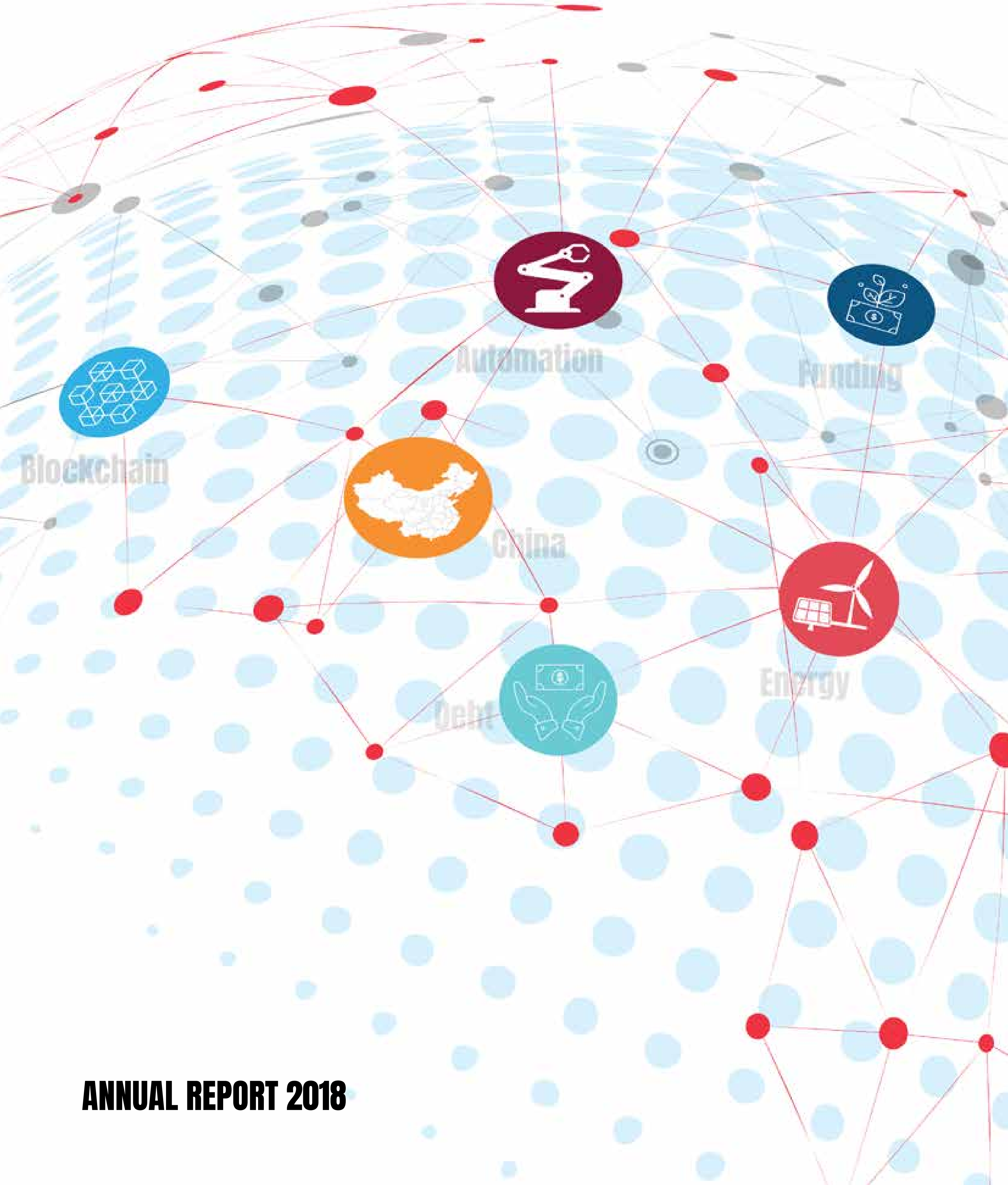
ISDN Holdings LIMITED

Incorporated in Singapore with limited liability
(Singapore Stock code : I07.SI) (Hong Kong Stock code : 1656)



ANNUAL REPORT 2018

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* In case of any discrepancies between the English language version and the Chinese language version, the English version shall prevail.

Company History

ISDN Holdings Limited is an engineering solutions company specialising in integrated precision engineering and industrial computing solutions. The company offers a wide range of engineering services, mainly to customers who are manufacturers and original design manufacturers of products and equipment that have specialised requirements in precision controls. We provide the full spectrum of engineering services from conceptualisation, design & development to prototyping, production, sales & marketing and after sales engineering support. ISDN was listed on the Mainboard of the SGX-ST on 24 November 2005 and subsequently listed on the Main Board of SEHK on 12 January 2017.

Mission

To be the engineering solution provider of choice focused on delivering innovative and quality solutions of value to our customers and stake-holders.

Vision

To achieve our vision, we are committed to do the following:

- To be recognised as the leader in all the markets we serve
- To continue to build enduring relationship of trust with our customers and partners
- To be an employer of choice that inspires and rewards performance excellence
- To generate value for shareholders through measured growth strategies in earnings and distributions.

Corporate Information

COMPANY REGISTRATION NUMBER
200416788Z

DIRECTORS
Lim Siang Kai *(Chairman)*
Teo Cher Koon
Kong Deyang
Soh Beng Keng
Tan Soon Liang

REGISTERED OFFICE
No. 10 Kaki Bukit Road 1
#01-30 KB Industrial Building
Singapore 416175

JOINT COMPANY SECRETARIES
Gn Jong Yuh Gwendolyn
LLB *(Hons)*
1 Robinson Road
#18-00 AIA Tower
Singapore 048542

Cheng Lucy
(Chartered Secretary)
31/F., 148 Electric Road
North Point
Hong Kong

AUDIT COMMITTEE
Lim Siang Kai *(Chairman)*
Soh Beng Keng
Tan Soon Liang

REMUNERATION COMMITTEE
Tan Soon Liang *(Chairman)*
Lim Siang Kai
Soh Beng Keng

NOMINATING COMMITTEE
Soh Beng Keng *(Chairman)*
Lim Siang Kai
Teo Cher Koon

RISK MANAGEMENT COMMITTEE
Lim Siang Kai *(Chairman)*
Soh Beng Keng
Tan Soon Liang

COMPLIANCE ADVISER
Shenwan Hongyuan Capital (H.K.) Limited
Level 19
28 Hennessy Road
Hong Kong

SINGAPORE PRINCIPAL SHARE REGISTRAR
Boardroom Corporate & Advisory Services Pte Ltd
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623

HONG KONG BRANCH SHARE REGISTRAR
Boardroom Share Registrars (HK) Limited
Room 2103B, 21/F
148 Electric Road
North Point
Hong Kong

AUDITOR
Moore Stephens LLP
10 Anson Road
#29-15, International Plaza
Singapore 079903
Partner-in-charge:
Mr. Ng Chiou Gee Willy
Date of appointment:
1 January 2017
Number of Years in-charge: 2

PRINCIPAL BANKERS
Standard Chartered Bank
Main Branch
Marina Bay Financial Centre
Tower 1
8 Marina Boulevard
Singapore 018981

United Overseas Bank Limited
Main Branch
80 Raffles Place
UOB Plaza 1
Singapore 048624

DBS Bank Limited
Main Branch
Marina Bay Financial Centre Tower
12 Marina Boulevard
Singapore 018982

DBS Bank (China) Limited
Suzhou Branch
7/F International Building
2 Su Hua Road
Suzhou Industrial Park
Suzhou 215021, PRC

United Overseas Bank (China) Limited
101-104, 1F
111 Dong Yuan Road
Pudong New Area
Shanghai 200120, PRC

China Construction Bank Co., Ltd
Suzhou New & Hi-Tech Industrial
Development Zone Sub-Branch
No. 95 Shishan Road
Suzhou New District, PRC

Five - Year Financial Summary

	2018	2017	2016	2015	2014
	S$'000	S$'000	S$'000	S$'000	S$'000
Gross profit	80,549	73,765	64,999	65,710	61,753
Profit before income tax	23,696	18,749	14,331	17,213	15,237
Profit attributtable to equity holders	10,946	9,489	5,153	8,721	7,457
Equity attributtable to owners of the Company	143,751	136,620	121,217	119,727	112,075
Non-current assets	89,816	59,522	52,974	54,425	49,877
Current assets	193,285	177,626	163,873	153,085	140,132
Current liabilities	88,170	84,815	80,254	67,543	59,700
Non-current liabilities	12,723	507	449	699	580
Cash and cash equivalents	38,685	38,053	37,292	39,096	37,493
Financial ratios					
Net assets per share (S$ cents)	46.16	38.47	38.38	39.27	36.09
Basic earnings per share (S$ cents)	2.77	2.41	1.45	2.46	2.07

Revenue (S$'000)
The Greater China Region

210,837

Revenue (S$'000)

301,990

President's Message

DEAR SHAREHOLDERS,

We spent a lot of effort over the years putting together building blocks that will enable ISDN Holdings to stand the test of time and remain relevant in the ever-changing world of business. In 2018, the payoff for such groundwork was notable, especially considering the broad economic slowdown in China, our largest market by revenue.

We generated record revenue and earnings for the 12 months ended 31 December 2018 ("**FY2018**"). Revenue rose 3.4% to S$302.0 million, crossing the S$300 million mark for the first time, from S$292.0 million in the previous year ("**FY2017**"). Contributions from China edged up 1.6% to S$210.8 million, accounting for 69.8% of total revenue.

With the rise in revenue, we made a profit attributable to shareholders of S$10.9 million in FY2018. This is the highest in the history of ISDN Holdings and marks an increase of 15.4% from FY2017. Our FY2018 bottom line also benefited from an increase in other operating income. This included commission income from suppliers, a write-back of allowances for inventory obsolescence, and gains from the sale of plant and equipment.

We have proposed a final dividend of 0.7 Singapore cent a share, representing 25% of our FY2018 net profit. This is a slight increase from the payout of 0.6 Singapore cent a share for FY2017.

New Wave of Industrial Revolution

The challenges facing the global economy in 2019 are well documented.

The Sino-US trade spat, for one, has already taken a toll on the world's two largest economies, especially China's, in 2018 and could still pose challenges this year. A number of global brands, from industries ranging from semiconductor to automotive, have warned of slower sales in China and other regions as a result of the trade spat.

While the outlook for the near term appears cloudy, we take comfort in the immense opportunities arising from what has come to be known as the Fourth Industrial Revolution. This is a global phenomenon characterised by a fusion of new technologies that have the potential to fundamentally change how the world lives, works and plays. Such technologies, which include artificial intelligence, collaborative robots and 3D printing, are already making an impact on daily life.

To tap these opportunities, our engineers are actively engaging existing and potential customers to offer our capabilities and explore opportunities for collaboration. As an integrated engineering firm with deep expertise in motion control, we believe we have much to offer – both as a service provider and as a business partner – as this new industrial revolution unfolds.

In the area of 3D printing, we are setting up a laboratory with Singapore's Agency for Science, Technology and Research ("**A*STAR**") to commercialise the intellectual property developed by the statutory board for direct metal deposition 3D printing. With this technology, the aerospace and offshore and marine industries will be able to reduce manufacturing costs and shorten their time to market.

> "Indeed, we have been recognised by The Straits Times and global research firm Statista as one of the fastest growing companies in Singapore."

Spreading our Risks

In the meantime, we expect our diversified base of more than 10,000 corporate customers – none of which accounts for more than 10% of our total revenue – to mitigate any downside to our business in the immediate future arising from the current headwinds in the global economy. We will also continue to expand our presence outside China to reduce over-reliance on a single market.

To this end, we formed a Singapore joint venture in December 2018 with Maxon Motor AG to sell the Swiss firm's micro motors and drive systems in Southeast Asia. These products are used in various consumer products and industrial applications including insulin pumps, surgical power tools and robots. The joint venture will market these products in Singapore, Malaysia, Indonesia, Thailand, the Philippines, Vietnam and Hong Kong.

Industrial automation is fast taking shape in Southeast Asia as companies increasingly look for ways to innovate and improve production efficiency. The industrial automation market in Asia as a whole is estimated to exceed S$40 billion by 2020. I am hopeful that our engineering capabilities and Maxon Motor's products will be a compelling proposition for industries looking to entrench themselves in Southeast Asia.

New Growth Engine

This year will be an exciting one for our nascent renewable energy business. Our first mini-hydropower plant in Indonesia is expected to begin production in the second half of 2019, with a capacity for 4.6 megawatts of electricity. Our second plant, which can generate 9.6 megawatts of power, is slated to come on stream later this year. We will add another 10 megawatts next year when our third hydropower plant begins production.

Located in North Sumatra, all three plants will be able to power more than 12,000 homes when fully operational. Mini-hydropower plants are an ideal source of electricity for remote and rural areas in Indonesia as many of these places are not well-served by diesel-fuelled power plants, which are costly to operate in the country.

Outside Indonesia, we have an energy project in the Wujiang Industrial Park in Suzhou, China. We have been operating a one-megawatt solar power plant there since 2018. In collaboration with Hong Kong-listed Comtec Solar Systems Group Limited, we intend to set up a system at the industrial park to showcase our energy storage capability.

The A-B-Cs of ISDN:
Automation | Blockchain | China | Debt | Energy | Funding

Having successfully piloted solar power production in China, we will explore opportunities to distribute and store solar energy in Southeast Asia. As this business requires substantial capital, we will work with Emmett Capital (Private) Limited, a Singapore-based corporate finance advisory firm in which we have a 50% stake, to launch a fund to invest in promising renewable energy projects.

Endorsement from Private Equity Firm

In a sign of confidence in what we do, Novo Tellus Capital Partners "**Novo Tellus**" invested S$5.4 million in ISDN Holdings in February this year through a share placement at 20 Singapore cents apiece. The investment gave the Singapore-based private equity firm a stake of 6.4%. Novo Tellus invests in undervalued B2B technology businesses in Southeast Asia. Its approach is to work closely with the owners of its investee companies to build lasting business value.

Novo Tellus' investment validates our business model. I believe most of our shareholders agree that we have a sound growth strategy and a proven track record, as can be seen in our ability to generate profits year after year. Indeed, we have been recognised by The Straits Times and global research firm Statista as one of the fastest growing companies in Singapore. We ranked 84 on their joint list with a compounded annual revenue growth rate of 8.2% and an absolute growth rate of 27% from 2014 to 2017.

I am mindful though of complaints by some shareholders that our stock price continues to trade at a deep discount to our net asset value. While this is something we do not have much control over, I think the stock's underperformance is due partly to the market's lack of understanding of our business.

The A-B-Cs of ISDN

To address this, allow me to provide an overview of our business, the potential ahead and how we intend to grow further. I will illustrate by using the first six letters of the alphabet:

A: Automation, specifically industrial automation. This is an area we have been focused on for the last 32 years. The motion control solutions we offer are used in fully automated or semi automated products, equipment and production lines, all of which can be found in a slew of industries, such as semiconductor, smartphone, medical devices and equipment, defence, packaging, textile, and food and beverage. Countries worldwide, both developed and developing nations, require industrial automation to boost the productivity of their industries and move up the value chain.

B: Blockchain, Worldwide, blockchain will increasingly be used to decentralise business transactions in order to improve transparency, efficiency and productivity. We are looking at ways to use blockchain for our renewable energy business.

C: China, We have been operating in China for more than two decades now. While this market accounts for the lion's share of our yearly revenues, what we have achieved so far is miniscule considering the sheer size of China and the enormous growth potential it offers. We are currently streamlining our entire organisation to become more nimble and cost-effective so that we can better tap opportunities in China, where we have offices in 49 locations.

