMATION

	Name of directors to be re-elected		
	Mr Teng Cheong Kwee	Mr Wu Pingwei	Mr Li Zhibo
<b>Undertaking submitted to the listed issuer in the form of Appendix 7.7 (Listing Rule 704(7))</b>	Yes	Yes	Yes
<b>Other Principal Commitments<sup>(1)</sup> including Directorship</b>	<ul style="list-style-type: none"> <li>• <b>Past (for the last 5 years):</b> <ul style="list-style-type: none"> <li>- Memtech International Ltd</li> </ul> </li> <li>• <b>Present:</b> <ul style="list-style-type: none"> <li>- First Resources Limited</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>Past (for the last 5 years):</b> <ul style="list-style-type: none"> <li>- Nil</li> </ul> </li> <li>• <b>Present:</b> <ul style="list-style-type: none"> <li>- Beijing Aozhong Shimao Property Management Co., Ltd.</li> <li>- Beijing Aozhong Xingye Real Estate Development Co., Ltd.</li> <li>- Beijing Aozhong Jiye Real Estate Development Co., Ltd.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>Past (for the last 5 years):</b> <ul style="list-style-type: none"> <li>- Nil</li> </ul> </li> <li>• <b>Present:</b> <ul style="list-style-type: none"> <li>- First Plus Financial Holdings Pte Ltd</li> <li>- First Trust Financial Holdings Pte. Ltd.</li> </ul> </li> </ul>
<b>Information required under items (a) to (k) of Appendix 7.4.1 of the SGX-ST Listing Manual</b>	Mr Teng's responses under items (a) to (k) of Appendix 7.4.1 of the SGX-ST Listing Manual are all "No".	Mr Wu's responses under items (a) to (k) of Appendix 7.4.1 of the SGX-ST Listing Manual are all "No".	Mr Li's responses under items (a) to (k) of Appendix 7.4.1 of the SGX-ST Listing Manual are all "No".

<sup>(1)</sup> Includes all commitments which involve significant time commitment such as full-time occupation, consultancy work, committee work, non-listed company board representations and directorships and involvement in non-profit organisations. Where a director sits on the boards of non-active related corporations, those appointments should not normally be considered principal commitments.

# FINANCIAL REVIEW

## CONTENTS

38

DIRECTORS'  
STATEMENT

42

INDEPENDENT  
AUDITOR'S REPORT

---

47

CONSOLIDATED STATEMENT OF  
COMPREHENSIVE INCOME

49

BALANCE  
SHEETS

51

CONSOLIDATED STATEMENT  
OF CHANGES IN EQUITY

---

54

CONSOLIDATED STATEMENT OF  
CASH FLOWS

55

NOTES TO THE FINANCIAL  
STATEMENTS

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# DIRECTORS' STATEMENT

The directors present their statement to the members together with the audited consolidated financial statements of AEI Corporation Ltd. (the "Company") and its subsidiaries (collectively, the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2019.

## OPINION OF THE DIRECTORS

In the opinion of the directors,

- (i) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019 and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year ended on that date, and
- (ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

## DIRECTORS

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

Yeung Koon Sang alias David Yeung  
Sun Quan  
Wu Pingwei  
Li Zhibo  
Dr Vasoo Sushilan  
Teng Cheong Kwee

## 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 Singapore Companies Act, Chapter 50, an interest in shares and warrants of the Company as stated below:

Ordinary shares of the Company				
Name of director	Direct interest		Deemed interest	
	At the beginning of financial year or date of appointment	At the end of financial year	At the beginning of financial year or date of appointment	At the end of financial year
	Yeung Koon Sang alias David Yeung	10,000	10,000	-
Sun Quan	-	-	28,750,000	28,878,400
Wu Pingwei	-	-	-	-
Li Zhibo	-	-	-	-
Dr Vasoo Sushilan	10,000	10,000	-	-
Teng Cheong Kwee	10,000	10,000	-	-

Warrants carrying right to subscribe for ordinary shares Held in the name of directors				
Name of director	Direct interest		Deemed interest	
	At the beginning of financial year	At the end of financial year	At the beginning of financial year	At the end of financial year
	Yeung Koon Sang alias David Yeung	10,000	10,000	-
Dr Vasoo Sushilan	10,000	10,000	-	-
Teng Cheong Kwee	10,000	10,000	-	-

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2020.

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 of the financial year, or date of appointment if later, or at the end of the financial year.

# DIRECTORS' STATEMENT

## **DIRECTORS' CONTRACTUAL BENEFITS**

Since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

## **AEI PERFORMANCE SHARE PLAN**

At an Extraordinary General Meeting held on 28 April 2014, shareholders approved the adoption of AEI Performance Share Plan ("Plan") as a compensation scheme that promotes higher performance goals and recognizes exceptional achievement. The Company believes the Plan will strengthen the overall effectiveness of the Group's remuneration and benefits to its employees.

The Plan is administered by the Remuneration Committee and the Plan continues in force at the discretion of the Remuneration Committee, subject to a maximum period of up to ten years.

No share has been issued under the Plan.

## **AUDIT COMMITTEE**

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

- Reviewed the audit plans of the external auditors of the Group and the Company
- Reviewed the half-yearly and annual financial statements and the external auditor's report on the annual financial statements of the Group and the Company before their submission to the board of directors
- Reviewed effectiveness of the Group and the Company's material internal controls, including financial, operational and compliance controls and risk management
- Met with the external auditor, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC
- Reviewed legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators
- Reviewed the cost effectiveness and the independence and objectivity of the external auditor
- Reviewed the nature and extent of non-audit services provided by the external auditor

## AUDIT COMMITTEE (CONT'D)

- Recommended to the board of directors the external auditor to be nominated, approved the compensation of the external auditor, and reviewed the scope and results of the audit
- Reported actions and minutes of the AC to the board of directors with such recommendations as the AC considered appropriate
- Reviewed interested person transactions in accordance with the requirements of the Singapore Exchange Securities Trading Limited's Listing Manual

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

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

## AUDITOR

Ernst & Young LLP have expressed their willingness to accept re-appointment as auditor.

On behalf of the board of directors:

**Yeung Koon Sang**  
**alias David Yeung**  
Director

**Sun Quan**  
Director

Singapore  
3 April 2020

# INDEPENDENT AUDITOR'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AEI CORPORATION LTD.

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion

We have audited the financial statements of AEI Corporation Ltd. (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 2019, the statements of changes in equity of the Group and the Company, consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group, the balance sheet and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and 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 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the financial year ended on that date.

#### Basis for opinion

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

#### Key audit matters

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

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

# INDEPENDENT AUDITOR'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

43

AEI  
Annual  
Report  
2019

## Key audit matters (cont'd)

### Impairment of buildings and improvements and leasehold land

We refer to Note 2.6, 2.7 (Significant accounting policies), Note 3.2(c) (Significant accounting judgments and estimates), Note 11 (Property, plant and equipment) and Note 14 (Leasehold land).

As at 31 December 2019, the Group's leasehold land, buildings and improvements located at Tuas South and Penjuru Lane, have an aggregate carrying amount of \$16.4 million, net of depreciation, amortisation and impairment. The impairment assessment of the leasehold properties was significant to the audit due to the magnitude, and they involved significant level of judgment and estimates made by the management and the independent professional appraiser ("External Appraiser").

The recoverable values of these assets were assessed based on the fair value less cost to sell. During the year ended 31 December 2019, pursuant to the impairment assessment, the Group recognised an impairment loss of \$1.1 million principally relating to the Tuas South leasehold property.

The fair value of the Tuas South leasehold land and buildings and improvements was based on a valuation performed by the External Appraiser. The External Appraiser determined the fair value of this property based on the direct comparison approach, using sales and listing of similar properties in the vicinity as guides to values after relevant adjustments were made for differences in characteristics such as location, land area, and conditions of the buildings and improvements. The External Appraiser also performed an allocation of the fair values of the leasehold properties between the land and building elements using the depreciated replacement cost method.

As part of our audit procedures, to review the Tuas South valuation report, we obtained an understanding of management's process of revaluing buildings and improvements, the assessment for indicators of impairment and basis of determining recoverable amount of the leasehold property. We evaluated the objectivity, independence and expertise of the External Appraiser. We obtained the external valuation report and discussed with the External Appraiser and assessed the appropriateness of the basis and approaches adopted for the valuations and allocation of values. We involved our internal valuation specialist to assist us in the evaluation of the appropriateness of the valuation method and the approach to allocation of values, and the key inputs and assumptions adopted. These inputs and assumptions include transaction prices of comparable properties, land size, building condition and location adjustment factors, replacement costs and depreciation estimates.

The fair value of Penjuru Lane leasehold land (right-of-use asset) and buildings and improvements were assessed based on a third-party purchase offer price of \$19 million as stated in the call and put option agreement signed on 28 December 2019.

We reviewed the call and put option agreement for the Penjuru Lane property, including the terms and conditions and discussed the likelihood of completing the sale transaction with management.

Lastly, we reviewed the adequacy of the disclosures made on the impairment of buildings and improvements and leasehold land in Notes 33 and 14 to the financial statements.

# INDEPENDENT AUDITOR'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## **Key audit matters (cont'd)**

### **Impairment on investment in subsidiary (cont'd)**

We refer to Note 2.9 (Significant accounting policies), Note 3.2(a) (Significant accounting judgements and estimates) and Note 12 (Notes on investment in subsidiaries).

As at 31 December 2019, there were indicators of impairment relating to the Company's investment in subsidiaries with an aggregate carrying amount of \$8.4 million, net of impairment. The carrying amount principally relates to one subsidiary, AEI Corporation (Singapore) Pte Ltd ("Subsidiary"). During the year ended 31 December 2019, the Company recognised an impairment loss of \$3.2 million pursuant to the impairment assessment for the Subsidiary. The recoverable amount of the investment in the Subsidiary was determined using the value-in-use method that was based on management's budgets and forecasted cash flows. The impairment assessment is considered a key audit matter due to the magnitude of the carrying amount, and that the assessment involves significant level of judgment and estimates made by the management.

As part of our audit procedures, we obtained an understanding of management's assessment for indicators of impairment and the process and basis of determining recoverable amount of the investment in the Subsidiary. We assessed the valuation methodology used by management and evaluated the key inputs and assumptions such as the revenue growth rate and profit margins by considering historical results, management's operating forecasts and reports, and external market information. We further discussed with management to obtain an understanding on the business strategy and business environment to corroborate our assessment of the assumptions and inputs used by management. We involved our internal specialist to assist us in assessing the reasonableness of the discount rate and terminal growth rate assumptions used in the value-in-use computation. We checked the arithmetic accuracy of management's computation of the impairment loss based on the excess of carrying amount over the recoverable amount.

We also reviewed the adequacy of the disclosures made on the impairment of the investment in subsidiary in the financial statements.

### **Other information**

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

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

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

# INDEPENDENT AUDITOR'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

45

AEI  
Annual  
Report  
2019

## **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)s, 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.

## **Auditor's responsibilities for the audit of the financial statements**

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.

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.