D: Debt, Debt, if used responsibly, can be a great tool for a business to fund expansion. Unfortunately, many companies – listed and privately-held – have overleveraged themselves and are struggling to stay afloat as a result. We are mindful of what debt can do. Managing debt well will always be one of our priorities.

E: Energy, specifically hydropower and solar energy. As I had alluded to earlier, we have a one-megawatt solar power plant at the Wujiang Industrial Park in Suzhou. Soon, we will set up a small facility there to showcase our energy storage capability. We have a stake in an energy storage company in China, CoTrust Energy System Research And Development Co., Ltd which will work with us to explore opportunities for energy storage, particularly for lithium batteries for China's electric vehicle market. Lithium battery prices have been falling over the years and have become more affordable for end-users. In Indonesia, we intend to add another 60 megawatts of production capacity after our first three mini-hydropower plants come on stream. New hydropower plants for the additional 60 megawatts will likely be rolled out at a quicker pace as we would have achieved some economies of scale and our learning curve would be less steep by the time our first three plants are up and running within these two years.

F: Funding, We are working with Emmett Capital, a corporate finance advisory firm in which we own a 50% stake, to set up a fund to invest in renewable energy projects. As we are dual-listed in Hong Kong, we intend to reach out to the investment communities in Hong Kong and China. Ultimately, we hope to attract international funds to invest in projects in China and encourage investors in China to explore opportunities in renewable energy around the world.

Acknowledgements

As we forge ahead in 2019 to achieve what we have set out to do, I ask for your support on this journey. With your backing, I am hopeful we will get there. I would also like to thank my fellow board members, business partners, customers and all ISDN employees for their support.

TEO CHER KOON
Managing Director and President
ISDN Holdings Limited

Corporate Profile

We are an integrated engineering solution provider principally focusing on motion control, industrial computing and other specialised engineering solutions. 2017 marks the 30th anniversary since the inception of our Group. Over the years under the helmsmanship of Mr. Teo who is our President, Managing Director and Controlling Shareholder with a Bachelor of Mechanical Engineering degree, we have developed from a local start-up supplier of servo motors to become a multi-national "one-stop-shop" engineering solution provider. Our success is primarily attributable to the relationship we have built with our suppliers all these years so that we are able to recommend and offer to our customers a variety of products as a solution to serve a wide range of engineering needs of our customers under one roof. In addition to our core motion control, industrial computing and other specialised engineering solutions businesses, we have diversified into renewable energy, primarily in developing hydropower plants in Indonesia and resource mining and trading.

Headquartered in Singapore, we operated through 76 subsidiaries with 65 sales offices all over the PRC, Hong Kong, Malaysia and a few other Asian countries and region including Vietnam, Thailand, Taiwan and Indonesia as at 31 December 2017. In the PRC, we own an industrial base with a gross floor area of approximately 40,657 sq.m in an industrial park in 江蘇省蘇州吳江區 (Wujiang district, Suzhou, Jiangsu province) where we make a certain range of our products such as hinges and locks, precision gearboxes and other industrial hardware for our other specialised engineering solutions by installing and assembling components and parts sourced. As at 31 December 2018, we had 856 employees, approximately 37% of whom were sales and engineering staff who are dedicated to working on solutions to satisfy our customers' engineering needs in different offices.

> **"We have developed from a local start-up supplier of servo motors to become a multi-national "one-stop-shop" engineering solution provider."**

Our Shares have been listed on the mainboard of the SGX-ST since 24 November 2005. Given the significance of our revenue source from the PRC together with Hong Kong, our Company successfully applied for a dual primary listing of our Shares on the SEHK as our Board considers that the Listing is expected to attract investors from the region which opens up another capital market for us and provides us with an excellent opportunity to further enhance our Group's profile internationally. Our Shares began trading on the SEHK on 12 January 2017.

ENGINEERING SOLUTIONS – MOTION CONTROL

Differentiated from a motion control product manufacturer, we as a motion control solution provider not only distribute products, but also design, customise and assemble motion control systems as this enables our customers to reduce costs and to better improve production efficiency. Our motion control systems are typically used for factory automation in a broad range of industries.

Corporate Profile

OTHER SPECIALISED ENGINEERING SOLUTIONS

Other than motion control solutions, we offer our expertise to provide engineering solutions tailored to our customers' particular or specialised needs, including standard modular construction components for use in industrial automation systems, and hardware components such as industrial locks, fasteners, hinges as well as aluminium profiles and related accessories.

INDUSTRIAL COMPUTING SOLUTIONS

As part of a suite of our integrated engineering solutions, we formulate cost-efficient and effective industrial computing solutions and assemble various industrial computing hardware (i.e. industrial computers) and software (i.e. "Wonderware") to satisfy our customers' industrial computing needs.

Board of Directors

Mr. Lim Siang Kai (林汕鍇) *Chairman and Independent Director*

Mr Lim Siang Kai, aged 62, is our Chairman and independent non-executive Director. Mr Lim is currently the independent director of several other companies listed on the SGX-ST and the SEHK. Prior to joining the Group, Mr Lim held various positions in banks, financial services companies and a fund management company and has over 30 years of experience in the securities, private and investment banking and fund management industries. Mr Lim is the independent non-executive director of Beijing Gas Blue Sky Holdings Limited (previously known as Blue Sky Power Holdings Limited and China Print Power Group Limited) (a company listed on the SEHK under stock code 6828) and an independent director of Joyas International Holdings Limited (a company listed in Singapore). Mr Lim has been the chairman and independent director of Samurai 2K Aerosol Limited (a company listed in Singapore) since 16 January 2017. He ceased to be an independent director of Natural Cool Holdings Limited (a company listed in Singapore) on 8 February 2017.

Mr. Lim holds a Bachelor of Arts from the National University of Singapore, and a Bachelor of Social Sciences with Honours from the National University of Singapore which he obtained in May 1980 and May 1981 respectively. Mr. Lim also holds a Master of Arts in Economics from the University of Canterbury which he completed in 1983.

Mr. Teo Cher Koon (張子鈞) *Management Director and President*

Mr. Teo Cher Koon (張子鈞), aged 60, is our President, Managing Director and Controlling Shareholder. Mr. Teo joined Servo Dynamics as a sales administration manager in July 1987 and in November 1989, he was appointed as a Director of Servo Dynamics. He has amassed more than 29 years of experience in the motion control and industrial computing industries and is experienced in all aspects of our business. Under Mr. Teo's leadership, our Group grew steadily from a local start-up supplier of servo motors to our Group as it is today, with 65 subsidiaries and 65 sales offices all over Singapore, the PRC, Hong Kong, Malaysia and a few other Asian countries and region including Vietnam, Thailand, Taiwan and Indonesia as at 31 December 2016. Mr. Teo is responsible for formulating our corporate strategy, general management and providing technical advice to our Group, and is particularly active in the procurement and marketing activities of our Group.

Mr. Teo obtained a Bachelor of Engineering (Mechanical) from the National University of Singapore in June 1987 and a Technician Diploma in Mechanical Engineering from Ngee Ann Technical College in April 1978.

Mr. Teo is sole director of Assetraise Holdings Limited, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong.

Mr. Kong Deyang (孔德揚) *Executive Director and Senior Vice President – PRC Operations*

Mr. Kong Deyang (孔德揚), aged 58, is our executive Director. Mr. Kong is in charge of all aspects of our business operations in the PRC, from charting and developing growth policies for our PRC businesses to managing the day-to-day operations of our subsidiaries in the PRC. Mr. Kong joined Maxon Suzhou as its vice general manager in June 1995, and he has since August 2001 been serving as a director and been in charge of the day-to-day operations of some of our subsidiaries in the PRC which are involved in the motion control and other specialised engineering solutions businesses.

Mr. Kong graduated from the Beijing Technical University in July 1982 with a Degree in Optical Engineering and was awarded the "Young and Middle-aged State-ranking Experts with Outstanding Contribution" award by the PRC state council in January 1994

Mr. Soh Beng Keng (蘇明慶) *Independent director*

Mr. Soh Beng Keng (蘇明慶), aged 65, is our independent non-executive Director. Currently, Mr. Soh also serves as the lead independent director of BM Mobility Ltd, a PRC raw material producer and supplier of import substitution products as well as green energy business, Sino Grandness Food Industry Group Limited, a company principally engaged in the production and distribution of beverage and canned food products, and China Haida Ltd., the holding company of a leading manufacturer of aluminum panels in the PRC, all of which are listed on the main board of the SGX-ST.

Mr. Soh has approximately 20 years of experience in the field of auditing, accounting and financial management in private and listed companies in Singapore. From September 1997 to November 2004,

Board of Directors

he served as the director of Heeton Management Pte Ltd, a company which provides administrative and management services, and from September 2003 to 2004, he served as a director in charge of the finance functions of Heeton Holdings Limited, a company listed on the main board of the SGX-ST which is engaged in property development, property investment, and ownership, lease and operation of wet markets and retail outlets. Mr. Soh served as the financial controller of Kim Heng Marine & Oilfield Pte Ltd, a Singapore company involved in the marine and oil related industries, from July 2005 to August 2006, and the financial controller of Miclyn Offshore Pte. Ltd., a Singapore company involved in the business of owning and chartering of ships, from August 2006 to February 2007. From March 2007 to April 2009, Mr. Soh was the chief financial controller of P99 Holdings Limited (previously known as China Fashion Holdings Limited) (delisted from SGX-ST since 21 October 2017), a public company listed in Singapore principally engaged in the manufacturing and sales of men's fashion wear. He was the lead independent director of Yamada Green Resources Limited (BJV), a supplier of self-cultivated edible fungi and manufacturer of processed food products listed on the SGX-ST, from September 2010 to October 2013.

Mr. Soh is also a full member of the Singapore Institute of Directors since October 2004 and a fellow of the Institute of Singapore Chartered Accountants since January 2010. He obtained his Bachelor of Commerce from the Nanyang University in August 1979.

Mr. Tan Soon Liang (陳順亮) *Independent Director*

Mr. Tan Soon Liang (陳順亮), aged 46, is our independent non-executive Director. Mr. Tan was appointed as an independent non-executive Director of our Company on 18 August 2016. Currently, he serves as the managing director of Ti Ventures Pte. Ltd. since May 2009, which invests in growing businesses and provides business and management consultancy services and corporate development advisory services in respect of company growth and transformation. He is also a director of Ti Investment Holdings Pte. Ltd., which invests in growth companies, since June 2010 and a director of Omnibridge Capital Pte. Ltd., a company which focuses on early stage angel and venture capital investments in startups and fast-growing companies and involved in corporate development and advisory services, since December 2014. Mr. Tan serves as an independent director in Catalist-listed Wong Fong Industries Limited (1A1), a provider of land transport engineering solutions, since June 2016. He is serving as an independent director in Catalist-listed Clearbridge Health Limited (1H3), a healthcare company with focus on delivery of precision medicine in Asia and its vision to empower clinicians and healthcare professionals to make more reliable and accurate diagnoses, since November 2017. He is also serving as an independent director in Catalist-listed Choo Chiang Holdings Limited (42E), a leading retailer and distributor of electrical products and accessories in Singapore, since August 2018. Between June 2009 to July 2014, he also served as a non-executive director of Catalist-listed Jubilee Industries Holdings Ltd (5OS), a provider of precision plastic injection mould and moulding solutions.

Mr. Tan holds a Bachelor of Business (Honours) Degree from Nanyang Technological University which he obtained in July 1997 and a Master of Business Administration Degree from the University of Hull, United Kingdom in February 2001. Mr. Tan is also a CFA charterholder since September 2000 as well as a member of the Singapore Institute of Directors since June 2011.

Joint Company Secretaries

Ms. Gn Jong Yuh Gwendolyn and Ms Cheng Lucy are the joint company secretaries of our Company.

Ms. Gn Jong Yuh Gwendolyn (鄞鐘毓), aged 47, was appointed as our company secretary on 5 February 2007. She is currently a partner of Shook Lin & Bok LLP and specializes in the areas of corporate finance, capital markets, corporate and commercial law as well as mergers and acquisitions. She has been responsible for our Company's compliance with all relevant statutory and regulatory requirements in Singapore since her appointment.

Ms. Gn joined Shook Lin & Bok LLP in October 2006 and has been active in acting for both listed and unlisted corporations in regional mergers and acquisitions, takeovers and reverse takeovers. She also regularly advises clients and financial institutions on corporate governance, regulatory and corporate compliance issues. Ms. Gn was admitted as an Advocate & Solicitor, Singapore in April 1995 and obtained an LLB (Hons) from the National University of Singapore in July 1994.

Ms. Cheng Lucy, was appointed as one of our joint company secretaries on 16 December 2018. She is a senior corporate secretarial manager of Boardroom Corporate Services (HK) Limited. Ms. Cheng is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She has over 15 years' of experience in the corporate secretarial field.

Directorship

LIM SIANG KAI
Group companies
ISDN HOLDINGS LIMITED

Other companies
Beijing Gas Blue Sky Holdings Ltd
Joyas International Holdings Limited
Samurai 2K Aerosol Limited

TEO CHER KOON
Group companies
ISDN HOLDINGS LIMITED
Agri Source Farms Sdn Bhd
Agri Source Pte Ltd
C True Version Pte Ltd
DBASIX Malaysia Sdn Bhd
DBASIX Singapore Pte Ltd
Dietionary Farm Holdings Pte Ltd
Dietionary Farm Sdn Bhd
Dirak Asia Pte Ltd
DKM South Asia Pte Ltd
Eisele Asia Co., Ltd
Excel Best Industries (Suzhou) Co., Ltd
Gateway Motion (Shanghai) Co., Ltd
IDI Laser Services Pte Ltd
IGB (H.K.) Co., Ltd
ISDN Bantaeng Pte Ltd
ISDN Investments Pte Ltd
ISDN Myanmar Infrastructure Investment Pte Ltd
ISDN Myanmar Power Pte Ltd
ISDN Resource Pte Ltd
Jin Zhao Yu Pte Ltd
JM Vision Technologies Co., Ltd
JM Vistec System Pte Ltd
Leaptron Engineering Pte Ltd
Maxon Electronic Machine International Trade (Shanghai) Co., Ltd
Maxon Motor (Suzhou) Co., Ltd
Maxon Motor Taiwan Co., Ltd
Motion Control Group Pte Ltd
Precision Motion Control Phils. Inc.
Prestech Industrial Automation Pte Ltd
SEJINIGB (China) Co., Ltd
Servo Dynamics (H.K.) Limited
Servo Dynamics (Thailand) Co., Limited
Servo Dynamics Co., Ltd
Servo Dynamics Pte Ltd
Servo Dynamics Sdn Bhd
Shanghai DBASIX M&E Equipment Co.,Ltd
Suzhou Dirak Co., Ltd
Suzhou PDC Co., Ltd
Taiwan Dirak Co., Ltd
C&I Renewable Limited
C&I Renewable HK Limited
C&I Renewable and Innovative Tech Pte. Ltd
Suzhou Comtec Tianyi Solar Technology Ltd.
ISDN NBA Resources Pte. Ltd.
Emmett Capital (Pte.) Ltd.
Aenergy Holdings Company Limited
LAA Energy HK Company Limited
maxon motor SEA Pte. Ltd.
SofKore GmbH
C&I Power Storage HK Limited
PT Charma Paluta Energy
PT Alabama Energy

Other Companies
Assetraise Holdings Limited
Sand Profile (HK) Co., Ltd
Sand Profile (Suzhou) Co., Ltd

KONG DEYANG
Group companies
ISDN Holdings Limited
Eisele Asia Co., Ltd
Excel Best Industries (Suzhou) Co., Ltd
Gateway Motion (Shanghai) Co., Ltd
ISDN Enterprise Management Co., Ltd
JAPV Mechanical Technology (Wujiang) Co., Ltd
Maxon Electronic Machine International Trade (Shanghai) Co., Ltd
Maxon Motor (Suzhou) Co., Ltd
SejinIGB (China) Co., Ltd
Servo Dynamics Co., Ltd
Shenzhen Servo Dynamics Co., Ltd
Suzhou PDC Co., Ltd

SOH BENG KENG
Group companies
ISDN Holdings Limited

Other Companies
China Haida Ltd
Sino Grandness Food Industry Group Limited
BM Mobility Ltd

TAN SOON LIANG
Group companies
ISDN Holdings Limited

Other Companies
ACH Investors Pte Ltd
Allin International Holdings Pte Ltd
Allin Technologies Co Ltd
MG Investors Pte Ltd
Omnibridge Capital Ltd
Omnibridge Capital Pte Ltd
Omnibridge Investments Ltd
Omnibridge Investment Partners Ltd
Omnibridge Investment Partners Pte Ltd
Omnibridge Investments Pte Ltd
Ti Investment Holdings Pte Ltd
Ti Ventures Pte Ltd
Wong Fong Industries Limited
The Learning Fort Pte Ltd
Clearbridge Health Limited
Choo Chiang Holdings Limited

Executive Officers*

Mr. Lau Choon Guan (劉俊源), aged 54, *Vice President – sales (motion control) of our Group.*

Mr. Lau is responsible for analyzing market demand, sales and marketing of our Group's products and executing business plans effectively. In September 1990, he was appointed as a foreman in Matsushita Electronics Components (S) Pte Ltd, which manufactures electrical components. In August 1991, he joined our Group as a sales engineer where he was in charge of sales and marketing before eventually being promoted to be a Vice President in our Group in November 2005. Given his years of experience with our Group, Mr. Lau is experienced in all areas of the motion control business. From 2014 to 2016, Mr. Lau was a committee member of the Smart Automation Technology Industry Group (formerly known as Automation Technology Industry Group, a division of the Singapore Manufacturing Federation). Mr. Lau obtained a Technician Diploma in Electrical Engineering from the Singapore Polytechnic in June 1985.