# INDEPENDENT AUDITOR'S REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## **Auditor's responsibilities for the audit of the financial statements (cont'd)**

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

## **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 Eleanor Lee.

### **Ernst & Young LLP**

Public Accountants and  
Chartered Accountants

Singapore  
3 April 2020



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

47

AEI  
Annual  
Report  
2019

	Note	2019 \$'000	2018 \$'000
Revenue	4	9,076	9,417
Cost of sales		(9,093)	(9,328)
<b>Gross (loss)/profit</b>		<b>(17)</b>	89
Other operating income	5	244	292
Selling and distribution costs		(520)	(625)
General and administrative expenses		(3,426)	(4,280)
Impairment losses on financial assets	6	(67)	-
Other operating expenses		(1,211)	(1,587)
<b>Loss from operating activities</b>		<b>(4,997)</b>	(6,111)
Finance cost	7	(445)	(94)
Share of results of associate		(492)	(192)
Finance income	8	565	297
<b>Loss before tax</b>	6	<b>(5,369)</b>	(6,100)
Income tax (expense)/benefit	9	(486)	198
<b>Loss net of tax</b>		<b>(5,855)</b>	(5,902)
<b>Loss for the financial year attributable to:</b>			
<b>Owners of the Company</b>		<b>(5,855)</b>	(5,902)
<b>Earnings per share attributable to owners of the Company</b>	10		
- Basic (in cents)		<b>(10.4)</b>	(12.5)
- Diluted (in cents)		<b>(10.4)</b>	(12.5)

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 2019

	2019 \$'000	2018 \$'000
<b>Loss for the financial year</b>	<b>(5,855)</b>	(5,902)
<b>Other comprehensive income:</b>		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Share of foreign currency translation of associated company	<b>9</b>	5
<b>Other comprehensive income for the financial year, net of tax</b>	<b>9</b>	5
<b>Total comprehensive income for the financial year</b>	<b>(5,846)</b>	(5,897)
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	<b>(5,846)</b>	(5,897)

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

# BALANCE SHEETS

AS AT 31 DECEMBER 2019

49

AEI  
Annual  
Report  
2019

	Note	Group		Company	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Non-current assets</b>					
Property, plant and equipment	11	9,060	9,900	1,843	1,921
Investment in subsidiaries	12	-	-	8,435	11,731
Investment in associate	13	1,417	1,900	-	-
Leasehold land	14	9,182	2,914	7,532	-
Deferred tax asset	23	-	478	-	-
		<b>19,659</b>	15,192	<b>17,810</b>	13,652
<b>Current assets</b>					
Loan receivable	15	-	-	-	-
Inventories	16	2,903	3,281	-	-
Prepaid operating expenses		41	39	7	9
Trade receivables	17	1,632	1,609	15	16
Other receivables	18	1,847	238	261	215
Amount due from subsidiaries	19	-	-	2,033	746
Receivable from associate	19	204	194	7	7
Cash and cash equivalents	20	33,906	38,065	32,395	36,464
		<b>40,533</b>	43,426	<b>34,718</b>	37,457
<b>Total assets</b>					
		<b>60,192</b>	58,618	<b>52,528</b>	51,109
<b>Current liabilities</b>					
Trade payables	21	1,688	929	20	213
Other payables	21	3,154	2,187	568	448
Loans and borrowings	22	558	370	188	-
Income tax payable		50	64	50	64
		<b>5,450</b>	3,550	<b>826</b>	725
<b>Net current assets</b>					
		<b>35,083</b>	39,876	<b>33,892</b>	36,732

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

AS AT 31 DECEMBER 2019

	Note	Group		Company	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Non-current liabilities</b>					
Loans and borrowings	22	9,490	2,374	7,486	-
Deferred tax liability	23	289	267	289	267
		<b>9,779</b>	2,641	<b>7,775</b>	267
<b>Total liabilities</b>		<b>15,229</b>	6,191	<b>8,601</b>	992
<b>Net assets</b>		<b>44,963</b>	52,427	<b>43,927</b>	50,117
<b>Equity attributable to owners of the Company</b>					
Share capital	24	71,977	71,977	71,977	71,977
Treasury shares	25	(3,315)	(1,697)	(3,315)	(1,697)
Foreign currency translation reserve	26	89	80	-	-
Accumulated losses		(23,788)	(17,933)	(24,735)	(20,163)
<b>Total equity</b>		<b>44,963</b>	52,427	<b>43,927</b>	50,117
<b>Total equity and liabilities</b>		<b>60,192</b>	58,618	<b>52,528</b>	51,109

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

51

AEI  
Annual  
Report  
2019

	Attributable to owners of the Company				
	Share capital \$'000 (Note 24)	Treasury shares \$'000 (Note 25)	Foreign currency translation reserve \$'000 (Note 26)	Accumulated losses \$'000	Total equity \$'000
<b>Group</b>					
<b>Opening balance at 1 January 2019</b>	<b>71,977</b>	<b>(1,697)</b>	<b>80</b>	<b>(17,933)</b>	<b>52,427</b>
Loss for the financial year	-	-	-	(5,855)	(5,855)
<i>Other comprehensive income:</i>					
Share of foreign currency translation of associated company	-	-	9	-	9
Other comprehensive income for the financial year, net of tax	-	-	9	-	9
Total comprehensive income for the financial year	-	-	9	(5,855)	(5,846)
<b>Distribution to owners</b>					
Purchase of treasury shares	-	(1,618)	-	-	(1,618)
<b>Total distribution to owners</b>	-	(1,618)	-	-	(1,618)
<b>Closing balance at 31 December 2019</b>	<b>71,977</b>	<b>(3,315)</b>	<b>89</b>	<b>(23,788)</b>	<b>44,963</b>

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Attributable to owners of the Company				
	Share capital \$'000 (Note 24)	Treasury shares \$'000 (Note 25)	Foreign currency translation reserve \$'000 (Note 26)	Accumulated losses \$'000	Total equity \$'000
<b>Group</b>					
<b>Opening balance at 1 January 2018</b>	49,007	(1,697)	75	(12,031)	35,354
Loss for the financial year	-	-	-	(5,902)	(5,902)
<i>Other comprehensive income:</i>					
Share of foreign currency translation of associated company	-	-	5	-	5
Other comprehensive income for the financial year, net of tax	-	-	5	-	5
Total comprehensive income for the financial year	-	-	5	(5,902)	(5,897)
<b>Contributions by owners</b>					
Issue of ordinary shares	23,000	-	-	-	23,000
Issue of introducer shares	690	-	-	-	690
Share issuance expense	(720)	-	-	-	(720)
<b>Total contribution by owners</b>	22,970	-	-	-	22,970
<b>Closing balance at 31 December 2018</b>	71,977	(1,697)	80	(17,933)	52,427

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

53

AEI  
Annual  
Report  
2019

	Share capital \$'000 (Note 24)	Treasury shares \$'000 (Note 25)	Accumulated losses \$'000	Total equity \$'000
<b>Company</b>				
<b>Opening balance at 1 January 2018</b>	49,007	(1,697)	(10,018)	37,292
Loss net of tax for the financial year, representing total comprehensive income for the financial year	-	-	(10,145)	(10,145)
<b>Contributions by owners</b>				
Issue of ordinary shares	23,000	-	-	23,000
Issue of introducer shares	690	-	-	690
Share issuance expense	(720)	-	-	(720)
<b>Total contribution by owners</b>	22,970	-	-	22,970
<b>Closing balance at 31 December 2018 and opening balance at 1 January 2019</b>	71,977	(1,697)	(20,163)	50,117
Loss net of tax for the financial year, representing total comprehensive income for the financial year	-	-	(4,572)	(4,572)
<b>Distribution to owners</b>				
Purchase of treasury shares	-	(1,618)	-	(1,618)
<b>Total distribution to owners</b>	-	(1,618)	-	(1,618)
<b>Closing balance at 31 December 2019</b>	71,977	(3,315)	(24,735)	43,927

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 2019

	Note	2019 \$'000	2018 \$'000
<b>Operating activities:</b>			
Loss before tax		(5,369)	(6,100)
Adjustments for:			
Depreciation of property, plant and equipment	11	1,109	1,125
Amortisation on leasehold land	14	493	235
Impairment loss on property, plant and equipment	11	3	-
Impairment loss on leasehold land	14	1,093	1,073
(Gain)/loss on disposal of property, plant and equipment, net	6	(141)	4
Interest expense	7	445	94
Interest income	8	(565)	(297)
Foreign currency translation adjustments		(9)	(5)
Impairment loss on financial assets		67	-
Write-down of inventories, net	16	72	46
Share of results of associate		492	192
<b>Operating cash flows before changes in working capital</b>		<b>(2,310)</b>	<b>(3,633)</b>
Increase in receivables		(1,664)	(627)
Decrease in inventories		306	739
Increase in payables		726	195
<b>Cash flows used in operations</b>		<b>(2,942)</b>	<b>(3,326)</b>
Interest paid - term loan		(92)	(94)
Lease rental paid		(533)	-
Income tax paid		-*	-*
Interest received		518	104
<b>Net cash flows used in operating activities</b>		<b>(3,049)</b>	<b>(3,316)</b>
<b>Investing activities:</b>			
Proceeds from disposal of property, plant and equipment		179	-
Purchase of property, plant and equipment	11	(310)	(204)
<b>Net cash flows used in investing activities</b>		<b>(131)</b>	<b>(204)</b>
<b>Financing activities:</b>			
Proceeds from issue of new shares		-	23,000
Share issuance expense		-	(30)
Repayment of term loan		(370)	(370)
Advance from corporation owned by directors of subsidiary companies		1,000	-
Purchase of treasury shares		(1,618)	-
<b>Net cash flows (used in)/generated from financing activities</b>		<b>(988)</b>	<b>22,600</b>
Net (decrease)/increase in cash and cash equivalents		(4,168)	19,080
Effect of exchange rate changes on cash and cash equivalents		9	5
Cash and cash equivalents at 1 January		38,065	18,980
<b>Cash and cash equivalents at 31 December</b>	20	<b>33,906</b>	<b>38,065</b>

\* amount represent less than \$1,000

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



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

55

AEI  
Annual  
Report  
2019

## 1. CORPORATE INFORMATION

AEI Corporation Ltd. (the "Company") is a limited liability company incorporated and domiciled in Singapore and is listed on the Singapore Exchange.

The registered office and principal place of business of the Company is located at 15 Tuas South Street 13, Singapore 636936.

The principal activities of the Company is investment holdings in manufacturing and extrusion activities. There have been no significant changes in the nature of these activities during the financial year. The principal activities of the subsidiaries and associate are disclosed in Note 12 and 13 to the financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 *Basis of preparation*

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (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 Dollars (SGD or \$) and all values are rounded to the nearest thousand (\$'000), except when otherwise indicated.

### 2.2 *Adoption of new and amended standards and interpretations*

The accounting policies adopted are consistent with those previously applied under SFRS(I) except that in the current financial year, the Group has adopted all the SFRS(I) which are effective for annual financial periods beginning on or after 1 January 2019. Except for the adoption of SFRS(I) 16 Leases described below, the adoption of these standards did not have any material effect on the financial performance or position of the Group and the Company.

#### **SFRS(I) 16 Leases**

SFRS(I) 16 supersedes SFRS(I) 1-17 *Leases*, SFRS(I) INT 4 *Determining whether an Arrangement contains a Lease*, SFRS(I) INT 1-15 *Operating Leases-Incentives* and SFRS(I) INT 1-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

The Group applied exemption for short-term leases with lease term that end within 12 months and lease of low-value asset.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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

### 2.2 *Adoption of new and amended standards and interpretations (cont'd)*

#### **SFRS(I) 16 Leases (cont'd)**

The Group has a lease contract for a factory land parcel with monthly rental payments. Before the adoption of SFRS(I) 16, the Group classified this lease as an operating lease. Refer to Note 2.20 for the accounting policy prior to 1 January 2019.

The Group adopted SFRS(I) 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application as an adjustment to the opening balance of retained earnings and comparatives have not been restated. The Group has applied the new standard of a lease to all arrangements still effective at the date of initial application.

Upon adoption of SFRS(I) 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The accounting policy beginning on and after 1 January 2019 is disclosed in Note 2.20. The standard provides specific transition requirements and practical expedients, which have been applied by the Group, as set out below:

#### **Leases previously accounted for as operating leases**

The Group recognised a right-of-use assets and related lease liability for the above factory land lease. Lease liability was recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The right-of-use asset for the lease was recognised based on the lease liability at the date of initial application.

The effect of adoption of SFRS(I) 16 as at 1 January 2019 is as follows:

	<b>Increase \$'00</b>
<b>Assets</b>	
Leasehold land	7,854
<b>Liabilities</b>	
Loans and borrowings	7,854

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

57

AEI  
Annual  
Report  
2019

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

### 2.2 Adoption of new and amended standards and interpretations (cont'd)

#### SFRS(I) 16 Leases (cont'd)

#### Leases previously accounted for as operating leases (cont'd)

As at 1 January 2019:

- right-of-use asset of \$7,854,000 were recognised and presented within leasehold land; and
- lease liabilities of \$7,854,000 (included in loans and borrowings) were recognised.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	<b>\$'000</b>
Operating lease commitments as at 31 December 2018	13,069
Less:	
• Commitments relating to short-term leases	(10)
• Commitments relating to leases of low-value assets	(38)
	<hr/> 13,021
• Effect of discounting	(5,167)
Discounted lease liabilities recognised as at 1 January 2019	<hr/> <hr/> 7,854

The weighted average incremental borrowing rate at transition was 4.55% per annum.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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

### 2.3 *Standards issued but not yet effective*

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

Description	Effective for annual periods beginning on or after
Amendments to SFRS(I) 3: <i>Definition of a Business</i>	1 January 2020
Amendments to SFRS(I) 1-1 and SFRS(I) 1-8: <i>Definition of Material</i>	1 January 2020
Amendments to SFRS(I) 9, SFRS(I) 1-39 and SFRS(I) 7 <i>Interest Rate Benchmark Reform</i>	1 January 2020
Amendments to SFRS(I) 10 and SFRS(I) 1-28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Date to be determined

The directors expect that the adoption of the other standards above will have no material impact on the financial statements in the period of initial application.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

59

AEI  
Annual  
Report  
2019

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

### 2.4 *Basis of consolidation*

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

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

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

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

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

- de-recognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
- de-recognises the carrying amount of any non-controlling interest;
- de-recognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- reclassifies 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

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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

### 2.5 *Foreign currency*

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

#### (a) *Transactions and balances*

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

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

#### (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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

61

AEI  
Annual  
Report  
2019

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

### 2.6 *Property, plant and equipment*

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, plant and equipment and furniture and fixtures other than buildings and improvements are measured at cost less accumulated depreciation and any accumulated impairment losses.

Buildings and improvements are measured at fair value less accumulated depreciation 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 buildings and improvements at the end of the reporting period.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity under the asset 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 asset 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 asset revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

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

- Buildings and improvements - the remaining lease periods of 16 to 23.5 years
- Plant and machinery - 10 to 20 years
- Renovation - 4 to 5 years
- Motor vehicles - 5 to 10 years
- Furniture and fittings - 3 to 10 years
- Office equipment - 3 to 10 years
- Dies and moulds - 6.7 years

Assets under construction included in plant and equipment are not depreciated as these assets are not yet available for use.

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 de-recognition of the asset is included in profit or loss in the year the asset is derecognised.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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

### 2.7 *Leasehold land*

Leasehold land is initially measured at cost. Following initial recognition, leasehold land is measured at cost less accumulated amortisation and any accumulated impairment losses. The leasehold land is amortised on a straight-line basis over the lease period ranging from 21 to 23.5 years.

### 2.8 *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 of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

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.

### 2.9 *Subsidiaries*

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

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



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

63

AEI  
Annual  
Report  
2019

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

### 2.10 Associates

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

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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

### 2.11 *Financial instruments*

#### (a) *Financial assets*

##### *Initial recognition and measurement*

Financial assets are recognised when, and only when the entity becomes party to the contractual provisions of the instruments.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

##### *Subsequent measurement*

##### Investments in debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. The Group only has debt instruments at amortised cost.

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through the amortisation process.

##### *De-recognition*

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

65

AEI  
Annual  
Report  
2019

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

### 2.11 *Financial instruments (cont'd)*

#### **(b) *Financial liabilities***

##### *Initial recognition and measurement*

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

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

##### *Subsequent measurement*

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

##### *De-recognition*

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. On derecognition, the difference between the carrying amounts and the consideration paid is recognised in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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

### 2.12 *Impairment of financial assets*

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss and financial guarantee contracts. 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 expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. 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 recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises 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 for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

### 2.13 *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand and fixed deposits in banks which are subject to an insignificant risk of changes in value.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

67

AEI  
Annual  
Report  
2019

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

### 2.14 Inventories

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

- Raw materials: purchase costs on a weighted average cost basis;
- Finished goods and work-in-progress: costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average cost 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 estimated costs necessary to make the sale.

### 2.15 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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

### 2.16 **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.

### 2.17 **Government grants**

Government grants are recognised when there is a reasonable assurance that the grant will be received and all attaching conditions will be complied with and are recorded as 'other operating income' in the financial statements.

### 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 failed to make payment when due in accordance with the terms of the debt instrument.

### 2.19 **Employee benefits**

#### *Defined contribution plan*

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.

#### *Employee leave entitlement*

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

69

AEI  
Annual  
Report  
2019

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

### 2.20 Leases

These accounting policies are applied on and after the initial application date of SFRS(I) 16, 1 January 2019:

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities representing the obligations to make lease payments and right-of-use assets representing the right to use the underlying leased assets.

#### Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. The accounting policy for impairment is disclosed in Note 2.8.

The Group's right-of-use asset are presented within leasehold land (Note 14).

#### Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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

### 2.20 Leases (cont'd)

#### Lease liabilities (cont'd)

The Group's lease liabilities are included in loans and borrowings (Note 22).

#### Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

These accounting policies are applied before the initial application date of SFRS(I) 16, 1 January 2019:

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.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

71

AEI  
Annual  
Report  
2019

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

### 2.21 Revenue

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

#### (a) *Sale of goods*

Revenue from sale of goods is recognised when the goods are delivered to the customer and all criteria for acceptance have been satisfied.

The amount of revenue recognised is based on the estimated transaction price, which comprises the contractual price, net of adjusted for expected returns. Based on the Group's experience with similar types of contracts, variable consideration is typically constrained and is included in the transaction only to the extent that it is a highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Group recognises the expected volume rebates payable to customer where consideration have been received from customers.

At the end of each reporting date, the Group updates its assessment of the estimated transaction price, including its assessment of whether an estimate of variable consideration is constrained. The corresponding amounts are adjusted against revenue in the period in which the transaction price changes.

#### (b) *Rendering of services*

Revenue from rendering of services is recognised when the services have been performed and rendered.

### 2.22 Interest income

Interest income is recognised using the effective interest method.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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

### 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. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### (b) Deferred tax

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, 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, the 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, associates and interests in joint ventures, 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

73

AEI  
Annual  
Report  
2019

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

### 2.23 Taxes (cont'd)

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

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

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

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

#### (c) *Sales tax*

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

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

### 2.24 *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 30, including the factors used to identify the reportable segments and the measurement basis of segment information.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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

### 2.25 *Share capital and share issuance expense*

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

### 2.26 *Treasury shares*

The Group's own equity instruments, which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount of treasury shares and the consideration received, if reissued, is recognised directly in equity. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively.

### 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

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

75

AEI  
Annual  
Report  
2019

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

### 3.1 Judgments made in applying accounting policies

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

#### Taxes

Significant judgment 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 tax payables was \$50,000 (2018: \$64,000), while the deferred tax assets and liabilities at 31 December 2019 were \$Nil (2018: \$478,000) and \$289,000 (2018: \$267,000) respectively. The carrying amounts of the Company's tax payables and deferred tax liabilities at 31 December 2019 were \$50,000 (2018: \$64,000) and \$289,000 (2018: \$267,000) respectively.

### 3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of reporting period are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

#### (a) Impairment of buildings and improvements and leasehold land

The recoverable amount of the Tuas South leasehold property is determined based on fair value less cost to sell. The fair value of the Tuas South leasehold property was based on a valuation performed by the External Appraiser. The External Appraiser determined the fair value based on the direct comparison approach, using sales and listing of similar properties in the vicinity as guides to values after relevant adjustments were made for differences in characteristics such as location, land area, and conditions of the buildings and improvements. An additional impairment might be recorded, if there are any significant changes in fair value measurements from period to period affects the amount initially assessed.

The carrying amount of Tuas South building and improvements and leasehold land as at 31 December 2019 is \$5,349,000 (2018: \$5,687,000) and \$1,650,000 (2018: \$2,914,000).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONT'D)

### 3.2 Key sources of estimation uncertainty (cont'd)

(b) Net realisable value of raw materials

Raw materials are stated at lower of cost and net realisable value. The net realisable value of the Group's raw materials is assessed based on the best available facts and circumstances at the end of each reporting period, including but not limited to, the inventories' own physical conditions and external raw materials market prices close to year end. The value is re-evaluated and an impairment might be recorded, if additional information received affects the amount initially assessed. The carrying amount of the raw materials as at 31 December 2019 is \$2,089,000 (2018: \$2,418,000).

(c) Valuation of buildings and improvements

The Group carries its buildings and improvements at fair value less accumulated depreciation. These are performed regularly. The last revaluation was performed in prior year. In 2019, an external valuation was performed for impairment assessment purposes (see note 3.2(a)).

The carrying amount of the buildings and improvements as at 31 December 2019 is \$7,192,000 (2018: \$7,608,000).

## 4. REVENUE

### a) Disaggregation of revenue

	Sales of goods		Rendering of services		Total revenue	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<i>Primary geographical locations</i>						
Singapore	<b>4,444</b>	3,499	<b>31</b>	9	<b>4,475</b>	3,508
Greater China	<b>981</b>	1,320	-	-	<b>981</b>	1,320
Malaysia	<b>1,252</b>	1,853	-	-	<b>1,252</b>	1,853
Other countries	<b>2,368</b>	2,736	-	-	<b>2,368</b>	2,736
	<b>9,045</b>	9,408	<b>31</b>	9	<b>9,076</b>	9,417
<i>Timing of transfer of goods</i>						
At a point in time	<b>9,045</b>	9,408	-	-	<b>9,045</b>	9,408
Over time	-	-	<b>31</b>	9	<b>31</b>	9
	<b>9,045</b>	9,408	<b>31</b>	9	<b>9,076</b>	9,417

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

77

AEI  
Annual  
Report  
2019

## 4. REVENUE (CONT'D)

### b) Judgement and methods used in estimating revenue

#### *Estimating variable consideration for sale of goods*

In estimating the variable consideration for the sale of goods, the Group uses the expected value method to predict the volume rebate. Management relies on historical experience with purchasing patterns of customers, analysed by different product types, customers and geographical areas, for the past 1 to 2 years.