Mr. Sim Leong Seang (沈龍祥), aged 60, *Vice President – technical support (motion control) of our Group.*

Mr. Sim joined our Group in April 1992 and is responsible for managing the pre and post product and application sales capabilities of our Group. Since joining our Group, Mr. Sim has contributed to the technical and applications capabilities of the technical department to meet the rapid development in the motion control technology market. He is also actively involved in the adoption of new software engineering tools and standards. Mr. Sim was a production supervisor with Hipak Industries Pte Ltd, a polythene bag production factory, where he was responsible for the efficient running of the production systems from June 1979. When Hipak Industries Pte Ltd was acquired by Lamipak Industries Pte Ltd, he was promoted to the post of superintendent in October 1981, where he was responsible for the efficient running of the expanded production facilities. Mr. Sim left Lamipak Industries Pte Ltd in February 1984 to pursue his studies and serve his national service thereafter. Mr. Sim obtained a Diploma in Electronics Engineering from the French-Singapore Institute in March 1986.

Mr. Cheng Hock Kiang (鍾福強), aged 50, *Vice President in sales (industrial computing, hardware) of our Group.*

Mr. Cheng joined our Group as a sales engineer of Servo Dynamics in April 1997 and was subsequently employed as a business development manager of our subsidiary, Portwell, since January 1998. He is responsible for building and sustaining good relationships with our customers, overseeing the day-to-day operations of Portwell, and leading our sales team in developing new marketing strategies for our industrial computing systems. Mr. Cheng obtained a Diploma in Electronic Engineering from Ngee Ann Polytechnic Singapore in August 1988 and a Degree of Bachelor of Science with Second Class Honours (Upper) in Information and Communications Technology from SIM University in March 2010.

Mr. Wong Kwok Whye Peter (黃國偉), aged 51, *Vice President*

Mr. Wong is responsible for developing the corporate growth strategies of Leaptron, and leads a team of engineering staff to support customers. Mr. Wong is also responsible for conducting trainings both to internal staff and customers, such as organizing workshops and training seminars. He has more than 20 years of experience in the area of marketing, sales, product development, technical support and training in the motion control industry. Mr. Wong joined our subsidiary, Servo Dynamics as an application manager in July 1996, where he was in charge of the development of the technical and training team for our "Wonderware" software program. Mr. Wong obtained a Master of Technology (Software Engineering) from the National University of Singapore in June 2009, a Degree of Bachelor of Engineering (Electrical) from the Nanyang Technological University in June 1995 and a Diploma in Electronic Engineering from Ngee Ann Polytechnic Singapore, where he was also awarded a Certificate of Merit for Outstanding Performance in the Electronic Engineering Course, in August 1989.

Mr. Chow Ka Man (周嘉文), aged 44, *Vice President – Hong Kong operations.*

Mr. Chow joined our group as a sales manager of SD Hong Kong in February 1995, and has been a director of SD Hong Kong since December 1995. He is in charge of the day-to-day operations of SD Hong Kong and is responsible for the sales and service engineering of the motion control systems that we provide in Hong Kong. Mr. Chow obtained his Higher Certificate in Mechanical Engineering from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) in November 1994.

Ms. Ho Ting Wai Christine (何霆蔚), aged 44, *Chief Financial Officer*

Ms. Ho joined the Group in June 2016 and she was responsible for the financial management, financial reporting and internal control functions of the Group since. She was also involved in the coordination, preparation of financial information and investors relations activities such as attending road shows and conference in the preparation of listing of the Company's shares on the Main Board of SEHK in January 2017. Ms. Ho has been promoted to Chief Financial Officer of the Group and will be responsible for the Group's accounting, finance, compliance, internal control, taxation and other related matters. She has more than 15 years of experience in auditing, accounting and corporate finance in private and listed companies in Singapore. Prior to join the Group, she was formally a financial controller of Hysendal Enterprises Pte. Ltd. From 2011 to 2013, she was the group financial manager of Weiye Holdings Limited (delisted from SGX-ST since 24 August 2018), a company listed on the Main Board of the SGX-ST and SEHK. In 2006, she joined KPMG LLP, Singapore as an audit senior associate, where she was eventually promoted to audit manager and she specialized in US GAAP, SOX and US GAAS. She graduated from the University of Essex in United Kingdom with first-class Honours Degree in Accounting in 2000.

* Reference to "Executive Officers" in this annual report shall include persons referred to as "Senior Management" under SEHK Listing Rules

Management Discussion and Analysis

BUSINESS REVIEW

For the FY2018, revenue increased by approximately S$10.0 million, or 3.4% from S$292.0 million for FY2017 to S$302.0 million in FY2018, mainly due to higher revenue contribution from motion control solutions segment.

The gross profit for FY2018 increased by S$6.8 million (or 9.2%) as compared to FY2017. Overall, the gross profit margin was marginally higher than last corresponding year by 1.4%, increasing from 25.3% to 26.7%.

Our business focus continues to be predominantly in the PRC, contributing approximately 69.8% in FY2018 (FY2017: 71.1%), with Singapore, Hong Kong and Malaysia as other major contributors to our revenue, accounting for 14.2%, 4.3% and 2.9% of our Group's revenue in FY2018, respectively (FY2017: 15.5%, 3.5% and 2.6%, respectively). We have achieved growth in overall revenue in PRC, Hong Kong and Malaysia in 2018.

Market conditions remained challenging as the ongoing trade war and market uncertainties have affected the growth momentum in China. The Group will continue to explore the latest smart manufacturing solutions in various industries to further enhance the needs of our existing and potential customers.

Our core motion control solutions will continue to deliver long-term sustainable growth as more traditional markets embrace high-tech precision control systems and technology for development and modernisation, coupled with the consistent growth in our customer base.

FUTURE PROSPECTS

While its record revenue and earnings in 2018 reaffirm its value proposition as an established integrated engineering firm in Asia, the Group is mindful of its increasingly challenging operating environment given the current headwinds in the global economy. Notably, the economic slowdown in China, the Group's largest market by revenue, has prompted some businesses to move or consider moving their manufacturing operations out of the country or to review their expansion plans.

While China's slowdown and its impact on these businesses could potentially translate into less robust demand for its engineering services, the Group expects its diversified base of more than 10,000 corporate customers – none of which accounts for more than 10% of its total revenue – to mitigate any downside to its business. For some of these businesses, Southeast Asia has become a preferred region to house their production operations or supply chains. Against this backdrop, the Group sees opportunities to widen its reach in this region.

In December 2018, for instance, ISDN formed a joint venture business with Maxon Motor AG in Singapore to sell maxon motor's products in Southeast Asia. Switzerland-based maxon motors manufactures micro motors and drive systems used in various consumer products and industrial applications, including insulin pumps, surgical power tools and robots. The joint venture will market these products in Singapore, Malaysia, Indonesia, Thailand, the Philippines, Vietnam and Hong Kong.

The Group will also step up efforts to develop its nascent renewable energy business in order to diversify its income streams and create greater value for shareholders. As previously disclosed, its first mini-hydropower plant in Indonesia is expected to begin production by mid-2019. Another two hydropower plants will probably start production in the third quarter of 2019 and the fourth

Management Discussion and Analysis


1 Megawatt solar power plant on the roof top of ISDN Wujiang Industrial Park

quarter of 2020 respectively. When fully operational, all three plants will be able to power more than 12,000 homes in North Sumatra. Mini-hydropower plants are ideal sources of electricity for remote and rural areas in Indonesia as many of these places are not well-served by diesel-fuelled power plants, which are costly to operate in the country.

FINANCIAL REVIEW

Revenue and Gross Profit Margin

For FY2018, the Group's total revenue came in higher by approximately S$10.0 million (or 3.4%) from S$292.0 million in FY2017 to S$302.0 million in FY2018, mainly due to higher revenue contribution from motion control solutions segment.

The gross profit for FY2018 increased by S$6.8 million (or 9.2%) to S$80.5 million as compared to last corresponding year. The gross profit margin was marginally higher than last corresponding year by 1.4%, from 25.3% to 26.7%.

Market conditions remained challenging as the ongoing trade war and market uncertainties have affected the growth momentum in China. The Group will continue to explore the latest smart manufacturing solutions in various industries to further enhance the needs of our existing and potential customers.

Our core motion control solutions will continue to deliver long-term sustainable growth as more traditional markets embrace high-tech precision control systems and technology for development and modernisation, coupled with the consistent growth in our customer base.

Other operating income

The increase in other operating income of S$0.8 million (or 19.6%) for FY2018 was mainly due to (i) gain on disposal of plant and equipment of S$0.2 million; (ii) higher commission income derived from suppliers of S$0.2 million; (iii) one-off gain on disposal of subsidiaries of S$0.1 million; (iv) increase in government grant of S$0.1 million; (v) increase in property management income of S$0.1 million; (vi) interest income of S$0.1 million and (vii) write back of allowances for inventories obsolescence of S$0.2 million offset by (viii) lower technical consultancy fees of S$0.3 million.

Distribution costs

Distribution costs increased for FY2018 by S$1.5 million (or 6.3%), mainly due to the increase in sales commission to sales personnel which is in line with the increase in revenue offset by lower marketing expenses.

Administrative expenses

For FY2018, administrative expenses decreased by S$0.5 million (or 1.7%) as compared to FY2017. The factors contributing to the decrease are (i) reversal of provision for withholding tax of S$1.1 million; (ii) decrease in professional fees expenses of approximately S$0.6 million due to absence of listing expenses incurred in prior year; (iii) decrease in office rental and administration expenses of S$0.4 million; offset by (iv) increase in salaries and bonuses of S$1.6 million.

Other operating expenses

Other operating expenses increased by approximately S$1.1 million (or 33.0%) for FY2018 mainly due to (i) allowance for impairment of trade and other receivables of S$2.5 million; (ii) loss on deemed disposal of an associate of S$0.1 million offset by lower foreign exchange loss of S$1.5 million as compared to FY2017.

Finance costs

Finance costs for FY2018 increased by S$0.2 million (or 27.5%), which is mainly due to an increase in bank facilities drawn down during FY2018.

Management Discussion and Analysis

Income tax expense
Income tax expense for FY2018 increased by S$2.0 million mainly due to higher profit and higher tax provision in overseas subsidiaries where the tax rates are higher and group tax offsetting is not permitted.

Property, plant and equipment
The increase in the Group's net carrying amount of property, plant and equipment was largely attributed to the consolidation of Aenergy and its subsidiaries ("Aenergy Group") following the completion of step-up acquisition on 27 December 2018.

Goodwill
The increase in goodwill as at 31 December 2018 was primarily due to the consolidation of Aenergy Group following the completion of step-up acquisition during the financial year.

Interests in associates
Interests in associates decreased by S$12.2 million to S$6.1 million as at 31 December 2018. This was mainly attributed to the derecognition of Aenergy Group following the completion of the step-up acquisition during the year. Accordingly, Aenergy Group becomes a subsidiary of the Group.

Inventories
Inventories increased by S$5.0 million to S$55.2 million as at 31 December 2018. This was primarily due to the growth of revenue in FY2018 as compared to FY2017.

Trade and other receivables (current and non-current)
The increase in trade and other receivables (non-current) of S$30.2 million was mainly attributed to the consolidation of Aenergy accounts following the completion of the step-up acquisition. Aenergy Group has recognised service concession receivables relating to the construction of mini-hydropower plants in Indonesia under the service concession arrangement.
Trade and other receivables (current) increased by S$7.1 million to S$96.2 million as at 31 December 2018. This was mainly due to the growth of revenue in FY2018 as compared to FY2017 resulting in an increase in trade receivables of approximately S$4.6 million and other receivables of S$2.5 million due to the consolidation of Aenergy Group.

Trade and other payables
Trade and other payables remained relatively stable as compared to prior year.

Bank borrowings (current and non-current)
Bank borrowings increased by S$13.8 million to S$28.3 million as at 31 December 2018. The increase was primarily due to proceeds of bank borrowings of S$25.9 million, offset by repayment of bank borrowings amounting to S$12.1 million.

Management Discussion and Analysis

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

In 2018, the Company's wholly-owned subsidiary, ISDN Investments Pte. Ltd. ("ISDN Investments"), subscribed for additional new ordinary shares in an associate company, Aenergy for a consideration of US$6,875,000. The consideration was satisfied by capitalisation of a loan of US$6,875,000 due from Aenergy to ISDN Investments.

Following the completion of the subscription, the Group's equity interest in Aenergy increased from 39.9% to 50.0%, obtaining control of Aenergy. Accordingly, Aenergy became a subsidiary of the Company and ceased to be an associate company. For further information, please refer to the Company's announcement dated 27 December 2018.

Save as disclosed above, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies during FY2018.

LIQUIDITY AND FINANCIAL RESOURCES

During FY2018, the Group's working capital was financed by both internal resources and bank borrowings. As at 31 December 2018, cash and cash balances amounted to approximately S$41.9 million, which increased by approximately 9.3% as compared to approximately S$38.3 million as at 31 December 2017. The quick ratio of the Group was approximately 1.6 times (31 December 2017: 1.5 times).

As at 31 December 2018, the Group has long and short-term bank borrowings of approximately S$28.3 million. Among the borrowings, the bank borrowings due within one year amounted to approximately S$16.4 million (31 December 2017: S$14.3 million) while the bank borrowings due after one year amounted to approximately S$11.8 million (31 December 2017: S$0.2 million).

As at 31 December 2018, the weighted average effective interest rates on bank borrowings is 4.18% (31 December 2017: 5.25%) per annum. The Group does not have fixed rate bank borrowings as at 31 December 2018 and 31 December 2017. Together with the obligation under finance leases of approximately S$0.3 million (31 December 2017: S$0.2 million), the Group's total borrowings amounted to S$28.6 million (31 December 2017: S$14.7 million).

GEARING RATIO

During FY2018, the gearing ratio of the Group was about 19.9% (2017: 10.8%) which was calculated on the Group's total borrowings (including total borrowings and finance lease but excluding trade and other payables) to total shareholders' equity (excluding non-controlling interests).

The increase in gearing ratio was mainly due to the increase in bank borrowings.

"The Group will also step up efforts to develop its nascent renewable energy business in order to diversify its income streams and create greater value for shareholders."

TREASURY POLICIES

The Group has adopted a prudent treasury policy and thus maintained a healthy liquidity position throughout FY2018. The Group strives to reduce credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time. In the event of capital need, we may borrow funds from banks in the currency that coincident the functional currency of the subsidiary as a natural hedge against foreign exchange fluctuation.

FOREIGN EXCHANGE EXPOSURE

The Group is subject to foreign currency risk of different currencies, primarily with respect to Renminbi ("RMB") and United States dollars ("US$"). The Group has currency exposure as certain sourced parts and components incurred in the Mainland China were denominated in RMB. Certain subsidiaries of the Company have their assets and liabilities denominated in RMB and other currencies. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in RMB. During FY2018, the Group did not commit to any financial instruments to hedge its exposure to foreign currency risk.

Management Discussion and Analysis

CAPITAL EXPENDITURES

During FY2018, the Group's capital expenditure consists of additions to property, plant and equipment and construction in progress amounting to approximately S$2,632,000 (2017: S$2,095,000).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, there were 856 (2017: 809) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance. The Company adopted ISDN Share Option Scheme 2016 and ISDN Performance Share Plan as incentives to the Directors and other eligible participants. The Group also provides and arranges on-the-job training for the employees.

SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries and associates, the Group did not hold any significant investment in equity interest in any other company during the FY2018.

RISK MANAGEMENT

Contingent Liabilities

The Group did not have any significant contingent liabilities or outstanding guarantees in respect of payment obligations to any third parties as at 31 December 2018.

Charge on the Group's Assets

As at 31 December 2018, the Group's cash and cash equivalents, net book value of property, plant equipment of approximately S$3.2 million and S$19.7 million, respectively (2017: S$0.3 million and S$17.6 million) were pledged to banks to secure general banking facilities granted to the Group.

LISTING AND USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING (THE "IPO")

The Shares have been listed since 12 January 2017 on the Main Board of the Stock Exchange (the "Listing") and raised a net proceed from IPO of approximately S$7.0 million (equivalent to HK$37.8 million).

The Board wishes to update the Shareholders on the Group's utilisation of the net proceeds of approximately S$7,000,000 (after deducting expenses of approximately S$2,369,000) from the issuance and allotment of 40,000,000 new Shares in connection with the Listing, as set out below:

Prospects/ Future Plans	Amount of net proceeds allocated	Amount utilised to date	Amount unutilised to date
	S$'000	S$'000	S$'000
Repayment of debts	6,300	(6,300)	-
Working capital requirements	700	(700)	-
Total	7,000	(7,000)	-

PROPOSED FINAL DIVIDEND

The Board have recommended the payment of a final dividend of S$0.7 cents (equivalent to HK$4.07 cents) per ordinary share for FY2018. The proposed dividend payment is subject to approval by the Shareholders at the annual general meeting to be held on Tuesday, 30 April 2019 (the "AGM") at 9.30 a.m. (Singapore Time). Upon Shareholders' approval at the upcoming AGM, the proposed final dividend will be paid on Wednesday, 28 August 2019 to the Shareholders whose names shall appear on the register of members of the Company on Wednesday, 10 July 2019.

The Directors propose that the Shareholders be given the option to receive the final dividend in new shares in lieu of cash. The scrip dividend proposal is subject to: (1) the approval of the proposed final dividend at the AGM; and (2) SGX-ST and the Stock Exchange granting the listing of and permission to deal in the new shares to be issued pursuant to this proposal.

A circular containing details of the scrip dividend proposal will be despatched to the Shareholders together with the form of election for scrip dividend on or about Thursday, 18 July 2019. It is expected that the final dividend warrants and share certificates for the scrip dividend will be despatched to the Shareholders on or about Wednesday, 28 August 2019.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "**Board**") is committed to ensure that the highest standards of corporate governance are practiced throughout ISDN Holdings Limited ("**ISDN**" or the "**Company**") and its subsidiaries (collectively, the "**Group**"), as a fundamental part of its responsibilities to protect and enhance shareholder value and the financial performance of the Group.

The Monetary Authority of Singapore ("**MAS**") issued the revised Code of Corporate Governance on 2 May 2012 (the "**2012 Code**") and the 2012 Code takes effect for annual reports relating to financial years commencing from 1 November 2012. The Listing Manual of the Singapore Exchange Securities Trading Limited (the "**SGX-ST Listing Manual**") require listed companies to disclose their corporate governance practices and give explanations for deviations from the 2012 Code in their annual reports.

This report outlines the Company's corporate governance framework in place throughout the financial year ended 31 December 2018 ("**FY2018**") with specific references made to each of the principles of the 2012 Code and the disclosure guide developed by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") in January 2015 (the "**Guide**"). The Company has complied with the principles and guidelines as set out in the 2012 Code and the Guide, where applicable. Appropriate explanations will be provided in the relevant sections below where there are deviations from the 2012 Code and/or the Guide.

The Company's ordinary shares have been listed ("**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**SEHK**") since 12 January 2017. From the date of Listing, the Company is required to also abide by, among others, the applicable code provisions of the Corporate Governance Code (the "**HK CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the SEHK (the "**SEHK Listing Rules**"). From the date of Listing to the date of this report, the Group has complied with the HK CG Code.

1. Board Matters
Principle 1: Board's Conduct of its Affairs

BOARD OF DIRECTORS

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

The primary functions of the Board are to provide entrepreneurial leadership for the Company and its subsidiaries, set the Group's values and standards and enhance and protect long-term returns and value for its shareholders. Besides carrying out its statutory responsibilities, the Board oversees the formulation of the Group's long-term strategic objectives and directions, reviews and approves the Group's business and strategic plans and monitors the achievement of the Group's corporate objectives. It also reviews the Management's performance, oversees the management of the Group's business affairs and conducts periodic reviews of the Group's financial performance and implementing policies relating to financial matters, which include risk management, internal controls, sustainability issues and compliance. All Directors must objectively make decisions in the interests of the Group as fiduciaries.

The Management is mainly responsible for the day-to-day operation of the Group as well as the execution of the business plans, strategies and policies adopted by the Board and assigned to it from time to time.

Corporate Governance Report

1. **Board Matters (cont'd)**
Principle 1: Board's Conduct of its Affairs (cont'd)

The Board examines its size and, with a view to determining the impact of the number upon effectiveness, decides on what it considers an appropriate size for the Board, which facilitates effective decision-making. The Board also takes into account the scope and nature of the operations of the Company.

The Directors are as follows:

Name of Director	Age	Date of first appointment	Date of last re-election	Designation
Teo Cher Koon	60	28/12/2004	28/04/2017	Executive Director, Managing Director and President
Kong Deyang	58	26/09/2005	26/04/2018	Executive Director
Lim Siang Kai	62	26/09/2005	28/04/2017	Independent Non-executive Director and Chairman
Soh Beng Keng	65	26/09/2005	26/04/2018	Independent Non-executive Director
Tan Soon Liang	46	18/08/2016	28/04/2017	Independent Non-executive Director

The Board's approval is also required in matters such as major funding proposals, investment and divestment proposals, major acquisitions and disposals, corporate or financial restructuring, mergers and acquisitions, share issuance and dividends and major corporate policies on key areas of operations, the release of the Group's quarterly and full year results and interested person transactions of a material nature. The Board also has guidelines setting forth clear directions to the Management on matters that must be approved by the Board.

The Board uses all means to ensure that incoming new Directors are familiarised with their duties, obligations and the Group's businesses and corporate governance practices upon their appointment to facilitate the effective discharge of their duties. The Board does not provide training to new Directors on accounting, legal or industry-specific matters as it uses its best efforts to select new Directors who already possess such skills. The Company will ensure that all incoming Directors are familiar with the Company's business and corporate governance practices. Upon appointment, new Directors will also be provided with formal letters, setting out their duties and obligations including matters reserved for the Board's decision. Incoming and newly appointed Directors would be given guidance and orientation (which may include management presentations) to allow the such Directors to understand the Group's business operations, strategic directions and policies, corporate functions and corporate governance practices.

<u>Board Practices and Conduct of Meetings</u>

Schedules for regular Board meetings are normally agreed with the Directors in advance. In addition to the above, notice of at least 14 days is given for a regular Board meeting. For other Board meetings, reasonable notice is generally given. The Board meets at least four (4) times a year to oversee the business affairs of the Group, and to approve, if applicable, any financial and business objectives and strategies. The schedule of all the regular Board and Board Committees meetings for the calendar year is usually given to all Directors well in advance in accordance with the terms of references of the respective Board Committees, the 2012 Code and the SEHK Listing Rules. Ad-hoc meetings will be held when circumstances require. The Company's Constitution also provides for telephone conference and video conference meetings.

Corporate Governance Report

1. **Board Matters (cont'd)**
Principle 1: Board's Conduct of its Affairs (cont'd)

Draft agenda of each Board meeting is usually sent to all Directors together with the notice in order to give them an opportunity to include any other matters in the agenda for discussion in the Board meeting. Board papers together with all appropriate, complete and reliable information are sent to all Directors at least three (3) days before each Board meeting to provide them with materials relating to the transactions to be discussed in the Board meeting in order to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

BOARD COMMITTEES

To assist the Board in the discharge of its responsibilities, the Board has established four (4) Board Committees, namely the Audit Committee ("**AC**"), the Nominating Committee ("**NC**"), the Remuneration Committee ("**RC**") and the Risk Management Committee ("**RMC**"). These Board Committees function within clearly defined terms of reference (which set out the authority and duties of the committee) and operating procedures, which are reviewed on a regular basis.

The attendance of the Directors at meetings of the Board and Board Committees and annual general meeting of the Company (the "**AGM**") for FY2018 is as follows:

	Board	Audit Committee	Risk Management Committee	Nominating Committee	Remuneration Committee	AGM
Number of meetings held	5	5	1	1	1	1
Directors			**Number of meetings attended**			
Teo Cher Koon	5	N/A	N/A	1	N/A	1
Kong Deyang	4	N/A	N/A	N/A	N/A	-
Lim Siang Kai	5	5	1	1	1	1
Soh Beng Keng	5	5	1	1	1	1
Tan Soon Liang	5	5	1	N/A	1	1

N/A- Not applicable

Induction and Continuous Professional Development for Directors

The Directors are encouraged to attend seminars and receive training to improve themselves in the discharge of Directors' duties and responsibilities. Changes to regulations and accounting standards are monitored closely by the Management. To keep pace with such regulatory changes, the Company provides opportunities for ongoing education and training on Board processes and best practices as well as updates on changes in legislation and financial reporting standards, regulations and guidelines from the SGX-ST Listing Manual and the SEHK Listing Rules that affect the Company and/or the Directors in discharging their duties.

During FY2018, the Directors were provided updates and informative news of the 2012 Code and the Guide. The shares of the Company have been dual listed on the SEHK for trading on 12 January 2017, and the Company is required to fully comply with the SEHK Listing Rules. In order to comply with Code Provision A.6.5 of the HK CG Code to the SEHK Listing Rules after the dual listing of the Company on the SEHK, the Company has arranged for sufficient training of continuous professional development to the Directors to develop and refresh their knowledge and skills in relation to the SEHK Listing Rules during the year. All the Directors have provided their training records for the year to the Company.

Corporate Governance Report

1. **Board Matters (cont'd)**
Principle 1: Board's Conduct of its Affairs (cont'd)

According to the records maintained by the Company, the Directors received the following training regarding roles, function and duties of a director of a listed company or professional skills in compliance with the requirement of the HK CG Code on continuous professional development during FY2018:

Executive Directors	**Reading materials**	**Attending seminars/ Induction training**
Teo Cher Koon	Reading materials	NIL
Kong Deyang	Reading materials	NIL
Independent Non-executive Directors		
Lim Siang Kai (Chairman)	Reading materials	NIL
Soh Beng Keng	Reading materials	NIL
Tan Soon Liang	Reading materials	NIL

Principle 2: Board Composition and Guidance

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

The majority of the Board is independent. During the financial year under review (i.e. FY2018), the Board of the Company comprised two (2) Executive Directors and three (3) Independent Non-executive Directors, namely:

Executive Directors
Teo Cher Koon
Kong Deyang

Independent Non-executive Directors
Lim Siang Kai (Chairman)
Soh Beng Keng
Tan Soon Liang

There is a good balance between the Executive Directors and Independent Non-executive Directors and a strong and independent element on the Board. Key information on the Directors can be found in the "Board of Directors" section of the Annual Report. The Board has complied with the requirements of the 2012 Code and Rule 3.10A of the SEHK Listing Rules that at least one third of the Board comprises Independent Non-executive Directors. The Independent Non-executive Directors chair all the Board Committees, which play a pivotal role in supporting the Board.

There has been no financial, business, family or other material relationship amongst the Directors.

Corporate Governance Report

1. **Board Matters (cont'd)**
Principle 2: Board Composition and Guidance

The Company recognises and embraces the benefits of diversity of Board members. Therefore, the Company has established the Board Diversity Policy to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard to the benefits of diversity of the Board members.

The Board, through the delegation of its authority to the NC, has used its best efforts to ensure that Directors appointed to the Board possess the relevant background, experience and knowledge in technology, business, finance and management skills critical to the Group's business to enable the Board to make sound and well-considered decisions. Collectively, they have competencies in areas which are relevant and valuable to the Group, such as accounting, corporate finance, business development, management, sales and strategic planning. The Board would also consider the above factors in identifying potential Director nominees, including from a diversity perspective, so as to work towards achieving an appropriate balance and diversity of skills, age, experience, gender, education background and knowledge of the Company. The ultimate decision will be made upon the merits and contribution that the selected candidates.

The independence of each Director is reviewed annually by the NC, in accordance with Guideline 2.3 of the 2012 Code and Rule 3.13 of the SEHK Listing Rules. The Board considers an "independent" Director as one who has no relationship with the Company, its related companies, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment of the conduct of the Group's affairs. The Board is independent from the Management. No individual or small group of individuals is allowed to dominate the Board's decision-making. The Company has received a written annual confirmation from each Independent Non-executive Director of his independence pursuant to Rule 3.13 of the SEHK Listing Rules. The Company considers all Independent Non-executive Director to be independent in accordance with the independence guidelines set out in the SEHK Listing Rules, the SGX-ST Listing Manual and the 2012 Code. The Company does not have any alternate Directors on the Board and did not appoint any alternate Directors for FY2018. The Company will avoid the appointment of alternate Directors, unless for limited periods in exceptional cases such as when a Director has a medical emergency.

The composition of the Board is also reviewed on an annual basis by the NC to ensure that the Board has the appropriate mix of expertise and experience, and collectively possesses the necessary core competence for informed decision-making and effective functioning. The NC considers the Board's present size adequate for effective decision-making, taking into account the nature and scope of the Group's operations.

The Independent Non-executive Directors constructively challenge and help to develop proposals on strategy, review the performance of the Management in meeting agreed goals and objectives and monitor the reporting of performance. To facilitate a more effective check on the Management, Independent Non-executive Directors have met once in FY2018 without the Management being present.