Management has exercised judgement in applying the constraint on the estimated variable consideration that can be included in the transaction price. For volume rebate, management has determined that a portion of the estimated variable consideration is subject to the constraint as, based on past experience with the customers, it is highly probable that a significant reversal in the cumulative amount of revenue recognised will occur, and therefore will not be recognised as revenue.

## 5. OTHER OPERATING INCOME

	Group	
	2019 \$'000	2018 \$'000
Sale of metal scrap	2	155
Government grant income	8	15
Gain on foreign exchange	-	42
Gain on disposal of property, plant and equipment	152	-
Sundry income	82	80
	<b>244</b>	292

Government grant income relates to Wage Credit Scheme and Temporary Employment Credit grants received by the Group during the financial year.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## 6. LOSS BEFORE TAX

The following items have been included in arriving at loss before tax:

	Note	Group	
		2019 \$'000	2018 \$'000
Audit fees paid to auditors of the Company		<b>111</b>	111
Non-audit fees paid to auditors of the Company		<b>48</b>	54
Depreciation of property, plant and equipment	11	<b>1,109</b>	1,125
Impairment loss on property, plant and equipment	11	<b>3</b>	-
Impairment loss on leasehold land	14	<b>1,093</b>	1,073
Directors' emoluments			
- fees		<b>293</b>	240
- remuneration		<b>629</b>	783
(Gain)/loss on disposal of property, plant and equipment, net		<b>(141)</b>	4
Write down of inventories, net	16	<b>72</b>	46
Impairment losses on financial assets			
- trade receivables	17	<b>67</b>	-
Lease expense	27	<b>29</b>	583
Staff costs (excluding directors' remuneration)			
- defined contribution plans		<b>213</b>	260
- salaries, bonuses and other wages		<b>3,159</b>	3,731

## 7. FINANCE COST

	Note	Group	
		2019 \$'000	2018 \$'000
Interest expense			
- term loan		<b>92</b>	94
- lease liability	27	<b>353</b>	-
		<b>445</b>	94



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

79

AEI  
Annual  
Report  
2019

## 8. FINANCE INCOME

	Group	
	2019 \$'000	2018 \$'000
Interest income on short-term deposits	565	297

## 9. INCOME TAX EXPENSE/(BENEFIT)

### *Major components of income tax expense/(benefit)*

The major components of income tax expense/(benefit) for the financial years ended 31 December 2019 and 2018 are:

		Group	
	Note	2019 \$'000	2018 \$'000
<b>Consolidated income statement:</b>			
Current income tax:			
- Current income taxation		50	-
- Over-provision in respect of previous years		(64)	(15)
		<u>(14)</u>	<u>(15)</u>
Deferred income tax:			
- Origination and reversal of temporary differences	23	6	(133)
- Under/(over) provision in respect of previous years	23	494	(50)
		<u>500</u>	<u>(183)</u>
Income tax expense/(benefit) recognised in profit or loss		<u>486</u>	<u>(198)</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## 9. INCOME TAX EXPENSE/(BENEFIT) (CONT'D)

### *Relationship between tax expense/(benefit) and accounting loss*

A reconciliation between the tax expense/(benefit) and the product of accounting loss multiplied by the applicable corporate tax rate for the financial years ended 31 December 2019 and 2018 is as follows:

	Group	
	2019 \$'000	2018 \$'000
Loss before tax	<b>(5,369)</b>	(6,100)
Tax at the applicable tax rate of 17% (2018: 17%)	<b>(913)</b>	(1,037)
Adjustments:		
Income not subject to taxation	<b>(32)</b>	(32)
Non-deductible expenses	<b>476</b>	568
Under/(over) provision in respect of previous years	<b>430</b>	(65)
Effect of partial tax exemption and tax relief	<b>(17)</b>	-
Deferred tax assets not recognised	<b>455</b>	297
Share of results of associate	<b>84</b>	33
Others	<b>3</b>	38
Income tax expense/(benefit) recognised in profit or loss	<b>486</b>	(198)

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

The Group has tax losses of approximately \$7,655,000 (2018: \$4,981,000) that are available for offset against future taxable profits of the companies in which the losses arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subjected 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

81

AEI  
Annual  
Report  
2019

## 10. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing profit for the financial year, net of tax, attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial years.

Diluted earnings per share are calculated by dividing profit for the financial year, net of tax, attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The bonus warrants issued have not been included in the calculation of diluted earnings per share because they are anti-dilutive.

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

	2019 \$'000	2018 \$'000
Loss for the financial year attributable to owners of the Company used in the computation of basic and diluted earnings per ordinary shares	<u>(5,855)</u>	<u>(5,902)</u>
	No. of shares '000	No. of shares '000
Weighted average number of ordinary shares for basic and diluted earnings per share computation	<u>56,498</u>	<u>47,321</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## 11. PROPERTY, PLANT AND EQUIPMENT

	At valuation	At cost		
	Buildings and improvements \$'000	Plant, equipment and other assets \$'000	Renovations \$'000	Total \$'000
<b>Group</b>				
<b>Cost or valuation:</b>				
At 1 January 2018	8,000	34,152	525	42,677
Additions	20	184	-	204
Disposals	-	(10)	-	(10)
Elimination of accumulated depreciation on revaluation	(412)	-	-	(412)
At 31 December 2018 and 1 January 2019	7,608	34,326	525	42,459
Additions	-	310	-	310
Disposals	-	(2,444)	-	(2,444)
Write off	-	(23,856)	-	(23,856)
At 31 December 2019	7,608	8,336	525	16,469
<b>Accumulated depreciation</b>				
At 1 January 2018	-	31,329	523	31,852
Charge for the financial year (Note 6)	412	713	-	1,125
Disposals	-	(6)	-	(6)
Elimination of accumulated depreciation on revaluation	(412)	-	-	(412)
At 31 December 2018 and 1 January 2019	-	32,036	523	32,559
Charge for the financial year (Note 6)	413	696	-	1,109
Disposals	-	(2,406)	-	(2,406)
Write off	-	(23,856)	-	(23,856)
Impairment loss	3	-	-	3
At 31 December 2019	416	6,470	523	7,409
<b>Net carrying amount:</b>				
At 31 December 2018	7,608	2,290	2	9,900
At 31 December 2019	7,192	1,866	2	9,060

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

83

AEI  
Annual  
Report  
2019

## 11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	At valuation	At cost	
	Buildings and improvements \$'000	Renovations \$'000	Total \$'000
<b>Company</b>			
<b>Cost or valuation:</b>			
At 1 January 2018	2,000	407	2,407
Elimination of accumulated depreciation on revaluation	(79)	-	(79)
At 31 December 2018, 1 January 2019 and 31 December 2019	1,921	407	2,328
<b>Accumulated depreciation</b>			
At 1 January 2018	-	407	407
Charge for the financial year	79	-	79
Elimination of accumulated depreciation on revaluation	(79)	-	(79)
At 31 December 2018 and 1 January 2019	-	407	407
Charge for the financial year	78	-	78
At 31 December 2018	78	407	485
<b>Net carrying amount:</b>			
At 31 December 2018	1,921	-	1,921
At 31 December 2019	1,843	-	1,843

Other assets comprise motor vehicles, furniture and fittings and office equipment.

The Group engaged RHT Chestertons Valuation and Advisory Pte. Ltd., an independent valuer to determine the fair value of the industrial buildings at Tuas South. Details of valuation techniques and inputs used are disclosed in Note 33. Based on the valuation, a fair value assessment loss of \$3,000 (2018: \$Nil) in relation to the Group's buildings was taken into account, where an impairment loss of \$3,000 (2018: \$Nil) has been recognised in "Other operating expenses" line item of profit of loss for the financial year ended 31 December 2019.

The Group engaged Asia Valuation & Advisory Services Pte Ltd, an independent valuer to determine the fair value of the industrial buildings at Penjuru Lane. The date of valuations was 31 December 2018. Details of valuation techniques and inputs used are disclosed in Note 33.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## 11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

If the buildings and improvements were measured using cost model, the carrying amount would be as follows:

	Group		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Cost	<b>16,715</b>	16,715	<b>7,597</b>	7,597
Accumulated depreciation and impairment	<b>(11,261)</b>	(10,633)	<b>(7,201)</b>	(7,056)
Net carrying value	<b>5,454</b>	6,082	<b>396</b>	541

## 12. INVESTMENT IN SUBSIDIARIES

	Company	
	2019 \$'000	2018 \$'000
Unquoted shares, at cost	<b>29,001</b>	29,001
Allowance of impairment	<b>(20,566)</b>	(17,270)
Net carrying value	<b>8,435</b>	11,731
Movement in allowance account:		
At 1 January	<b>17,270</b>	9,000
Impairment for the financial year	<b>3,296</b>	8,270
At 31 December	<b>20,566</b>	17,270

During the year, the Company carried out an impairment assessment on the recoverable amount of its investment in subsidiaries. The recoverable amount of the material subsidiary, AEI Corporation (Singapore) Pte Ltd, is determined based on value-in-use using the 3-year estimated future cash flows discounted to its present value by using a pre-tax discount rate of 10% per annum. In view of the market condition, management has applied 0.8% terminal growth rate in the value-in-use calculation.

An impairment loss of \$3,295,000 (2018: \$8,270,000) for the investment in a subsidiary was recognised in "Other operating expenses" line in the profit or loss for the financial year.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

85

AEI  
Annual  
Report  
2019

## 12. INVESTMENT IN SUBSIDIARIES (CONT'D)

### Sensitivity to changes in assumptions

The recoverable amount is most sensitive to the discount rate, cash flows and terminal growth rate used for the discounted cash flows model. Any significant adverse change in key assumptions could result in further impairment loss.

The Group has the following investments in subsidiaries:

Name of company (Country of incorporation)	Principal activities (Place of business)	Proportion of ownership interest	
		2019 %	2018 %
<b>Held by the Company:</b>			
* AEI Trading and Investments Pte Ltd (Formerly known as AEI Engineering Pte Ltd) (Singapore)	Wholesale of scrap, junk and waste dealers, manufacturing of engineering components (Singapore)	<b>100</b>	100
* AEI (China) Holdings Pte Ltd (Singapore)	Investment holding (Singapore)	<b>100</b>	100
* AEI Corporation (Singapore) Pte Ltd (Singapore)	Manufacturing of basic ferrous and non-ferrous metals (Singapore)	<b>100</b>	100

\* Audited by Ernst & Young LLP, Singapore

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## 13. INVESTMENT IN ASSOCIATE

	Group	
	2019 \$'000	2018 \$'000
Investment in associate	7,221	7,221
Share of post-acquisition reserves	(2,459)	(1,967)
Exchange differences	89	80
Impairment of associate	(3,434)	(3,434)
	<b>1,417</b>	1,900

Investment in associate comprises of investment in unquoted equity shares at cost.