The Company complied with Code Provision A.1.8 of the HK CG Code by arranging appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

Corporate Governance Report

1. **Board Matters (cont'd)**
Principle 3: Chairman and Chief Executive Officer

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

The Chairman, and the Managing Director and President of the Group are separate persons and therefore the Company is not required to have at least half the Board to be independent or to have a lead independent Director.

The Chairman is an Independent Non-executive Director and his primary function is to lead the business of the Board and the Board Committees, and to promote harmonious relations with the shareholders. In respect of the Chairman's role with regard to Board proceedings, the Chairman:

- schedules meetings and sets the agenda and enables the Board to perform its duties responsibly while not interfering with the flow of the Company's operations;
- ensures that the Directors receive accurate, timely and clear information and promotes a culture of openness and debate on the Board;
- exercises control over quality, quantity and timeliness of the flow of information between the Management and the Board;
- assists in ensuring compliance with Company's guidelines on corporate governance;
- facilitates the effective contribution of Independent Non-executive Directors in particular;
- encourages constructive relations between Executive Directors and Independent Non-executive Directors, as well as effective communications with shareholders;
- acts on the results of the performance evaluation;
- where appropriate, proposes new members be appointed to the Board or seeks the resignation of Directors, in consultation with the NC; and
- promotes high standards of corporate governance.

The role of the Chairman and the executives are separate. Mr Lim Siang Kai, the non-executive Chairman, is consulted on the business of the Board and the Board Committees. The Group's strategic direction, formulation of policies and day-to-day operations of the Group are entrusted to the Managing Director and President, Mr Teo Cher Koon. He is assisted by an experienced and qualified team of executive officers of the Group.

There is a clear division of responsibilities at the top management with clearly defined lines of responsibility between the Board and executive functions of the management of Company's business. The Board sets broad business guidelines, approves financial objectives and business strategies and monitors the standards of executive management performance on a periodic basis.

Corporate Governance Report

1. **Board Matters (cont'd)**
   Principle 4: Board Membership

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

NOMINATING COMMITTEE

The NC comprises one (1) Executive Director and two (2) Independent Non-executive Directors, one of whom is also the Chairman of the NC, namely:

Soh Beng Keng (Chairman)	Independent Non-executive Director
Lim Siang Kai (Member)	Independent Non-executive Director
Teo Cher Koon (Member)	Executive Director

The NC performs the following principal functions:

- reviews the structure, size and composition of the Board and makes recommendations to the Board;
- identifies candidates and reviews all nomination for the appointment and re-election of members of the Board;
- make plans for succession, in particular for the Chairman, and the Managing Director and President;
- determines annually whether or not a Director is independent in accordance with the guidelines of the 2012 Code and Rule 3.13 of the SEHK Listing Rules;
- develops and proposes a process with objective performance criteria to evaluate the performance of the Board, its Board Committees and Directors;
- decides whether or not a Director is able to and has been adequately carrying out his/her duties as a Director of the Company;
- assesses the effectiveness of the Board as a whole, as well as the contribution by each member of the Board;
- assesses the independence of independent non-executive directors and review the independent non-executive directors' annual confirmations on their independence; and make disclosure of its review results in the corporate governance report. Where the Board proposes a resolution to elect an individual as an independent non-executive director of the Company at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting (i) the process used for identifying the individual and why they believe the individual should be elected and the reasons why they consider the individual to be independent; (ii) if the proposed independent non-executive director of the Company will be holding their seventh (or more) listed company directorship, why they believe the individual would still be able to devote sufficient time to the Board; (iii) the perspectives, skills and experience that the individual can bring to the Board; and (iv) how the individual contributes to diversity of the Board;
- review the board diversity policy periodically and make disclosure of the policy or a summary of the policy in the corporate governance report annually;
- recommends to the Board internal guidelines to address the competing time commitments faced by Directors who serve on multiple boards; and
- reviews the training and professional development programs for the Board.

Corporate Governance Report

1. **Board Matters (cont'd)**
   Principle 4: Board Membership (cont'd)

NOMINEE POLICY

The NC has in place a selection and nomination process for the appointment of new Directors. For appointment of new Directors to the Board, the NC would, in consultation with the Board, evaluate and determine the selection criteria with due consideration to the mix of skills, knowledge and experience of the existing Board. The NC does so by first evaluating the existing strengths and capabilities of the Board, before it proceeds to assess the likely future needs of the Board, and assesses whether this need can be fulfilled by the appointment of one (1) person and if not, then to consult the Board with respect to the appointment of two (2) persons. The NC will then source through their network or engage external professional assistance for potential candidates and resumes for review, undertake background checks on the resumes received, narrow this list of resumes and finally to invite the shortlisted candidates to an interview. This interview may include a briefing of the duties required to ensure that there is no expectations gap, and to ensure that any new Director appointed has the ability and capacity to adequately carry out his duties as a Director of the Company, taking into consideration the number of listed company board representations he holds and other principal commitments he may have. The NC will take an open view in sourcing for candidates and does not solely rely on current Directors' recommendations or contacts, and is empowered to engage professional search firms. The NC will interview all potential candidates in frank and detailed meetings and make recommendations to the Board for approval.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

The Board has the authority from time to time and at any time to appoint a person as a Director to fill a casual vacancy or as an addition to the Board. Any new Directors appointed during the year shall only hold office until the next AGM and they shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at that meeting.

Regulation 89 of the Company's Constitution requires one third of the Board, including the Managing Director to retire by rotation at every AGM. The Directors must present themselves for re-nomination and re-election at regular intervals of at least once every three (3) years.

Each executive Director has entered into a service contract with the Company for a term of three (3) years, while each Independent Non-executive Director is engaged for three (3) years.

In reviewing the nomination of the retiring Directors, the NC considers the performance and contributions of each of the retiring Directors, having regard not only to their attendance and participation at Board and Board Committee meetings but also the time and effort devoted to the Group's business and affairs, especially the operational and technical contributions.

Corporate Governance Report

1. **Board Matters (cont'd)**
Principle 4: Board Membership (cont'd)

When a Director has multiple board representations, he or she ensures that sufficient time and attention is given to the affairs of each company. The Board does not prescribe a fixed number of listed company board representations for each Director because the main consideration in a Director's effectiveness is his performance as a Director of the Company, and not the number of board representations he has. All Directors are required to declare their board representations. The NC determines annually whether a Director with multiple board representations is able to and has been adequately carrying out his or her duties as a Director of the Company based on internal guidelines. The NC takes into account the results of the assessment of the effectiveness of each individual Director and the respective Directors' actual conduct on the Board in making the determination, and is satisfied that all the Directors have been able to and have adequately carried out their duties, notwithstanding their multiple board representations in other listed companies.

The NC recommended that Mr Teo Cher Koon and Mr Lim Siang Kai (collectively, the "**Retiring Directors**"), be nominated for re-election at the forthcoming AGM of the Company. The Board had accepted the NC's recommendation and the Retiring Directors will be offering themselves for re-election.

Mr. Teo Cher Koon and Mr. Lim Siang Kai, being members of the NC and the Board of Directors and who are both retiring at the forthcoming AGM of the Company, have abstained on the resolutions in respect of their nominations for re-election as Directors of the Company.

If Mr Lim Siang Kai is re-elected by shareholders, Mr Lim Siang Kai and Mr Soh Beng Keng will enter into their fourteenth year of service on the Board. Pursuant to the guidelines of the 2012 Code and Rule 3.13 of the SEHK Listing Rules, the Board has subjected the independence of the Directors to rigorous review. In doing so, the Board has taken into account the need for progressive refreshing of the Board, and they are of the view that Mr Lim Siang Kai and Mr Soh Beng Keng have demonstrated strong independent character and judgement over the years in discharging their duties and responsibilities as Independent Non-executive Directors of the Company with the utmost commitment in upholding the interest of the non-controlling shareholders. They have expressed individual viewpoints, debated issues and objectively scrutinised and challenged the Management. They have sought clarification as they deemed necessary, including through direct access to the Management. Further, the NC has noted that there are no relationships or circumstances which are likely to affect or could appear to affect the judgement of the Independent Non-executive Directors. After considering the view of the NC and the performances of Mr Lim Siang Kai and Mr Soh Beng Keng in discharging their duties, the Board is satisfied that the aforementioned Directors are independent in character and judgment, notwithstanding the tenure of their service on the Board.

Corporate Governance Report

1. **Board Matters (cont'd)**
Principle 4: Board Membership (cont'd)

COMPANY SECRETARIES

The Joint Company Secretaries of the Company are Ms Gn Jong Yuh Gwendolyn and Ms Cheng Lucy. Ms Gn, a qualified advocate and solicitor in Singapore specialising in corporate finance, capital markets, corporate and commercial law as well as mergers and acquisitions, has been working as our Company Secretary since 2007.

Since Listing on SEHK on 12 January 2017, the Company has engaged Mr Tang Chi Chiu, a practicing member of the Hong Kong Institute of Certified Public Accountants, as a Joint Company Secretary to satisfy the requirements regarding company secretaries as set out in Rule 3.28 of the SEHK Listing Rules. Mr Tang had worked closely with Ms Gn in the discharge of her duties as a Company Secretary from 12 January 2017, being the date of the Listing, until his resignation from his position as Joint Company Secretary which took effect from 16 December 2018. Ms Cheng, an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom, was appointed as Joint Company Secretary with effect from 16 December 2018. Ms Cheng will work closely with Ms Gn in the discharge of her duties as a Company Secretary from 16 December 2018 until 11 January 2020 (the "**Initial Period**"). Upon expiry of the Initial Period, a further evaluation of the qualifications and experience of Ms Gn and the need for on-going assistance would be made.

For FY2018, each of Ms Gn, Mr Tang and Ms Cheng has undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the SEHK Listing Rules. The primary person at the Company with whom the Joint Company Secretaries have been contacting in respect of company secretarial matters is Ms Ho Ting Wai Christine.

The Joint Company Secretaries are responsible to keep minutes of all Board and Board Committee meetings. Draft minutes are normally circulated to Directors for comments within a reasonable time after each by Board and Board Committee meeting and the final version is open for Directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Constitution contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at Board meetings for approving transactions in which such Directors or any of their associates have a material interest.

Corporate Governance Report

1. **Board Matters (cont'd)**
Principle 5: Board Performance

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

The NC decides how the Board should be evaluated and selects a set of objective performance criteria that is linked to long-term shareholders' value to be used for performance evaluation of the Board. The criteria are objective and are not changed regularly and are changed only where circumstances deem necessary.

The criteria used to evaluate the effectiveness of the Board as a whole and its Board Committees, and for assessing the contribution of each Director to the effectiveness of the Board are as follows:

- Timely guidance to the Management
- Attendance at Board/Board Committee meetings
- Participation at Board/ Board Committee meetings
- Commitment to Board activities
- Board performance in discharging principle functions including enhancing long-term shareholder value
- Board Committee performance
- Independence of Independent Non-executive Directors
- Appropriate complement of skill, experience and expertise on the Board
- Return on assets / equity
- Return on investment
- Company's share price and performance over a five-year period

A Board evaluation and individual Director evaluation is conducted annually whereby Directors complete a self-assessment checklist based on various areas of assessment to assess their views on various aspects of Board performance. These areas include Board composition, information, process and accountability and the overall effectiveness of the Board. Factors considered include the suitability of the size of the Board for effective debate and decision-making, competency mix of Directors and regularity of meetings. The results of these checklists were considered by the NC. The NC Chairman acts on the results of the performance evaluation, and in consultation with the NC, will propose to the Board, where appropriate, for new members to be appointed to the Board or to seek the resignation of Directors.

The NC has assessed the performance of the current Board's overall performance during the financial year under review (i.e. FY2018), and is of the view that the performance of the Board as a whole, and the Chairman, has been satisfactory. No external facilitator was used in the evaluation process.

Corporate Governance Report

1. **Board Matters (cont'd)**
Principle 6: Access to Information

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

The Board is provided with complete, adequate information, management accounts, financial and corporate reports and additional requests for information in a timely manner by the Management to the Directors on matters to be deliberated, thus facilitating informed decision-making. Directors are also updated on initiatives and developments for the Group's business whenever possible on an on-going basis. Information provided to the Board includes board papers and background information relating to the matters to be discussed by the Board. Directors would also receive relevant information on material events and transactions as and when they arise. The Board also receives regular reports pertaining to the operational and financial performance of the Group and may request from the Management such other additional information as may be necessary to be provided. In respect of budgets, any material variance between the projections and actual results are also disclosed and explained. Presently, the Management also presents to the AC the quarterly and full-year financial results and the AC reports on the results to the Board for review and approval before releasing such results. The Board also receives reports from the internal and external auditors.

The Board has separate and independent access to the Company's senior management and the Joint Company Secretaries. The Joint Company Secretaries attend the Board and Board committee meetings and is responsible for ensuring that board procedures are followed in accordance with the Company's Constitution, and that applicable rules and regulations are complied with. Under the direction of the Chairman, the Joint Company Secretaries' responsibilities include ensuring good information flows within the Board and its committees and between senior management and Independent Non-executive Directors, as well as facilitating orientation and assisting with professional development as required. The appointment and the removal of the Joint Company Secretaries is a matter for the Board as a whole.

The Management will, upon direction by the Board, assist the Directors, either individually or as a group, to get independent professional advice in furtherance of their duties, at the Company's expense.

Corporate Governance Report

2. Remuneration Matters
Principle 7: Procedures for Developing Remuneration Policies

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

REMUNERATION COMMITTEE

The RC comprises three (3) Independent Non-executive Directors, one of whom is also the Chairman of the RC, namely:

Tan Soon Liang (Chairman)	Independent Non-executive Director
Lim Siang Kai (Member)	Independent Non-executive Director
Soh Beng Keng (Member)	Independent Non-executive Director

The role of the RC is to review and recommend remuneration policies and packages for Directors and key executives and to disseminate proper information on transparency and accountability to shareholders on issues of remuneration of the Executive Directors of the Group and employees related to the Executive Directors and controlling shareholders of the Group.

The RC's review covers all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options, long-term incentive schemes, including share schemes and benefits-in-kind. Recommendations are made in consultation with the Chairman of the Board and submitted for endorsement by the entire Board. No Director or any of his associates is involved in deciding his own remuneration.

Primary functions to be performed by the RC:

- reviews and recommends to the Board, a formal and transparent framework of remuneration for the Board and key executives;
- reviews the level of remuneration that are appropriate to attract, retain and motivate the Directors and key executives whilst linking rewards to group or corporate and individual performance;
- ensures adequate disclosure on Directors' remuneration;
- reviews and administers the ISDN Employee Share Option Scheme 2016 and ISDN Performance Share Plan (the "**Schemes**") adopted by the Group and decides on the allocations and grants of options and/or share awards to eligible participants under the Schemes;
- reviews and approves the Company'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; and
- recommends to the Board any long-term incentive schemes which may be set up from time to time and does all acts necessary in connection therewith.

Corporate Governance Report

2. Remuneration Matters (cont'd)
Principle 7: Procedures for Developing Remuneration Policies (cont'd)

Pursuant to the code provision B.1.5 of the HK CG Code, the remuneration of the executive officers / senior management by band for the FY2018 is set out below:

	2018	2017
	Number of individuals	
S$0 to S$100,000	-	-
S$100,001 to S$200,000	1	1
S$200,001 to S$300,000	3	3
S$300,001 to S$400,000	-	1
S$400,001 to S$500,000	1	1
S$1,000,001 to S$1,100,000	1	-
	6	6

Details of the remuneration of each Director and the five (5) individuals with the highest emoluments in the Group for the FY2018 are set out in Principle 9 in this report.

In setting the remuneration packages, the Company considers the remuneration and employment conditions within the industry. If necessary, the RC will seek expert advice inside and/or outside the Company on remuneration of all Directors. The expenses arising from external professional advice (if any) shall be borne by the Company. No remuneration consultants were engaged by the Company during FY2018.

Principle 8: Level and Mix of Remuneration

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

The Company sets remuneration packages to ensure that it is competitive and sufficient to attract, retain and motivate directors and executive officers of required experience and expertise to run the Group successfully.

The Independent Non-executive Directors receive Directors' fees, in accordance with their level of contributions, taking into account factors such as responsibilities, effort and time spent for serving on the Board and Board Committees. The Company recognises the need to pay competitive fees to attract, motivate and retain Directors without being excessive to the extent that their independence might be compromised. The Directors' fees are recommended by the Board for approval at the AGM of the Company.

The Executive Directors, Mr Teo Cher Koon and Mr Kong Deyang have entered into separate service agreements with the Company which can be terminated by either party giving not less than six (6) months' notice to each other. There are no long-term incentive schemes for any of the Directors. The remuneration package of the Executive Directors and the key management personnel comprises a basic salary component and a variable component which is the bonus, based on the performance of the Group as a whole and their individual performance.

Corporate Governance Report

2. Remuneration Matters (cont'd)
Principle 9: Disclosure on Remuneration

Every company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.

(a) Details of remuneration and fees paid to the Directors for FY2018 are set out below.

	Basic salary	Director Fees	Bonus	Benefits-in-kind	Termination benefit	Fair value share of options granted	Total
	%	%	%	%	%	%	%
Executive Directors							
S$3,500,001 to S$4,000,000							
Teo Cher Koon	21	-	77	2	-	-	100
S$1,500,001 to S$2,000,000							
Kong Deyang	10	-	87	2	1	-	100
Independent Non-executive Directors							
Below S$100,000							
Lim Siang Kai	100	-	-	-	-	-	100
Soh Beng Keng	100	-	-	-	-	-	100
Tan Soon Liang	100	-	-	-	-	-	100

Please refer to Note 9 of the Notes to the Financial Statements for further details on the remuneration and fees paid to the Directors.

For FY2018, the Company only identified six (6) key management personnel/executive officers. The details of remuneration paid to the key management personnel/executive officers (who are not Directors) for FY2018 is disclosed below.

	Salary	Bonus	Directors Fees	Other Benefits	Total
	%	%	%	%	%
S$1,000,001 - S$1,100,000					
Chow Ka Man	49	10	-	41	100
S$400,001 - S$450,000					
Lau Choon Guan	96	2	-	2	100
S$200,001 - S$250,000					
Cheng Hock Kiang	80	4	12	4	100
Sim Leong Seang	91	6	-	3	100
Ho Ting Wai Christine	73	27	-	-	100
S$100,001 - S$150,000					
Wong Kwok Whye Peter	94	-	-	6	100

Corporate Governance Report

2. Remuneration Matters (cont'd)
Principle 9: Disclosure on Remuneration (cont'd)

For FY2018, of the five individuals with the highest emoluments in the Group, two (2) are directors of subsidiaries respectively, whose emoluments are disclosed in *Principle 9: Disclosure on Remuneration (a)*. Details of the total emoluments paid to the remaining 3 (2017: 3) highest paid employees for the year were as follows:

	2018 S$'000	2017 S$'000
Salaries, allowances and other benefits	1,543	870
Discretionary bonuses	235	242
Contributions to retirement benefits scheme	45	54
	1,823	1,166

	2018 Number of individuals	2017
S$200,001 to S$300,000	-	1
S$300,001 to S$400,000	1	1
S$400,001 to S$500,000	1	1
S$1,000,001 to S$1,100,000	1	-
S$1,100,001 to S$1,200,000	-	1
S$1,500,001 to S$1,600,000	1	-
S$2,000,001 to S$3,000,000	-	1
S$3,600,001 to S$3,700,000	1	-
	5	5

No emoluments were paid by the Group to the five (5) highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during FY2018.

(b) While the Company notes the need for corporate transparency in the remuneration of its Directors and key executives, the Company notes that the disclosure of details in excess of the above may be detrimental to its business interests, given the highly competitive industry conditions, where poaching has become commonplace. The Group, with its main operations currently in Singapore and the PRC, sees human capital as one of its key advantages over its competitors and, noting that the highly competitive industry which the Group operates in, believes that the disclosure above best preserves the business interests of the Group.

The aggregate amount of the total remuneration paid to the top six (6) key management personnel (who are not Directors) was S$2,253,000 in FY2018. As far as the Company is aware, the remuneration of the key executives is in line with industry practices.

Corporate Governance Report

2. **Remuneration Matters (cont'd)**
Principle 9: Disclosure on Remuneration (cont'd)

(c) The following table shows a breakdown of the annual remuneration (in percentage terms) of an immediate family member of a Director and whose remuneration exceeds S$50,000 for the financial year under review (i.e. FY2018).

	Salary	Bonus	Directors Fees	Other Benefits	Total
	%	%	%	%	%
Thang Yee Chin	69	18	-	13	100

Thang Yee Chin is a director of nine (9) subsidiaries of the Company and oversees the administrative and accounting functions in these companies. She is the spouse of the Company's Managing Director and President, Mr Teo Cher Koon. Her remuneration was in the band of between S$350,000 and S$400,000 for the financial year under review (i.e. FY2018).

The Company has in place the Schemes, which are administered by the RC. The RC reviews whether Executive Directors and the Management of the Company should be eligible under such long-term incentive schemes based on factors such as rank, job performance, creativity, innovativeness, entrepreneurship, years of service, potential for future development and his or her contribution to the success and development of the Group. Details of the ISDN PSP and the ISDN ESOS were set out in the Company's circular to shareholders dated 2 February 2012 and 7 April 2016 respectively. There were no share awards or Options granted to any person pursuant to the Schemes in FY2018.

The compensation structure is directly linked to corporate and individual performances, both in terms of financial, non-financial performance and the creation of shareholder wealth. There is a fixed component of remuneration and a variable component which is directly linked to a Director's or management personnel's performance and contribution in that financial year.

The Company does not have in place any termination, retirement and post-retirement benefits that may be granted to Directors, the Managing Director and President, and the top six (6) key management personnel (who are not Directors or the Managing Director and the President).

The Company will consider the use of contractual provisions to allow the Company to reclaim incentive components or remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the company.

The Directors and senior management met their respective performance conditions for FY2018 relating to their remuneration packages.

Corporate Governance Report

3. **Accountability and Audit**
Principle 10: Accountability

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

The Board is accountable to shareholders for the stewardship of the Group. The Board updates shareholders on the operations and financial position of the Company through quarterly and full-year results announcements as well as timely announcements of other matters as prescribed by the relevant rules and regulations, and also takes steps to ensure compliance with legislative and regulatory requirements, including the listing rules of the SGX-ST and the SEHK Listing Rules.

The Management is accountable to the Board by regularly providing the Board with the necessary financial information for the discharge of its duties.

Presently, the Management presents to the AC the quarterly and full-year results and the AC reports on the results to the Board for review and approval before releasing the results to the SGX-ST and the SEHK. The Management also provides the Board with management accounts on a monthly basis.

The Board, supported by the finance department, is responsible for the preparation of the financial statements of the Company and the Group. The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

Principle 11: Risk Management and Internal Controls

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

The Board, with the oversight of the RMC, which was formed on 19 December 2016, is responsible for the Group's risk management framework and policies. The RMC comprises three (3) Independent Non-executive Directors, namely:

Lim Siang Kai (Chairman)	Independent Non-executive Director
Soh Beng Keng (Member)	Independent Non-executive Director
Tan Soon Liang (Member)	Independent Non-executive Director

The RMC performs the following principal functions:

- supervises the risk control condition in respect of market risks, credit risks, operational risks, liquidity risks, compliance risks, information technology risks and reputation risks;
- monitors and evaluates the Group's exposure to international sanction law risks on an ongoing basis and, in particular, prior to entering into any agreement or conducting any business dealings with new customers;
- considers, reviews and approves the risk management strategy, policies and guidelines of the Group;

Corporate Governance Report

3. **Accountability and Audit (cont'd)**
Principle 11: Risk Management and Internal Controls (cont'd)

- decides on risk profile, risk levels, tolerance and capacity and related resources allocation;
- reviews the risk reporting record of the Group and material risk management updates and reports of material breaches of risk limits and to assess the adequacy of proposals;
- engages external legal advisers with the necessary expertise and experience in international sanction law, and the general managers of each respective country to assist them in evaluating and monitoring international sanction law risks in the Group's day-to-day operations; and
- monitors and approves the use of monies deposited in the designated account for the purpose of deposit and deployment of all funds raised through the SEHK.

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

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

The Management reviews the Company's business and operational activities regularly to identify areas of significant business, operational and compliance risks, and employs a wide range of measures to control these risks, including financial, operational, compliance and information technology controls. Internal and external auditors conduct annual audits and highlight significant matters to the AC, the RMC and the Management. The Management acts on the matters highlighted by the external and internal auditors to improve the internal controls of the Company. The Management has embedded the risk management process and internal controls into all business operating procedures, where it becomes ultimately the responsibility of all business and operational managers. All identified areas of risks are promptly addressed by the managers who swiftly determine and implement appropriate measures to control and mitigate such risks. Targets are set to measure and monitor the performance of operations periodically, such as sales growth, profit margins, operating expenses, management of inventory, management of receivables and personnel attendance. The identified risks and the corresponding countervailing controls are regularly reviewed by the managers to ensure that they are up to date and effective. All significant matters are highlighted to the Board, the RMC and the AC for their review, and the Board monitors the adequacy and effectiveness of the internal controls and risk management policies.

Corporate Governance Report

3. Accountability and Audit (cont'd)
Principle 11: Risk Management and Internal Controls (cont'd)

The Board has also received assurance from the Managing Director and President, and CFO:

- 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
- that the Group's risk management systems and internal control systems are effective and adequate.

Based on the internal controls established and maintained by the Group, work performed by the external auditors and internal auditors, and reviews performed by the Management, the RMC, the AC and the Board, the Board is of the opinion that the Group's internal controls including financial, operational, compliance and information technology controls, and risk management systems were adequate and effective as at 31 December 2018.

Principle 12: Audit Committee

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

The AC comprises three (3) Independent Non-executive Directors, one of whom is also the Chairman of the AC.

The members of the AC as at the date of this report are as follows:

Lim Siang Kai (Chairman)	Independent Non-executive Director
Soh Beng Keng (Member)	Independent Non-executive Director
Tan Soon Liang (Member)	Independent Non-executive Director

The principal responsibility of the AC is to assist the Board in maintaining a high standard of corporate governance, particularly by providing an independent review of the Group's material internal controls, including financial, operational, compliance and information technology controls, and risk management controls at least once annually, to safeguard the Company's assets and maintain adequate accounting records, with the overall objective of ensuring that the Management creates and maintains an effective control environment in the Group.

The AC has the authority to investigate any matter within its terms of reference, gain full access to and co-operation by the Management, exercise full discretion to invite any Director or executive officer to attend its meetings, and gain reasonable access to resources to enable it to discharge its functions properly.

The AC will meet with the external auditors without the presence of the Management at least once a year to review to review the adequacy of audit arrangement, with emphasis on the scope and quality of their audit, the independence, objectivity and observations of the external auditors and internal auditors. There are also meetings between the AC and internal auditors without the presence of the Management.

The AC has reviewed and is satisfied with the policies and arrangements (including investigation and follow-up action) for staff of the Group and any other persons who may, in confidence, raise concerns about possible improprieties in matters of financial report or other matters.

Corporate Governance Report

3. Accountability and Audit (cont'd)
Principle 12: Audit Committee (cont'd)

The AC recommends to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors and approval of the remuneration of the external auditors. The AC has recommended to the Board that Messrs Moore Stephens LLP ("**Moore Stephens**") be nominated for re-appointment as external auditors of the Group at the forthcoming AGM of the Company. The Company confirmed that Rule 13.88 of the SEHK Listing Rules had been complied with.

The AC assesses the independence of the external auditors annually. The aggregate amount of fees paid for the external auditors of the Group for FY2018 is disclosed under Note 8 of the Notes to the Financial Statements. There were no non-audit fees paid / payable to the Company's auditors during FY2018.

The Audit Committee has reviewed the audit services rendered by the external auditors for FY2018 as well as the fees paid, and is satisfied that the independence of the external auditors have not been impaired.

The Company confirms that it is in compliance with Rules 712 and 715 of the SGX-ST Listing Manual in relation to the appointment of Moore Stephens as its external auditors, save for the subsidiaries as set out under Note 16 of the Notes to the Financial Statements (collectively, the "**Relevant Subsidiaries**").

In relation to the Relevant Subsidiaries, as required by Rule 716 of the SGX-ST Listing Manual, the Board wishes to confirm that the Board and the AC of the Company are satisfied that the appointment of different auditors for the Relevant Subsidiaries would not compromise the standard and effectiveness of the audit of the Group.

In performing those functions, the AC reviews:

- with the external auditors the audit plan, their evaluation of the system of internal accounting controls, their letter to the Management and the Management's response;
- the financial statements of the Company and the consolidated financial statements of the Group before their submission to the Board of Directors;
- the announcements of financial performances;
- discuss with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations;
- potential conflicts of interest (if any);
- the adequacy of the internal audit function and the effectiveness of Company's material internal controls;
- independence of the internal and external auditors;
- interested person transactions;
- the internal control procedures and ensure co-operation given by the Management to the external auditors;
- the appointment and re-appointment of external and internal auditors of the Company, the scope and result of the audit and the audit fees; and
- undertake such other functions and duties as requested by the Board and as required by SGX-ST Listing Manual.

The internal and external auditors have full access to the AC who has the express power to conduct or authorise investigations into any matters within its terms of reference. Minutes of the AC meetings will be regularly submitted to the Board for its information.

Corporate Governance Report

3. **Accountability and Audit (cont'd)**
Principle 12: Audit Committee (cont'd)

During the audit committee meeting to approve the results announcement and the financial statements of the Group for the year ended 31 December 2018, the AC discussed with the external auditors on the identified key audit matters and read how those key audit matters have been addressed by the external auditors in their auditor's report. Having considering these, the AC is satisfied on the bases, estimates and judgements exercised by management in relation to those identified key audit matters.

The AC has reviewed the Group's risk assessment, and based on the audit reports and management controls in place, is satisfied that there are adequate internal controls in the Group.

The Board ensures that the members of the AC are appropriately qualified to discharge their responsibilities.

All three (3) AC members have accounting or related financial management expertise or experience, as the Board interprets such qualifications in its business judgment.

The Directors of the AC sit on multiple boards and hence, have the necessary accounting and financial expertise to deal with the matters that come before them. They will attend courses and seminars to keep abreast of changes to accounting standards and other issues which may have a direct impact on financial statements, as and when necessary.

The Company's staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters to the AC.

Finally, the AC is kept updated annually or from time to time on any changes to the accounting and financial reporting standards by the external auditors. No former partner or director of the Company's existing auditing firm has acted as a member of the AC.

Principle 13: Internal Audit

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

The Board is cognisant of its responsibility to maintain a sound system of internal controls to safeguard the shareholders' investment and the Group's assets and business. For FY2018, the Company outsourced its internal audit function to Wensen Consulting Asia (S) Pte. Ltd. ("**WCA**"). WCA conducted an internal audit in FY2018 and reports directly to the AC Chairman and administratively to the Managing Director and President. WCA has unfettered access to all the Company's documents, records, properties and personnel, including the AC. At the same time, the Company has continued with the practice whereby it tasked two (2) staff members with accounting backgrounds to carry out a financial review on the major operating subsidiaries of the Company and to submit timely analysis report to the Management for review.