Details of the associate at 31 December are:

Name of company (Country of incorporation)	Principal activities (Place of business)	Proportion of ownership interest	
		2019 %	2018 %
<b>Held by through AEI (China) Holdings Pte Ltd:</b>			
# Global Tongyi (Singapore) Pte. Ltd. (Singapore)	Manufacturing and general wholesale trade of vegetable and animal oils and fats (Singapore)	<b>50</b>	50
<b>Held by through AEI (China) Holdings Pte Ltd:</b>			
* Well Global Foods (Anyang) Pte. Ltd. (People's Republic of China)	Sale of edible oil (People's Republic of China)	<b>100</b>	100

# Audited by Ernst & Young LLP, Singapore.

\* Audited by Henan Gongxing Accounting Firm.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

87

AEI  
Annual  
Report  
2019

## 13. INVESTMENT IN ASSOCIATE (CONT'D)

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

	Global Tongyi (Singapore) Pte. Ltd.	
	2019 \$'000	2018 \$'000
<b>Summarised balance sheet</b>		
Current assets	2,941	2,894
Non-current assets	2,148	3,194
Total assets	5,089	6,088
Current liabilities	(2,256)	(2,288)
Total liabilities	(2,256)	(2,288)
Net assets	2,833	3,800
Proportion of the Group's ownership	50%	50%
Group's share of net assets	1,417	1,900
Carrying amount of the investment	1,417	1,900
<b>Summarised statement of comprehensive income</b>		
Revenue	-	-
Loss after tax from continuing operations	(984)	(382)
Other comprehensive income	17	10
Total comprehensive income	(967)	(372)

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## 14. LEASEHOLD LAND

	Group	Company
	\$'000	\$'000
<b>Cost:</b>		
At 1 January 2018, 31 December 2018 and 1 January 2019 (a)	5,039	-
Effect on adopting of SFRS(I) 16 (b) (right-of-use asset)	7,854	7,854
At 1 January 2019 (as restated) and 31 December 2019	12,893	7,854
<b>Accumulated amortisation and impairment:</b>		
At 1 January 2018	817	-
Amortisation for the financial year	235	-
Impairment loss	1,073	-
At 31 December 2018 and 1 January 2019	2,125	-
Amortisation for the financial year	493	322
Impairment loss	1,093	-
At 31 December 2019	3,711	322
<b>Net carrying amount:</b>		
At 31 December 2018	2,914	-
At 31 December 2019	9,182	7,532

(a) Tuas South leasehold land

The Group has a leasehold land situated at Tuas South for an industrial building. The construction of the industrial building has been completed. The leasehold land is not transferable and has a remaining tenure of 16 years (2018: 17). This lease was prepaid.

Leasehold land situated at Tuas South was mortgaged to secure the Group's term loan as disclosed in Note 22.

*Impairment of leasehold land*

During the financial year, the Group engaged RHT Chestertons Valuation and Advisory Pte. Ltd., an independent valuer to determine the fair value of the industrial buildings at Tuas South. Details of valuation techniques and inputs used are disclosed in Note 33. Based on the valuation, an impairment loss of \$1,093,000 (2018: \$1,073,000), representing the write-down of leasehold land to the recoverable amount was recognised in "Other operating expenses" line item of profit or loss for the financial year ended 31 December 2019.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

89

AEI  
Annual  
Report  
2019

## 14. LEASEHOLD LAND (CONT'D)

(b) Penjuru Lane leasehold land

The Group recognised a right-of-use asset for the factory land lease. The leasehold land has a remaining tenure of 23 years (2018: 24).

## 15. LOAN RECEIVABLE

The Company has a loan receivable from M2B World Asia Pacific Pte. Ltd. of US\$1,500,000 (2018: US\$1,500,000) or equivalent to \$2,019,000 (2018: \$2,044,000). The loan has been fully provided.

## 16. INVENTORIES

	Group	
	2019 \$'000	2018 \$'000
<b>Balance sheet:</b>		
Raw materials and consumables	2,089	2,418
Work-in-progress	206	284
Finished goods	608	579
Total inventories at lower of cost and net realisable value	<b>2,903</b>	3,281
<b>Profit or loss:</b>		
Inventories recognised as an expense in cost of sales	9,093	9,327
Inclusive of the following charge:		
- Inventories written down	72	46

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## 17. TRADE RECEIVABLES

	Note	Group		Company	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Trade receivables		<b>1,699</b>	1,609	<b>15</b>	16
Less: Allowance for expected credit losses		<b>(67)</b>	-	-	-
		<b>1,632</b>	1,609	<b>15</b>	16
Add:					
Other receivables	18	<b>1,847</b>	238	<b>261</b>	215
Amount due from subsidiaries	19	-	-	<b>2,033</b>	746
Receivable from associate	19	<b>204</b>	194	<b>7</b>	7
Cash and cash equivalents	20	<b>33,906</b>	38,065	<b>32,395</b>	36,464
		<b>37,589</b>	40,106	<b>34,711</b>	37,448
Less: Sales tax receivables		<b>(111)</b>	(120)	<b>(15)</b>	(16)
Total financial assets carried at amortised cost		<b>37,478</b>	39,986	<b>34,696</b>	37,432

Trade receivables are non-interest bearing and are normally settled on average 30 to 90 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

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

	Group		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
United States Dollars	<b>822</b>	1,068	-	-

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

91

AEI  
Annual  
Report  
2019

## 17. TRADE RECEIVABLES (CONT'D)

### *Expected credit losses*

The movement in allowance for expected credit losses of trade receivables computed based on lifetime ECL are as follows:

	Group	
	2019 \$'000	2018 \$'000
At 1 January	-	-
Charge for the year	67	-
At 31 December	67	-

## 18. OTHER RECEIVABLES

	Group		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Deposits	1	2	-	2
Interest receivables	261	214	261	213
Other receivables	67	22	-	-
Advances to related company	1,518	-	-	-
	1,847	238	261	215

### *Advances to related company*

Advances relate to business joint venture transaction with a related company are unsecured, non-interest bearing and are repayable on 31 March 2020.

Other receivables denominated in foreign currencies as at 31 December are as follows:

	Group		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
United States Dollars	1,518	-	-	-

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## 19. AMOUNT DUE FROM SUBSIDIARIES

### Receivable from associate

	Group		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Amounts due from subsidiaries (non-trade)	-	-	<b>2,033</b>	746
Amount due from associate (non-trade)	<b>69</b>	59	<b>7</b>	7
Loan to associate	<b>591</b>	591	-	-
Less: Allowance for impairment	<b>(456)</b>	(456)	-	-
	<b>135</b>	135	<b>7</b>	-
Receivable from associate	<b>204</b>	194	<b>7</b>	7

Amounts due from subsidiaries and associate and loan to associate are unsecured, non-interest bearing and are repayable upon demand.

There was no movement of the Group's allowance account used to record impairment on loans to associate during the current and prior year.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

93

AEI  
Annual  
Report  
2019

## 20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Cash at banks and on hand	4,490	3,019	2,979	1,418
Short-term deposits	29,416	35,046	29,416	35,046
Cash and cash equivalents	<b>33,906</b>	38,065	<b>32,395</b>	36,464

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between three months to one year (2018: three months to one year) depending on the immediate cash requirements of the Group, and earn interests at the respective short-term deposit rates. The weighted average effective interest rate of short-term deposits denominated in Singapore dollars and United States dollars are 1.66% (2018: 1.52%) per annum and Nil% (2018: 1.75%) per annum respectively.

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

	Group		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
United States Dollars	1,307	700	319	-

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## 21. TRADE AND OTHER PAYABLES

	Note	Group		Company	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Trade payables		1,688	929	20	213
Other payables:					
- Third parties		2,154	2,187	568	448
- Advance from corporation owned by directors of subsidiary companies		1,000	-	-	-
Total other payables		3,154	2,187	568	448
Add: Loans and borrowings	22	10,048	2,744	7,674	-
Total financial liabilities carried at amortised cost		14,890	5,860	8,262	661

### **Trade payables**

Trade payables are non-interest bearing and are normally settled on 30 to 60 days' terms.

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

	Group		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
United States Dollars	1,136	332	-	-

### **Other payables**

Other payables are non-interest bearing and have an average term of one month.

### **Advance from corporation owned by directors of subsidiaries companies**

The advance is for working capital purpose of the subsidiary are unsecured, non-interest bearing and are repayable upon demand.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

95

AEI  
Annual  
Report  
2019

## 22. LOANS AND BORROWINGS

	Note	Group		Company	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Current:</b>					
Term loan at cost of funds + 1.75%		370	370	-	-
Lease liability	27	188	-	188	-
		<b>558</b>	370	<b>188</b>	-
<b>Non-current:</b>					
Term loan at cost of funds + 1.75%		2,004	2,374	-	-
Lease liability	27	7,486	-	7,486	-
		<b>9,490</b>	2,374	<b>7,486</b>	-
Total loans and borrowings		<b>10,048</b>	2,744	<b>7,674</b>	-

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## 22. LOANS AND BORROWINGS (CONT'D)

### Term loan

The term loan is secured by a corporate guarantee from the Company and a mortgage over the leasehold land. It bears interest at floating rate of cost of funds + 1.75% (2018: cost of funds + 1.75%). The loan is repayable in 120 monthly equal instalments and repayment has commenced on June 2016.

A reconciliation of liabilities arising from financing activities is as follows:

			Non-cash changes		31 December 2019 \$'000
	1 January 2019 \$'000	Cash flows \$'0000	Interest \$'000	Other \$'000	
Advance from corporation owned by directors of subsidiary companies	-	1,000	-	-	1,000
Term loan					
- Current	370	(370)	-	370	370
- Non-current	2,374	-	-	(370)	2,004
Lease liability					
- Current	180	(533)	353	188	188
- Non-current	7,674	-	-	(188)	7,486
<b>Total</b>	<b>10,598</b>	<b>97</b>	<b>353</b>	<b>-</b>	<b>11,048</b>

			Non-cash changes		31 December 2018 \$'000
	1 January 2018 \$'000	Cash flows \$'0000	Other \$'000		
Term loan					
- Current	370	(370)	370		370
- Non-current	2,744	-	(370)		2,374
<b>Total</b>	<b>3,114</b>	<b>(370)</b>	<b>-</b>		<b>2,744</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

97

AEI  
Annual  
Report  
2019

## 23. DEFERRED TAX

	Group		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Opening balance at 1 January	(211)	(28)	267	195
(Under/(over) provision in respect of previous year (Note 9)	494	(50)	16	-
Movement in temporary differences (Note 9)	6	(133)	6	72
Closing balance at 31 December	<b>289</b>	(211)	<b>289</b>	267
Deferred tax liabilities arise as a result of:				
Excess of net book value over tax written down value of property, plant and equipment	244	231	244	247
Accruals	45	36	45	36
	<b>289</b>	267	<b>289</b>	283
Deferred tax assets arise as a result of:				
Unutilised capital allowance and tax loss	-	(356)	-	(16)
Provisions	-	(99)	-	-
Other items	-	(23)	-	-
	-	(478)	-	(16)
Net deferred tax liabilities/(assets)	<b>289</b>	(211)	<b>289</b>	267

No deferred tax liability (2018: \$Nil) has been recognised for taxes that would be payable on undistributed earnings on the Group's subsidiaries as the Group has determined that undistributed earnings of its subsidiaries will not be distributed in the foreseeable future.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## 24. SHARE CAPITAL

	Group and Company			
	2019		2018	
	No. of shares '000	\$'000	No. of shares '000	\$'000
Issued and fully paid ordinary shares:				
At 1 January	<b>56,732</b>	<b>71,977</b>	27,120	49,007
Issue of ordinary shares	-	-	28,750	23,000
Issue of introducer shares	-	-	862	690
Share issuance expense	-	-	-	(720)
	<b>56,732</b>	<b>71,977</b>	56,732	71,977

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.