For the financial year under review, the AC has reviewed the adequacy and effectiveness of the internal audit function performed by WCA and ensured that the internal audit function is independent, effective and adequately resourced. The AC has also reviewed the results of the internal audit performed by WCA. The Board, with the concurrence of the AC, is of the opinion that the risk management system and internal controls system, addressing the financial, operational, compliance and information technology controls risks faced by the Company, is adequate and effective to safeguard the interests of the shareholders. In line with the Board's commitment to maintain sound internal controls, the Board has continued to engage WCA to perform internal audit for FY2019.

Corporate Governance Report

4. **Shareholder Rights and Responsibilities**
Principle 14: Shareholder Rights

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

The Company's corporate governance practices promote the fair and equitable treatment to all shareholders. To facilitate shareholders' ownership rights, the Company ensures that all material information is disclosed on a comprehensive, accurate and timely basis via SGXNET and the website of the SEHK, especially information pertaining to the Company's business development and financial performance which could have a material impact on the price or value of its shares, so as to enable shareholders to make informed decisions in respect of their investments in the Company.

Shareholders are informed of shareholders' meetings through notices contained in annual reports or circulars sent to all shareholders. These notices are also published in a daily newspaper and posted onto the SGXNET and the website of the SEHK.

In order to provide ample time for the shareholders to review, the notice of any general meeting, together with the relevant annual report or circular, is despatched to all shareholders before the scheduled general meeting date. Shareholders are invited to attend the general meetings to put forth any questions they may have on the motions to be debated and decided upon.

All shareholders are entitled to vote in accordance with the established voting rules and procedures. The Company conducted poll voting in accordance with the SGX-ST Listing Manual and the SEHK Listing Rules for all resolutions tabled at the general meetings. The rules, including the voting process, were explained by the scrutineers at such general meetings. The Company relies on the advice of the independent scrutineers to determine the need for electronic voting, taking into consideration the logistics involved, costs, and number of shareholders, amongst other factors.

All shareholders are entitled to attend and are provided the opportunity to participate in the general meetings of the Company. At the general meetings, shareholders are given opportunity to voice their views, raise their concerns with the Directors or question the Management on matters relating to the Group and its operations. The Company's Constitution has been amended on 16 December 2016 to facilitate voting in *absentia*. If any shareholder who is not a relevant intermediary (as defined in the Companies Act) is unable to attend, he/she is allowed to appoint up to two (2) proxies to vote on his/her behalf at the general meeting through proxy forms sent in advance as prescribed by the Company and in accordance with the requirements of the Companies Act and SEHK Listing Rules from time to time. A shareholder who is a relevant intermediary may appoint more than two (2) proxies to speak, attend and vote at general meetings.

Under the Company's Constitution, Directors may in general, whenever they think fit, convene extraordinary general meetings. Under Section 176 of the Companies Act, however, Directors must notwithstanding anything in the Company's Constitution, on the requisition of shareholders holding not less than 10% of the total paid-up capital of a company at the date of the deposit of the requisition, immediately proceed to convene an extraordinary general meeting to be held as soon as practicable but in any case not later than two (2) months after receipt by the company of the requisition. In addition to the said right of requisition, two (2) or more shareholders holding not less than 10% of the total number of issued shares of a company (excluding treasury shares) may also call a general meeting of the Company.

Corporate Governance Report

4. Shareholder Rights and Responsibilities (cont'd)
Principle 15: Communication with Shareholders

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

The Company places strong emphasis on strengthening relationships with its shareholders and the investment community. The Company treats all its shareholders fairly and equitably, and keeps all its shareholders and other stakeholders informed of its corporate activities, including changes in the Company or its business which could materially affect the price or value of its shares, on a timely basis.

The Company has put in place dedicated investor relations support guided by an investor relations policy, to help to disseminate material information in a timely and useful manner to shareholders, analysts, the media, and other investors and aims to raise awareness and understanding of the company's business among the investing public, and also has a section on the Company's website at www.isdnholdings.com/investorrelations.html to provide shareholders and prospective investors with information necessary to make well-informed investment decisions and maintain a regular dialogue channel with shareholders to gather views, inputs and address shareholder's concerns.

In addition to the above, the Company meets with its institutional and retail investors at least once a year at the AGM where shareholders are invited and encouraged to express their views. Apart from announcements published via SGXNET and SEHK's website and the annual report, the Company keeps shareholders informed of corporate developments by way of press releases from time to time.

The Group has adopted a dividend policy that aims to provide shareholders of the Company ("**Shareholders**") with a target annual dividend payout of 25% of the net profit attributable to Shareholders in any financial year, whether as interim and/or final dividends. The form, frequency and amount of dividends declared each year will take into consideration the Group's profit growth, cash position, positive cash flow generated from operations, projected capital requirements for business growth and other relevant factors as the Board may deem appropriate.

Principle 16: Greater Shareholder Participation

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

The Company is committed to timely dissemination of information and proper transparency and disclosure of relevant information to SGX-ST and SEHK, shareholders, analysts, the public and its employees. Where there is inadvertent disclosure made to a selected group, the Company will make the same disclosure publicly to all others as soon as practicable.

Information is communicated to shareholders and the public through the following channels:

- 21 clear days' or 20 clear business days' (whichever is longer) notice for any AGM and any extraordinary general meeting of the Company at which it is proposed to pass a special resolution or a resolution of which special notice has been given to the Company and 14 clear days' or 10 clear business days' (whichever is longer) notice for all other extraordinary general meetings of the Company. The Board strives to ensure that these reports include all relevant information on the Group, including current developments, strategic plans and disclosures required under the Companies Act, Singapore Financial Reporting Standards, Listing Manual of the SGX-ST, the SEHK Listing Rules and other relevant statutory and regulatory requirements;

Corporate Governance Report

4. Shareholder Rights and Responsibilities (cont'd)
Principle 16: Greater Shareholder Participation (cont'd)

- Price sensitive announcement of interim and full year results released through SGXNET and the website of the SEHK;
- Disclosures on the SGXNET and the website of the SEHK;
- Press releases;
- Press and analysts' briefings as may be appropriate; and
- The Group's website (www.isdnholdings.com) where shareholders and the public may access information on the Group.

There are separate resolutions at general meetings on each substantially separate issue.

The detailed voting results, including the total number of votes cast for or against each resolution tabled, will be announced immediately at the general meetings and via SGXNET and the website of the SEHK. Minutes of general meetings including the questions and answers and relevant comments raised at the meeting will be prepared and such minutes are available to shareholders upon their request.

The Board of Directors, AC members and other Board Committee members, CFO, external auditors and the Joint Company Secretaries will be present and be available to address any questions from shareholders regarding the Group and its businesses.

In addition, shareholders and other stakeholders may send their enquires and concerns to the Board by addressing them to the Joint Company Secretaries. The Joint Company Secretaries will forward the enquires or concerns to the Managing Director or chairman of the Board committees or senior management as appropriate within their area of responsibilities for handling.

Shareholders are welcome to suggest proposals relating to the operations, strategy and/or management of the Group to be discussed at shareholders' meeting. Proposal shall be sent to the Board or the Joint Companies Secretaries by written requisition. Pursuant to the Company's Constitution, shareholders who wish to put forward a proposal should convene an extraordinary general meeting by following the procedures set out in "Shareholders Rights" above.

5. Material Contracts

No material contracts were entered into between the Company or any of its subsidiaries involving the interests of any Director or controlling shareholder, which are either subsisting at the end of the financial year or, if not then subsisting, entered into since the end of the previous financial year except for related party transactions and Director's remuneration as disclosed in the financial statements.

Corporate Governance Report

6. **Interested Person Transactions**

The Company has established procedures to ensure that all transactions with interested persons are reported on a timely manner to the AC and that the transactions are at arm's length basis. All interested person transactions are subject to review by the AC to ensure compliance with established procedures.

In order to ensure that the Company complies with Chapter 9 of the SGX-ST Listing Manual and Chapter 14A of the SEHK Listing Rules on interested person transactions, the AC meets quarterly to review all interested person transactions of the Company. However, if the Company enters into an interested person transaction, the AC ensures compliance with the relevant rules under Chapter 9 of the Listing Manual and Chapter 14A of the SEHK Listing Rules.

For FY2018, there was no general mandate obtained by the company in relation to any interested person transaction.

There were no significant interested person transactions entered between the Group and interested persons during FY2018.

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding less than S$100,000)
Not applicable	Nil	Nil

7. **Dealings in Securities**

In compliance with Rule 1207(19) of the Listing Manual of the SGX-ST, the Group has adopted its own internal compliance code pursuant to the SGX-ST's best practices on dealings in securities and these are applicable to all its officers in relation to their dealings in the Company's securities.

After 12 January 2017, being the date of the Listing, the Company also updated its policy with the requirements set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the SEHK Listing Rules (the "**Model Code**"). The Company confirms that specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code for FY2018.

Directors, executives and any other employees who have access to material price-sensitive information are prohibited from dealing in securities of the Company prior to the announcement of a matter that involves material unpublished price-sensitive information. They are also prohibited from dealing in the Company's securities during the period commencing 30 days and 60 days before the announcement of the Company's quarterly and full-year financial results respectively and ending on the day of the announcement of the quarterly and full-year results.

The company reminds their officers that the law on insider dealing is applicable at all times, notwithstanding that their internal codes may provide certain window periods for them or their officers to deal in their securities.

An officer does not deal in his company's securities on short-term considerations. The Group has complied with Rule 1207(19) of the SGX-ST Listing Manual.

Corporate Governance Report

8. Use of Proceeds from Issues of Securities

Use of net proceeds from the placement of 23,730,000 new ordinary shares in the capital of the Company at an issue price of S$0.45 which was completed on 8 May 2013 (the "**Placement**")

The Board wishes to update the shareholders of the Company on the Group's utilisation of net proceeds of approximately S$10,415,000 (after deducting expenses of approximately S$263,500) from the Placement, as set out below:

Prospects/ Future Plans	Amount of net proceeds allocated	Amount utilised to date	Amount unutilised to date
	S$'000	S$'000	S$'000
Partial funding of the planning and construction of additional facilities within the ISDN High-Tech Industrial Park	1,815	1,200	615
Working capital requirements of the mining-related business of the Group (in particular, coal trading)	6,600	500	6,100
Exploration of power plant opportunities	2,000	2,000	-
Total	**10,415**	**3,700**	**6,715**

The allocation and utilisation of the proceeds from the Placement is in accordance with the intended use.

The Company will make further announcements when the remaining net proceeds from the Placement are materially disbursed.

Use of net proceeds from the issue of 40,000,000 new ordinary shares in the capital of the Company at the offer price of HK$1.25 per share in connection with the dual primary listing of the Company on the SEHK on 12 January 2017 (the "**Share Offer**").

The Board wishes to update the shareholders of the Company on the Group's utilisation of the net proceeds of approximately S$7,000,000 (after deducting expenses of approximately S$2,369,000) from the Share Offer, as set out below:

Prospects/ Future Plans	Amount of net proceeds allocated	Amount utilised to date	Amount unutilised to date
	S$'000	S$'000	S$'000
Repayment of debts	6,300	6,300	-
Working capital requirements[1]	700	700	-
Total	**7,000**	**7,000**	**-**

Note:

[1] The working capital requirements consisted payroll related expenses, trade payables, administrative overheads and other operating expenses.

Corporate Governance Report

CORPORATE GOVERNANCE FUNCTIONS

Since the Company's completion of its dual primary listing exercise on the Main Board of the SEHK, the Board has been and is performing the corporate governance duties set out in Code Provision D.3.1 of the HK CG Code, which, among other things, are as follows:

- to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- to review and monitor the training and continuous professional development of Directors and senior management of the Company;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance; and
- to review the Company's compliance with the relevant laws and regulations and disclosure in the Corporate Governance Report.

INSIDE INFORMATION

With respect to the procedures and internal controls for the handling and dissemination of price sensitive information, the Company is aware of its obligations under Part XIVA of the Securities and Futures Ordinance, Cap. 571, the laws of Hong Kong and the SEHK Listing Rules and has established the inside information/price-sensitive information disclosure policy with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission of Hong Kong.

CHANGES IN THE COMPANY'S CONSTITUTIONAL DOCUMENTS

During FY2018, there were no changes in the Company's constitutional documents.

The Company's Constitution is available on the websites of the SGX-ST and the SEHK and the website of the Company.

Directors' Statement

For The Financial Year Ended 31 December 2018

The directors are pleased to present their statement to the members together with the audited consolidated financial statements of ISDN Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2018 ("**FY2018**") and the statement of financial position of the Company as at 31 December 2018.

In the opinion of the directors:

(a) the consolidated financial statements of the Group and the statement of financial position 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 2018 and of the financial performance, changes in equity and cash flows of the Group for the year ended on that date; and

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

1 Principal Activities

The principal activities of the Company include the provision of technical consultancy, training services, and management services. The principal activities of its subsidiary companies and associates are set out in Notes 16 and 17 to the financial statements.

2 Business Review and Performance

Review of business and performance

A discussion and analysis of the Group's performance during the year and the key factors affecting its financial performance and financial position are set out in the section headed "Management Discussion and Analysis" of this annual report. Information about affair review of, and an indication of likely future development in, the Group's business is set out in the section headed "President's Message" and "Management Discussion and Analysis" of this annual report.

Principal Risks and Uncertainties

As regards the principal risks and uncertainties facing the Group, please refer to the section headed "Risk Factors" contained on pages 33 to 47 of the prospectus of the Company dated 30 December 2016.

Compliance with laws and regulations

During the year, the Company was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

Particulars of important events

The Board of Directors of the Company (the "Board") has not identified any important events affecting the Group that have occurred since the end of the year.

Directors' Statement

For The Financial Year Ended 31 December 2018

2 Business Review and Performance (cont'd)

Stakeholders' engagement

The Group understands the importance of its customers, suppliers and employees to its long-term business development, and therefore is dedicated to maintain good relationship with these stakeholders. Recognising the crucial roles of our customers and suppliers in our business operation, the Group has reinforced its relationships with these business partners through ongoing communication in a proactive and effective manner.

Apart from the above, the Group recognizes the importance of human capital in its long-term development. The Group has provided a fair and safe workplace and offered competitive remuneration, benefits and career development opportunities based on the merits and performance of our employees. The Group also places ongoing efforts to provide adequate training and development resources to our staff with an aim to foster an environment in which the employees can develop to their fullest potential and can assist their personal and professional growth.

3 Results and Appropriations

The results of the Group for the FY2018 are set out in the consolidated statement of comprehensive income on page 71 of the annual report.

Subsequent to the reporting year end, a tax-exempt (one-tier) final dividend of Singapore 0.7 cents (equivalent to HK$4.07 cents) per share in respect of the FY2018 has been recommended by the Board and is subject to the shareholders' approval at the Company's forthcoming annual general meeting.

The Board propose that the shareholders be given the option to receive the final dividend in new shares in lieu of cash. The scrip dividend proposal is subject to: (1) the approval of the final dividend at the forthcoming annual general meeting; and (2) the SGX-ST and SEHK granting the listing of, and permission to deal in, the new shares to be allotted and issued pursuant to the scrip dividend proposal.

A circular to shareholders containing, among others, details of the scrip dividend proposal will be despatched to the shareholders together with the form of election for scrip dividend on or about Thursday, 18 July 2019.

4 Financial Summary

A summary of the results and of the assets and liabilities of the Group for the past five financial years are set out on page 3 of the annual report.