On 25 May 2018, the Company had issued 27,119,659 bonus warrants, with each warrant carrying the right to subscribe for one new ordinary share of the Company at an exercise of \$1 for each warrant share. The bonus warrants may only be exercised at any time during the period commencing on the date of issue, on 28 May 2018, and expiring on the date immediately preceding the third anniversary of the date of issue of the bonus warrants. As at 31 December 2019, there were no bonus warrants that have been converted to share.

## 25. TREASURY SHARES

	Group and Company			
	2019		2018	
	No. of shares '000	\$'000	No. of shares '000	\$'000
At 1 January	<b>1,000</b>	<b>1,697</b>	1,000	1,697
Acquired during the financial year	<b>2,009</b>	<b>1,618</b>	-	-
At 31 December	<b>3,009</b>	<b>3,315</b>	1,000	1,697

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

99

AEI  
Annual  
Report  
2019

## 26. FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of a foreign operation whose functional currency is different from that of the Group's presentation currency.

## 27. LEASES

The Group has a lease contract for a factory land parcel with monthly rental payments. The Group is restricted from assigning and subleasing the leased asset.

The Group also has certain leases of machinery and office equipment with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

### (a) Carrying amounts of leasehold land classified as right-of-use asset

	<b>Group and Company</b>
	<b>2019 \$'000</b>
At 1 January	<b>7,854</b>
Amortisation for the financial year	<b>(322)</b>
At 31 December	<b><u>7,532</u></b>

### (b) Lease liabilities

The carrying amounts of lease liabilities (included under loans and borrowings) and the movements during the year are disclosed in Note 22.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## 27. LEASES (CONT'D)

### (c) Amount recognised in profit or loss

	<b>Group</b>
	<b>2019</b>
	<b>\$'000</b>
Amortisation of right-of-use assets	<b>322</b>
Interest expense on lease liability	<b>353</b>
Lease expense not capitalised in lease liabilities:	
- Expense relating to short-term leases	<b>10</b>
- Expenses relating to leases of low-value assets	<b>19</b>
Total amount recognised in profit or loss	<b>704</b>

### (d) Total cash outflow

The Group had total cash outflows for leases of \$562,000 in 2019.

## 28. COMMITMENTS AND CONTINGENCIES

### (a) Capital commitments

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

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Capital commitments in respective of property, plant and equipment	<b>10</b>	10	<b>10</b>	10

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

101

AEI  
Annual  
Report  
2019

## 28. COMMITMENTS AND CONTINGENCIES (CONT'D)

### (b) *Operating lease commitments - as lessee (2018)*

In 2018, the Group has entered into operating lease agreements for factory land parcel, machinery and office equipment with tenure of between 1 to 24 years. As at 31 December 2018, the Group has aggregate minimum lease commitment as follows:

	<b>Group</b>
	<b>2018</b>
	<b>\$'000</b>
Not later than one year	552
Later than one year but not later than five years	2,162
Later than five years	10,355
	<u>13,069</u>

Minimum lease payments recognised as an expense in profit or loss for the financial year ended 31 December 2018 amounted to \$583,000.

As disclosed in Note 2.2, the Group has adopted SFRS(I) 16 on 1 January 2019. These lease payments have been recognised as right-of-use assets and lease liabilities on the balance sheet as at 31 December 2019, except for short-term and low-value leases.

### (c) *Contingent liabilities*

	<b>Company</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Corporate guarantees given to financial institutions in relation with banking facilities granted to subsidiaries (facility value)	<b>12,000</b>	12,000
Financial support undertaking given to subsidiaries having deficiencies in shareholders' funds	<b>1,004</b>	465
	<u><b>13,004</b></u>	<u>12,465</u>

As at 31 December 2019, \$2,374,000 (2018: \$2,744,000) of the facilities were utilised by the subsidiaries.

The Group has banker's guarantee amounting to \$98,000 (2018: \$99,000) in favour of third parties in respect of the Group's business.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## 29. RELATED PARTY DISCLOSURES

### (a) *Sale of services*

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

	<b>Company</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Service rendered to an associate	<b>9</b>	<b>9</b>

### (b) *Compensation of key management personnel*

	<b>Group</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Short-term employee benefits	<b>610</b>	725
Central Provident Fund contributions	<b>24</b>	34
Other short-term benefits	<b>288</b>	264
Total compensation paid to key management personnel	<b>922</b>	1,023
<b>Comprise amounts paid to:</b>		
Directors of the Company	<b>922</b>	1,023

### (c) *Advances to related company*

The Group made total advances of \$1,518,000 (2018: \$nil) to a related company for a business joint venture transaction as disclosed in Note 18.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

103

AEI  
Annual  
Report  
2019

## 30. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services, and has three reportable operating segments as follows:

### **Electronics and precision engineering segment**

This segment comprises mainly of precision aluminium extrusions that form components of sophisticated products of the high-tech electronics and precision engineering industries. Products manufactured include electronic components, clean room accessories, automation equipment and industrial machinery.

### **Construction and infrastructure building segment**

This segment comprises mainly of public infrastructure, building construction, interior fixtures (including certain office equipment), signage and advertising panels in the construction, civil engineering and infrastructure building industries.

#### **(a) Business segments**

	Electronics and precision engineering		Construction and infrastructure building		Others		Consolidated	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Revenue</b>								
External customers	<b>7,953</b>	8,688	<b>1,114</b>	720	<b>9</b>	9	<b>9,076</b>	9,417
<b>Total revenue</b>	<b>7,953</b>	8,688	<b>1,114</b>	720	<b>9</b>	9	<b>9,076</b>	9,417
<b>Results:</b>								
Segment result	<b>(2,384)</b>	(3,333)	<b>(303)</b>	(270)	<b>(246)</b>	(306)	<b>(2,933)</b>	(3,909)
Depreciation	<b>(953)</b>	(1,027)	<b>(156)</b>	(98)	-	-	<b>(1,109)</b>	(1,125)
Gain/(loss) on disposal of property, plant and equipment, net	<b>121</b>	(4)	<b>20</b>	-	-	-	<b>141</b>	(4)
Finance income							<b>565</b>	297
Finance cost							<b>(445)</b>	(94)
Impairment loss on property, plant and equipment							<b>(3)</b>	-
Impairment loss on leasehold land							<b>(1,093)</b>	(1,073)
Share of results of associate							<b>(492)</b>	(192)
<b>Loss before tax</b>							<b>(5,369)</b>	(6,100)
Income tax (expense)/benefit							<b>(486)</b>	198
<b>Loss net of tax</b>							<b>(5,855)</b>	(5,902)

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## 30. SEGMENT INFORMATION (CONT'D)

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

	Electronics and precision engineering		Construction and infrastructure building		Others		Consolidated	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Assets</b>								
Segment assets	<b>16,548</b>	10,513	<b>1,676</b>	996	<b>3,067</b>	4,814	<b>21,291</b>	16,323
Unallocated assets <sup>(1)</sup>							<b>38,901</b>	42,295
<b>Total assets</b>							<b>60,192</b>	58,618
<b>Liabilities</b>								
Segment liabilities	<b>9,127</b>	857	<b>235</b>	72	-	-	<b>9,362</b>	929
Unallocated liabilities <sup>(2)</sup>							<b>5,867</b>	5,262
<b>Total liabilities</b>							<b>15,229</b>	6,191
<b>Other information</b>								
Capital expenditure	<b>266</b>	185	<b>44</b>	18	-	-	<b>310</b>	203
Unallocated capital expenditure							-	-
<b>Total capital expenditure</b>							<b>310</b>	203
Depreciation	<b>953</b>	1,027	<b>156</b>	98	-	-	<b>1,109</b>	1,125

<sup>(1)</sup> Unallocated assets comprise of jointly used assets

<sup>(2)</sup> Unallocated liabilities comprise of jointly used liabilities

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

105

AEI  
Annual  
Report  
2019

## 30. SEGMENT INFORMATION (CONT'D)

### (b) Geographical segments

	Revenue		Segment assets	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<i>By location of customers</i>				
Singapore	4,475	3,508	60,192	58,618
Greater China	981	1,320	-	-
Malaysia	1,252	1,853	-	-
Other countries	2,368	2,736	-	-
	<b>9,076</b>	9,417	<b>60,192</b>	58,618

### (c) Information about a major customer

Revenue from two major customer amounted to \$2,170,000 (2018: \$1,842,000), arising from sales by the electronics and precision engineering segment.

The following items are unallocated assets which are added to segment assets to arrive at total assets reported in the consolidated balance sheet:

	Group	
	2019 \$'000	2018 \$'000
Inventories	2,903	3,281
Prepaid operating expenses	41	39
Cash and cash equivalents	33,906	38,065
Other receivables	1,847	238
Receivable from associate	204	194
Deferred tax asset	-	478
	<b>38,901</b>	42,295

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## 30. SEGMENT INFORMATION (CONT'D)

The following items are unallocated liabilities which are added to segment liabilities to arrive at total liabilities reported in the consolidated balance sheet:

	<b>Group</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Term loan	<b>2,374</b>	2,744
Income tax payable	<b>50</b>	64
Deferred tax liability	<b>289</b>	267
Other payables	<b>3,154</b>	2,187
	<b>5,867</b>	5,262

## 31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group and the Company is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks are credit risk, foreign currency risk, liquidity risk and interest rate risk. The audit committee provides independent oversight to the effectiveness of risk management process. It is, and has been throughout the current and previous financial year, the Group's policy that no trading in derivatives for speculative purposes shall be undertaken, where appropriate and cost efficient. The Group does not apply hedge accounting.

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

There has been no change to the Group's and Company's exposure to these financial risks or the manner in which it manages and measures the risks.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

107

AEI  
Annual  
Report  
2019

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

### (a) *Credit risk*

Credit risk is the risk of loss that may arise on outstanding financial instruments should a party default on its obligations. The Company's exposure to credit risk arises primarily from loan receivable and trade and other receivables. No other financial assets carry a significant exposure to credit risk.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group has adopted the policy of dealing with customers with an appropriate credit history as a means of mitigating the credit risk exposures. Credit evaluation which takes into account qualitative and quantitative profile of each customer is performed and approved by management before credit is being granted. The Group also closely monitors customers' payment pattern and credit exposures on an on-going basis.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

The Group has determined the default event on a financial asset to be when the counterparty fails to make contractual payments, within 180 days when they fall due, which are derived based on the Group's historical information.

To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at reporting date with the risk of default as at the date of initial recognition. The Group considers available reasonable and supportive forwarding-looking information which includes the following indicators:

- Internal credit rating
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- Actual or expected significant changes in the operating results of the borrower
- Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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

### (a) *Credit risk (cont'd)*

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 180 days past due in making contractual payment.

The Group determined that its financial assets are credit-impaired when:

- There is significant difficulty of the issuer or the borrower
- A breach of contract, such as a default or past due event
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation

The Group categorises a receivable for potential write-off when a debtor fails to make contractual payments more than 365 days past due. Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where loans and receivables have been written off, the Group continues to engage enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

The following are credit risk management practices and quantitative and qualitative information about amounts arising from expected credit losses for each class of financial assets.

#### (i) Debt securities and loans at amortised cost

The Group uses three categories of internal credit risk ratings for debt instruments and loans which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are determined through incorporating both qualitative and quantitative information that builds on information from external credit rating companies supplemented with information specific to the counterparty and other external information that could affect the counterparty's behaviour.

The Group compute expected credit loss for this group of financial assets using the probability of default approach. In calculating the expected credit loss rates, the Group considers implied probability of default from external rating agencies where available and historical loss rates for each category of counterparty, and adjusts for forward looking macroeconomic data such as default rate of relevant industry.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

109

AEI  
Annual  
Report  
2019

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

### (a) Credit risk (cont'd)

#### (i) Debt securities and loans at amortised cost (cont'd)

The table below details the credit quality of the Group's debt securities and loans at amortised cost, as well as maximum exposure to credit risk.

	Note	12-months or lifetime ECL	Gross carrying amount \$'000	Loss allowance \$'000	Net carrying amount \$'000
<b>2019</b>					
Loan receivable	15	Lifetime ECL	2,019	(2,019)	-
Other receivables	18	12-month ECL	1,847	-	1,847
Amount due from associate	19	12-month ECL	69	-	69
Loan to associate	19	Lifetime ECL	591	(456)	135
				<b>(2,475)</b>	
<b>2018</b>					
Loan receivable	15	Lifetime ECL	2,044	(2,044)	-
Other receivables	18	12-month ECL	238	-	238
Amount due from associate	19	12-month ECL	59	-	59
Loan to associate	19	Lifetime ECL	591	(456)	135
				<b>(2,500)</b>	

#### (ii) Trade receivables

The Group has applied the simplified approach in SFRS(I) 9 to measure the loss allowance at lifetime ECL. The Group provides for lifetime expected credit losses for all trade receivables using a provision matrix. The provision rates are determined based on the Group's historical observed default rates analysed in accordance to days past due by grouping of customers based on aging of the trade receivables. The loss allowance provision as at 31 December 2019 is determined as follows, the expected credit losses below also incorporate forward looking information such as forecast of economic conditions where the number of defaults might be affected.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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

### (a) Credit risk (cont'd)

#### (ii) Trade receivables (cont'd)

Summarised below is the information about the credit risk exposure on the Group's trade receivables using provision matrix, grouped by the risk profile of the debtors.

	Past due					Total \$'000
	Current \$'000	<30 days \$'000	31-60 days \$'000	61-90 days \$'000	>90 days \$'000	
<b>2019</b>						
Gross carrying amount	<b>1,138</b>	<b>311</b>	<b>157</b>	<b>67</b>	<b>26</b>	<b>1,699</b>
Loss allowance provision	<b>43</b>	<b>13</b>	<b>7</b>	<b>3</b>	<b>1</b>	<b>67</b>
<b>2018</b>						
Gross carrying amount	953	366	86	137	67	1,609
Loss allowance provision	-	-	-	-	-	-

#### Exposure to credit risk

At the end of the reporting period, the Group's and the Company's maximum exposure to credit risk is represented by:

- The carrying amount of each class of financial assets recognised in the balance sheet.
- A nominal amount of \$2,374,000 (2018: \$2,744,000) relating to corporate guarantees provided by the Company to financial institutions on subsidiaries' loans and banking facilities.

#### Credit risk concentration profile

At the end of the reporting period,

- approximately 40.6% (2018: 31.5%) of the Group's trade receivables were due from 3 major customers who are located in China, Thailand and Malaysia.
- 100% (2018: 100%) of the Group's loan receivable was due from debtor located in Singapore.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

111

AEI  
Annual  
Report  
2019

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

### (a) Credit risk (cont'd)

*Financial assets that are neither past due nor impaired*

Trade and other receivables that are neither past due nor impaired are with creditworthy debtors with good payment record with the Group. Cash and short-term deposits are placed with or entered into with reputable financial institutions with high credit ratings.

*Financial assets that are either past due or impaired*

Information regarding financial assets that are either past due or impaired is disclosed in Note 15 and Note 17.

### (b) Foreign currency risk

The Group has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the functional currencies of the Company and the respective entities in the Group. The foreign currency in which these transactions are denominated are in USD. Approximately 50.0% (2018: 59.3%) of the Group's sales are denominated in USD whilst almost 75.7% (2018: 81.8%) of purchases are denominated in USD. Selling and distribution costs, administrative expenses and other operating expenses are predominantly measured in SGD. The trade receivable and trade payable balances at the end of each reporting period have similar exposures.

Exposure to foreign currency risk is monitored on an on-going basis and the Group endeavours to keep the net exposure at an acceptable level. The Group and Company also hold cash and cash equivalents denominated in USD for working capital purposes. At the end of each reporting period, USD balances amounted to \$1,307,000 (2018: \$700,000) and \$319,000 (2018: \$Nil) for the Group and the Company respectively.

*Sensitivity analysis for foreign currency risk*

The following table denominates the sensitivity to a reasonably possible change in the USD, with all other variables held constant, of the Group's loss before tax.

	Group	
	2019 \$'000	2018 \$'000
United States Dollar:		
- strengthened 5% (2018: 5%)	(126)	(72)
- weakened 5% (2018: 5%)	126	72

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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

### (c) *Liquidity risk*

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities. As at the end of the reporting period, the Group and Company has stand-by credit facilities amounting to \$12 million (2018: \$12 million).

The Group manages its liquidity risk by monitoring its net operating cash flow and maintains an adequate amount of committed credit facilities from financial institutions. The Group assesses the concentration risk with respect to refinancing its debt and concluded it to be low.

*Analysis of financial instruments by remaining contractual maturities*

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

	1 year or less \$'000	Over 1 year to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>Group</b>				
<b>2019</b>				
<b><i>Financial assets</i></b>				
Trade receivables (excluding sales tax receivables)	1,521	-	-	1,521
Other receivables	1,847	-	-	1,847
Receivable from associate	204	-	-	204
Cash and cash equivalents	33,906	-	-	33,906
Total undiscounted financial assets	<b>37,478</b>	-	-	<b>37,478</b>
<b><i>Financial liabilities</i></b>				
Trade payables	(1,688)	-	-	(1,688)
Other payables	(3,154)	-	-	(3,154)
Loans and borrowings	(980)	(3,789)	(10,358)	(15,127)
Total undiscounted financial liabilities	<b>(5,822)</b>	<b>(3,789)</b>	<b>(10,358)</b>	<b>(19,969)</b>
Total net undiscounted financial assets/(liabilities)	<b>31,656</b>	<b>(3,798)</b>	<b>(10,358)</b>	<b>17,500</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

113

AEI  
Annual  
Report  
2019

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

### (c) *Liquidity risk (cont'd)*

	1 year or less \$'000	Over 1 year to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>Group</b>				
<b>2018</b>				
<b><i>Financial assets</i></b>				
Trade receivables (excluding sales tax receivables)	1,489	-	-	1,489
Other receivables	238	-	-	238
Receivable from associate	194	-	-	194
Cash and cash equivalents	38,065	-	-	38,065
Total undiscounted financial assets	39,986	-	-	39,986
<b><i>Financial liabilities</i></b>				
Trade payables	(929)	-	-	(929)
Other payables	(2,187)	-	-	(2,187)
Loans and borrowings	(460)	(1,710)	(931)	(3,101)
Total undiscounted financial liabilities	(3,576)	(1,710)	(931)	(6,217)
Total net undiscounted financial assets/(liabilities)	36,410	(1,710)	(931)	33,769

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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

### (c) Liquidity risk (cont'd)

	1 year or less \$'000	Over 1 year to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>Company</b>				
<b>2019</b>				
<b>Financial assets</b>				
Other receivables	261	-	-	261
Amount due from subsidiaries	2,033	-	-	2,033
Receivable from associate	7	-	-	7
Cash and cash equivalents	32,395	-	-	32,395
Total undiscounted financial assets	34,696	-	-	34,696
<b>Financial liabilities</b>				
Trade payables	(20)	-	-	(20)
Other payables	(568)	-	-	(568)
Loans and borrowings	(533)	(2,133)	(9,821)	(12,487)
Total undiscounted financial liabilities	(1,121)	(2,133)	(9,821)	(13,075)
Total net undiscounted financial assets/(liabilities)	33,575	(2,133)	(9,821)	21,621

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

115

AEI  
Annual  
Report  
2019

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

### (c) *Liquidity risk (cont'd)*

	1 year or less \$'000	Over 1 year to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>Company</b>				
<b>2018</b>				
<b><i>Financial assets</i></b>				
Other receivables	215	-	-	215
Amount due from subsidiaries	746	-	-	746
Receivable from associate	7	-	-	7
Cash and cash equivalents	36,464	-	-	36,464
Total undiscounted financial assets	37,432	-	-	37,432
<b><i>Financial liabilities</i></b>				
Trade payables	(213)	-	-	(213)
Other payables	(448)	-	-	(448)
Total undiscounted financial liabilities	(661)	-	-	(661)
Total net undiscounted financial assets	36,771	-	-	36,771

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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

### (c) *Liquidity risk (cont'd)*

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

	1 year or less \$'000	Over 1 year to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>Group</b>				
<b>2019</b>				
Banker's guarantee	98	-	-	98
<b>2018</b>				
Banker's guarantee	99	-	-	99
<b>Company</b>				
<b>2019</b>				
Corporate guarantees	370	1,480	524	2,374
<b>2018</b>				
Corporate guarantees	370	1,480	894	2,744

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

117

AEI  
Annual  
Report  
2019

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

### (d) Interest rate risk

Interest rate risk is the risk that changes in interest rates will have an adverse financial effect on the Group's financial results. The Group's exposure to interest rate risk arises primary from its finance leases, term loans and cash surpluses.

Interest rate risk is managed by the Group on an on-going basis with the primary objective of limiting the extent to which net interest expense could be affected by an adverse movement in interest rates.

#### *Sensitivity analysis for interest rate risk*

At the end of the reporting period, the following table demonstrates the sensitivity to a reasonably possible change in interest rates with all other variables held constant, of the Group's loss before tax:

	<b>Group</b>	
	<b>Increase/ decrease in basis points</b>	<b>Effect on loss before tax increase/ (decrease) \$'000</b>
<b>2019</b>		
Singapore Dollar	+15	(45)
United States Dollar	+15	(2)
Singapore Dollar	-15	45
United States Dollar	-15	2
<hr/>		
<b>2018</b>		
Singapore Dollar	+15	(52)
United States Dollar	+15	(1)
Singapore Dollar	-15	52
United States Dollar	-15	1
<hr/>		

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## 32. FAIR VALUE OF FINANCIAL INSTRUMENTS

### ***Financial instruments whose carrying amount approximates fair value***

Management has determined that the carrying amounts of cash and cash equivalents, current trade and other receivables, loan receivable, amounts due from subsidiaries, receivable from associate, current trade and other payables, advances from corporation owned by directors of subsidiary companies, and current loans and borrowings reasonably approximate their fair values because these are mostly short-term in nature or are repriced frequently to market interest rates.

The estimated fair values of the Group's loans and borrowings approximate their carrying amounts based on borrowing rates which would be available to the Group at the end of each reporting period.

## 33. FAIR VALUE OF ASSETS AND LIABILITIES

### **(a) Fair value hierarchy**

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

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

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



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

119

AEI  
Annual  
Report  
2019

## 33. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

### (b) Fair value of buildings and improvements and right-of-use assets

The following table shows an analysis of class of assets where fair value was obtained at the end of the reporting period, for impairment assessment:

	Note	Significant un-observable inputs (Level 3)	
		2019 \$'000	2018 \$'000
<b>Group</b>			
<b>Impairment of non-financial assets</b>			
<u>Property, plant and equipment</u>			
- Buildings and improvements	11	7,192	7,608
<u>Leasehold land</u>	14	9,184	7,532
<b>Non-financial asset as at period end</b>		<b>16,376</b>	15,140

### (c) Level 3 fair value measurements

#### (i) Information about significant unobservable inputs used in Level 3 fair value measurements

The following table shows the information about fair value measurements using significant unobservable inputs (Level 3)

Description	Fair value at 2019	Fair value at 2018	Valuation techniques
<b>Recurring fair value measurements</b>			
<b>Property, plant and equipment:</b>			
Buildings and improvements	7,192	7,608	Direct comparison approach
<b>Leasehold land</b>	<b>9,184</b>	7,532	Direct comparison approach

For buildings and improvements, a significant increase/(decrease) in yield adjustments based on management's assumptions would result in a significantly higher/(lower) fair value measurement.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## 33. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

### (c) **Level 3 fair value measurements (cont'd)**

#### (ii) *Movements in Level 3 asset measured at fair value*

The reconciliation for non-financial assets measured at fair value based on significant unobservable inputs (Level 3) is as disclosed in Note 11.

#### (iii) *Valuation policies and procedures*

The management oversees the Group's financial reporting valuation process and is responsible for setting and documenting the Group's valuation policies and procedures as described in Note 2.6. In this regard, the management reports to the Group's Audit Committee.

For all significant financial reporting valuations using valuation models and significant unobservable inputs, it is the Group's policy to engage external valuation experts who possess the relevant credentials and knowledge on the subject of valuation, valuation methodologies and SFRS(I) 13 Fair Value Measurement guidance to perform the valuation.

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

In selecting the appropriate valuation models and inputs to be adopted for each valuation that uses significant non-observable inputs, external valuation experts are requested to calibrate the valuation models and inputs to actual market transactions that are relevant to the valuation if such information are reasonably available.

Significant changes in fair value measurements from period to period are evaluated for reasonableness. Key drivers of the changes are identified and assessed for reasonableness against relevant information from independent sources, or internal sources if necessary and appropriate.

The management documents and reports its analysis and results of the external valuations to the Audit Committee in the financial year that valuation is carried out. The Audit Committee performs a high-level independent review of the valuation process and results and recommends if any revisions need to be made before presenting the results to the Board of Directors for approval.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

121

AEI  
Annual  
Report  
2019

## 34. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders.

The Group aims to obtain an optimal capital structure by balancing capital efficiency and financial flexibility. The Group manages the capital structure in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or raise funds through debt market.

## 35. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 10 November 2019, the Company entered into a conditional business sale and purchase agreement with 3PLE1 Holdings Pte Ltd and Tan Chu En Ian for the sale of the aluminium business for a purchase consideration of S\$4 million subject to the terms and conditions of the agreement.

On 27 February 2020, the Company and 3PE1 Holdings Pte Ltd have mutually agreed to terminate the business sale and purchase agreement.

## 36. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements for the financial year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 3 April 2020.

**122** **SHAREHOLDINGS**  
**STATISTICS**  
**AEI**  
Annual  
Report  
2019  
**AS AT 27 MARCH 2020**

Issued and fully paid-up capital	-	S\$71,287,498.46*
Total number of shares including treasury shares	-	57,732,159
Total number of shares excluding treasury shares	-	54,722,959
Treasury shares	-	3,009,200
Class of shares	-	Ordinary
Voting rights (excluding treasury shares)	-	One Vote Per Share

\* Net of direct share issuance costs

**DISTRIBUTION OF SHAREHOLDINGS**

<b>Size of shareholdings</b>	<b>No. of shareholders</b>	<b>%</b>	<b>No. of shares</b>	<b>%</b>
1 - 99	8	0.67	286	0.00
100 - 1,000	437	36.45	216,510	0.39
1,001 - 10,000	610	50.87	2,581,582	4.72
10,001 - 1,000,000	136	11.34	8,284,658	15.14
1,000,001 AND ABOVE	8	0.67	43,639,923	79.75
<b>TOTAL</b>	<b>1,199</b>	<b>100.00</b>	<b>54,722,959</b>	<b>100.00</b>

# SHAREHOLDINGS STATISTICS

AS AT 27 MARCH 2020

123

AEI  
Annual  
Report  
2019

## TWENTY LARGEST SHAREHOLDERS

No.	Name	No. of shares	%
1	OCBC SECURITIES PRIVATE LIMITED	28,841,300	52.70
2	ZICO INSIGHTS LAW LLC	2,800,000	5.12
3	LEE CHEE CHUEN	2,740,723	5.01
4	HO KEE	2,701,400	4.94
5	THAM MUN CHEE	2,583,600	4.72
6	YEO KAN YEN	1,752,900	3.20
7	HSBC (SINGAPORE) NOMINEES PTE LTD	1,209,100	2.21
8	DBS NOMINEES (PRIVATE) LIMITED	1,010,900	1.85
9	TREADSTONE HOLDINGS PTE LTD	909,207	1.66
10	RHB SECURITIES SINGAPORE PTE. LTD.	900,000	1.64
11	WELLMONT STRATEGIC PTE LTD	862,500	1.58
12	WANG SHANSHAN	547,850	1.00
13	PHILLIP SECURITIES PTE LTD	362,600	0.66
14	LEW WING KIT	313,300	0.57
15	LEE BEE ENG	255,900	0.47
16	GOH TEOW HEE	140,000	0.26
17	LOW WOO SWEE @ LOH SWEE TECK	136,700	0.25
18	CGS-CIMB SECURITIES (SINGAPORE) PTE. LTD.	130,394	0.24
19	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	127,100	0.23
20	TAM KWOK WING	118,000	0.22
<b>TOTAL</b>		<b>48,443,474</b>	<b>88.53</b>

## SUBSTANTIAL SHAREHOLDERS

Name of substantial shareholders	Direct Interest	Deemed Interest
Sun Quan <sup>(1)</sup>	-	28,878,400
New Impetus Strategy Fund	28,878,400	-

### Notes

<sup>(1)</sup> Mr Sun Quan is deemed interested in the Company by virtue of his controlling interest in the fund manager of New Impetus Strategy Fund.

## PUBLIC FLOAT

Based on information available to the Company as at 27 March 2020, approximately 45.51% of the total number of issued shares (excluding treasury shares) of the Company is held in the hands of public, and therefore, Rule 723 of the Listing Manual of the Singapore Exchange Securities Limited is complied with.

#### DISTRIBUTION OF WARRANT HOLDINGS HOLDERS

Size of warrant holdings	No. of warrant holders	%	No. of warrants	%
1 - 99	7	0.53	257	0.00
100 - 1,000	467	35.68	236,310	0.87
1,001 - 10,000	685	52.33	2,884,698	10.64
10,001 - 1,000,000	143	10.92	8,980,271	33.11
1,000,001 AND ABOVE	7	0.54	15,018,123	55.38
<b>TOTAL</b>	<b>1,309</b>	<b>100.00</b>	<b>27,119,659</b>	<b>100.00</b>

#### TWENTY LARGEST WARRANT HOLDERS

No.	Name	No. of warrants	%
1	ZICO INSIGHTS LAW LLC	2,800,000	10.32
2	LEE CHEE CHUEN	2,740,723	10.11
3	HO KEE	2,711,400	10.00
4	THAM MUN CHEE	2,555,600	9.42
5	YEO KAN YEN	1,950,000	7.19
6	HSBC (SINGAPORE) NOMINEES PTE LTD	1,209,100	4.46
7	KOH SWEE YONG	1,051,300	3.88
8	DBS NOMINEES (PRIVATE) LIMITED	942,500	3.48
9	TREADSTONE HOLDINGS PTE LTD	909,207	3.35
10	LEW WING KIT	509,000	1.88
11	WANG SHANSHAN	502,150	1.85
12	LOH FOON CHAN @ LEONG BEE LAY	452,000	1.67
13	PHILLIP SECURITIES PTE LTD	410,300	1.51
14	TAN SU LAN @ TAN SOO LUNG	377,100	1.39
15	LIM SIEW KEOK	350,000	1.29
16	LEOW PUI LING	169,600	0.63
17	NG EE HAU	151,200	0.56
18	GOH TEOW HEE	140,000	0.52
19	LOW WOO SWEE @ LOH SWEE TECK	136,700	0.50
20	OCBC SECURITIES PRIVATE LIMITED	127,300	0.47
<b>TOTAL</b>		<b>20,195,180</b>	<b>74.48</b>

# CORPORATE INFORMATION

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## **DIRECTORS**

Yeung Koon Sang alias David Yeung  
Sun Quan  
Wu Pingwei  
Li Zhibo  
Teng Cheong Kwee  
Dr Vasoo Sushilan

## **SECRETARIES**

Foo Soon Soo  
Lum Soh Ping

## **REGISTERED OFFICE**

15 Tuas South Street 13  
Singapore 636936  
Tel: (65) 6261 2244  
Fax: (65) 6264 0080  
Email: [aei@aei.com.sg](mailto:aei@aei.com.sg)  
Website: [www.aei.com.sg](http://www.aei.com.sg)

## **AUDITORS**

Ernst & Young LLP  
Eleanor Lee  
Audit Partner  
(Appointed since financial year  
ended 31 December 2019)

## **SHARE REGISTRAR AND SHARE TRANSFER OFFICE**

Boardroom Corporate &  
Advisory Services Pte. Ltd.  
50 Raffles Place #32-01  
Singapore Land Tower  
Singapore 048623

**AEI CORPORATION LTD.**

(Incorporated in the Republic of Singapore)  
Registration No. 198300506G

15 Tuas South Street 13  
Singapore 636936  
Tel: (65) 6261 2244  
Fax: (65) 6264 0080  
Email: [aei@aei.com.sg](mailto:aei@aei.com.sg)  
[www.aei.com.sg](http://www.aei.com.sg)