5 Investment Properties

Details of movement in the investment properties of the Group during the FY2018 are set out in Note 13 to the financial statements.

Directors' Statement

For The Financial Year Ended 31 December 2018

6 Property, Plant and Equipment

Details of movement in the property, plant and equipment of the Group during the FY2018 are set out in Note 12 to the financial statements.

7 Bank Borrowings

Particulars of the bank borrowings of the Group as at 31 December 2018 are set out in the Note 24 to the financial statements.

8 Share Capital

Details of the Company's issued share capital during the FY2018 are set out in Note 21 to the financial statements.

9 Purchases, Sales or Redemption of the Company's Listed Securities

During the FY2018 and up to the date of this statement, the Company did not redeem any of the shares of the Company listed on SGX-ST and SEHK nor did the Company or any of its subsidiaries purchase or sell any of the Company's listed securities.

10 Reserves and Distributable Reserves

Details of the movements in the reserves of the Company and the Group during the year are set out in Note 23 to the consolidated financial statements, respectively.

Distributable reserves of the Company as at 31 December 2018 amounted to S$12,167,000 (2017: S$4,828,000).

11 Directors

The Directors of the Company during the year and up to the date of this statement were:

<u>Executive Directors</u>

Mr. Teo Cher Koon (President and Managing Director)
Mr. Kong Deyang

<u>Independent Non-executive Directors</u>

Mr. Lim Siang Kai (Chairman)
Mr. Soh Beng Keng
Mr. Tan Soon Liang

In addition, Mr. Lim Siang Kai and Mr. Teo Cher Koon shall retire from office at the forthcoming annual general meeting pursuant to Regulation 89 of the constitution of the Company and being eligible, offer themselves for re-election.

The biographical details of the Directors and the senior management of the Group are set out in the section headed "Board of Directors" and "Executive Officers" of this annual report.

Directors' Statement

For The Financial Year Ended 31 December 2018

12 Confirmation of Independence of Non-executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence in writing pursuant to Rule 3.13 of the SEHK Listing Rules and considers all the independent non-executive Directors to be independent.

13 Directors' Service Contracts

Each Executive Director has entered into a service contract with the Company for a term of three (3) years, while each Independent Non-Executive Director is engaged for three (3) years.

Save as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without the payment of compensation (other than statutory compensation).

14 Directors' Remuneration

The Board has the general power of determining the Directors' fees, subject to authorisation of the shareholders of the Company at the annual general meeting each year.

The remuneration and other emoluments are determined by the Board by recommendation of the Remuneration Committee with reference to the duties, responsibilities and performance of the Directors and the results of the Group.

Details of the remuneration of the Directors during the year are set out in Note 9 to the consolidated financial statements.

15 Employee and Remuneration Policies

As at 31 December 2018, there were 856 (2017: 809) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance. The Company has adopted share option scheme and employee performance share plan as incentives to the Directors and other eligible participants. The Group also provides and arranges on-job-training for the employees.

16 Permitted Indemnity Provision

Under the Constitution, every Director or other officers of the Company shall be entitled to be indemnified by the Company against all losses or liabilities incurred or to be incurred by him in the execution and discharge of his duties or in relation thereto, including any liability by him in defending any proceedings, civil or criminal, which relate to anything done or omitted or alleged to have been done or omitted by him an officer or employee of the company. The Company has arranged appropriate insurance cover in respect of legal action against its Directors and officers during the FY2018 and the indemnity provision and Directors' and officers' liability insurance remains in force as of the date of this statement.

Directors' Statement

For The Financial Year Ended 31 December 2018

17 Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares or Debentures of the Company or its Associated Corporations

As at 31 December 2018, the interests or short positions of the Directors and the chief executive of the Company (the "Chief Executive") in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the "SFO") which will have to be notified to the Company and the SEHK pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or, which will be required, recorded in the register of directors' shareholdings kept by the Company under Section 164 of the Singapore Companies Act, Chapter 50 (the "Act"), or, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to notify the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the SEHK Listing Rules (the "Model Code"), will be as follows:

Under Singapore Law

As recorded in the register of directors' shareholdings under Section 164 of the Act, none of the directors holding office at the end of the FY2018 has any interest in the shares of the Company and its related corporations, except as disclosed below:

	Holdings registered in the name of directors		Holdings in which a director is deemed to have an interest	
	As at 1.1.2018	**As at 31.12.2018**	**As at 1.1.2018**	**As at 31.12.2018**
The Company				
- ISDN Holdings Limited				
Teo Cher Koon	-	-	131,055,150	132,155,150
Kong Deyang	2,050,000	2,050,000	-	-
The Holding Company				
- Assetraise Holdings Limited				
Teo Cher Koon	1	1	-	-

By virtue of Section 7 of the Act, Mr Teo Cher Koon is deemed to have an interest in the shares held by the Company in all its subsidiary companies. There were no changes in any of the above-mentioned interests between the end of the FY2018 and 21 January 2019.

Directors' Statement

For The Financial Year Ended 31 December 2018

17 Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares or Debentures of the Company or its Associated Corporations (cont'd)

Under Hong Kong Law

Long positions

Shares and underlying shares of the Company:

		Number of ordinary shares					
Name of director	**Capacity**	**Personal interests**	**Corporate interests**	**Number of underlying shares held under share option**	**Number of underlying shares held under warrant listing**	**Total**	**Approximate percentage of the issued share capital of the Company**
Mr. Teo Cher Koon ("Mr. Teo")	Interest of controlled corporation	-	132,155,150	-	-	132,155,150	33.48%
Mr. Kong Deyang	Beneficial owner	2,050,000	-	-	-	2,050,000	0.52%

Note: The shares were held by Assetraise Holdings Limited, which is beneficially owned by Mr. Teo and his spouse, Ms. Thang Yee Chin. Accordingly, Mr. Teo was deemed to be interested in these 132,155,150 shares by virtue of the SFO.

Save as disclosed above, as at 31 December 2018, none of the Directors or the Chief Executive had registered an interest or short position in the shares or underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under provision of the SFO) or was required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or as otherwise notified to the Company and the SEHK pursuant to the Model Code.

18 Share Options and Performance Share Plan

The Company has the ISDN Performance Share Plan (the "ISDN PSP"). The ISDN PSP was approved and adopted by shareholders on 17 February 2012. The purpose of the ISDN PSP is to reward, retain and motivate employees, directors, controlling shareholders and their associates to perform excellently and to participate in the equity of the Company. The ISDN PSP allows the Company to award fully-paid shares to deserving participants.

The following persons are eligible to participate in the ISDN PSP:

(a) Group employees and Group executive directors;

(b) Group non-executive director; and

Directors' Statement

For The Financial Year Ended 31 December 2018

18 Share Options and Performance Share Plan (cont'd)

(c) Persons who qualify under (a) above and are also controlling shareholders or their associates shall not participate in the ISDN PSP unless their participation and the actual number of shares and terms of any awards to be granted to him, have been approved by independent shareholders in general meeting in separate resolutions, provided always that it shall not be necessary to obtain the approval of independent shareholders for the participation in the ISDN PSP if he is, at the relevant time already a participant.

Other salient information relating to the ISDN PSP is set out below:

(i) The total number of new shares that may be issued pursuant to awards granted under the ISDN PSP, when added to the aggregate number of shares that are issued or are issuable in respect of the ISDN ESOS and such other share-based incentive schemes of the Company, shall not exceed 15% (or such other percentage as may be prescribed or permitted from time to time by the SGX-ST or the SEHK, where applicable) of the total number of issued shares of the Company on the day immediately preceding the date on which the award shall be granted, provide and subject to the rules of the ISDN PSP.

(ii) Awards may only be vested and consequently any shares comprised in such awards shall only be delivered upon the RC being satisfied that the participant has achieved the performance target(s) and that the vesting period (if any) has expired provided always that the RC shall have the absolute discretion to determine the extent to which the shares under that award shall be released on the prescribed performance target(s) being satisfied (whether fully or partially) or exceeded, as the case may be, at the end of the prescribed performance period. No shares under the award shall be released for the portion of the prescribed performance target(s) that is not satisfied by the participant at the end of the prescribed performance period.

(iii) Awards represent the right of a participant to receive fully-paid shares free of charge. A participant is entitled to receive fully-paid shares free of charge subject to certain prescribed performance targets being met.

(iv) The vesting periods of awards will be determined by the RC and may not be subject to such time restrictions before vesting.

(v) The selection of a participant, the number of shares which are the subject of each award to be granted to him, and the prescribed vesting period shall be determined at the absolute discretion of the RC, which shall take into account such criteria as it considers fit, including (but not limited to), in the case of a Group employee or a Group executive director, his rank, job performance, years of service and potential for future development, his contribution to the success and development of the Group and the extent of effort required to achieve the performance target(s) within the performance period and, in the case of a Group non-executive director, his board and board committee appointments and attendance, and his contribution to the success and development of the Group.

(vi) An award shall be vested in a participant for as long as he has fulfilled his performance target(s) and the vesting period (if any) has not expired and notwithstanding a transfer of his employment within any company in the Group or any apportionment of performance target(s) within any company in the Group.

Directors' Statement

For The Financial Year Ended 31 December 2018

18 Share Options and Performance Share Plan (cont'd)

Maximum entitlement of each participant under the ISDN PSP Scheme

The maximum entitlement of each participant under the ISDN PSP Scheme in any 12 month period up to and including the date of grant of the options must not exceed 3% of the total number of Shares in issue.

The remaining life of the scheme

The ISDN PSP Scheme shall be valid and effective for a period of 10 years from the date of adoption until 16 February 2022.

There were no share options granted, exercised, lapsed or cancelled and there was no outstanding share pursuant to the ISDN PSP Scheme in FY2018.

The ISDN Employee Share Option Scheme 2016 (the "ISDN ESOS") was approved and adopted by shareholders on 22 April 2016. The purpose of the ISDN ESOS is to complement the ISDN PSP in the Group's efforts to reward, retain and motivate participants to achieve better performance. The ISDN ESOS was not utilised in FY2018. The ISDN ESOS is primarily a share incentive scheme that provides an opportunity for participants who have contributed significantly to the growth and performance of the Group to participate in the equity of the Company. It recognises the fact that the services of such participants are important to the success and continued well-being of the Group.

The following persons shall be eligible to participate in the ISDN ESOS:

(a) Group employees (including Group executive directors) and Group non-executive directors; and

(b) directors, non-executive directors and employees of any associated company (if and where applicable) subject to the Company having control over such associated company.

Other salient information relating to the ISDN ESOS is set out below:

(i) The aggregate number of shares over which share options ("Options") may be granted on any date under the ISDN ESOS shall not exceed 15% of the total issued shares of the Company (excluding treasury shares) on the day preceding the relevant date of grant.

(ii) For such time as the Company is listed on the SEHK, the aggregate number of shares which may be issued upon exercise of all Options to be granted under the ISDN ESOS and any other schemes adopted by the Company must not exceed 10% of the issued shares of the Company.

(iii) The number of shares over which Options may be granted to a participant for subscription under the ISDN ESOS shall be determined at the absolute discretion of the RC, which shall take into consideration, where applicable, factors such as the participant's rank, job performance, years of service, contribution to the success of the Group, potential for future development of the participant and the extent of effort and resourcefulness required to achieve the service conditions and/or performance targets within the performance and/or service periods.

Directors' Statement

For The Financial Year Ended 31 December 2018

18 Share Options and Performance Share Plan (cont'd)

(iv) The exercise price for each share in respect of which an Option is exercisable shall be determined by the RC at its discretion, subject to the following restrictions: the exercise price must be at least the higher of (i) the closing price of the shares as stated in the SEHK's or the SGX-ST's (whichever is higher) daily quotations sheet on the date of grant, which must be a market day; (ii) the average closing price of the shares as stated in the SEHK's or the SGX-ST's daily quotations sheets for the five (5) consecutive market days immediately preceding the date of grant (whichever is higher); and the nominal value of the shares (if any).

(v) The fair value of employee services received in exchange for the grant of the Options would be recognised as a charge to the profit or loss over the vesting period of an Option with a corresponding credit to reserve account. The total amount of the charge over the vesting period is generally measured by reference to the fair value of each Option granted.

(vi) Options granted with a discount under the ISDN ESOS are subject to a longer vesting period of two (2) years, as compared to a vesting period of one (1) year for those granted at the market price.

(vii) The grant of options shall be accepted within 30 days from the date of offer. Offers of options made to grantees, if not accepted by the closing date, will automatically lapse and shall forthwith be deemed to be null and void and of no effect. Upon acceptance of the offer, the grantee must pay the Company a consideration of S$1.00 or such amount as the Remuneration Committee may decide.

(viii) Any performance targets attached to a grant of options must be achieved before the relevant participant may exercise such options.

Maximum entitlement of each participant under the ISDN ESOS

The maximum entitlement of each participant under the ISDN ESOS in any 12-month period up to and including the date of grant of the options must not exceed 1% of the total number of shares in issue.

Options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the total number of shares issued or to be issued upon exercise of all options already granted and to be granted to such person in a 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the issued share capital of our Company and having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5,000,000, such further grant shall be approved by the shareholders in a general meeting.

The remaining life of the scheme

The ISDN ESOS shall be valid and effective for a period of 10 years from the date of adoption until 22 April 2026. There were no share options granted, exercised, lapsed or cancelled and there was no outstanding share pursuant to the ISDN ESOS in FY2018.

At the date of the annual report, the Company had 53,202,742 Options outstanding under the ISDN ESOS, which represented approximately 13.5% of the Company's shares in issue.

Directors' Statement

For The Financial Year Ended 31 December 2018

19 Audit Committee

The Audit Committee ("AC") comprises all Independent Non-executive Directors. The members of the Audit Committee are:

Lim Siang Kai (Chairman)
Soh Beng Keng
Tan Soon Liang

The duties of the AC, amongst other things, include:

(a) Review the audit plans of the internal and external auditors of the Company, and review the internal auditors' evaluation of the adequacy of the Group's system of internal accounting controls and the assistance given by the Company's management to the external and internal auditors;

(b) Review the quarterly announcement of financial statements and annual financial statements and the auditors' report on the annual financial statements of the Group before submission to the Board;

(c) Review the effectiveness of the Group's material internal controls, including financial, operational and compliance controls and risk management via reviews carried out by the internal auditors;

(d) Meet with the external auditors, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC;

(e) Review legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programs and any reports received from regulators;

(f) Review the cost effectiveness and the independence and objectivity of the external auditors;

(g) Review the nature and extent of non-audit services provided by the external auditors;

(h) Recommend to the Board the external auditors to be nominated, and reviews the scope and results of the audit;

(i) Report actions and minutes of the AC to the Board with such recommendations as the AC considers appropriate;

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

(k) Undertake such other functions and duties as may be agreed to by the AC and the Board.

The AC performs the functions specified by Section 201B of the Act, the SGX-ST Listing Manual and the Code of Corporate Governance and assists the Board in the execution of its corporate governance responsibilities within its established terms of reference.

Directors' Statement

For The Financial Year Ended 31 December 2018

19 Audit Committee (cont'd)

The AC having reviewed the external auditors' non-audit services, was of opinion that there were no non-audit services rendered that would affect the independence and objectivity of the external auditors.

The AC has held 4 meetings since the last Directors' Statement with full attendance from all members. In performing its functions, the AC has also met with the Company's internal and external auditors, without the presence of the Company's management, at least once a year.

The Company confirms that Rules 712 and 715 of the SGX-ST Listing Manual have been complied with.

Further details regarding the AC are disclosed in the Report on Corporate Governance included in the Company's annual report.

The AC has recommended to the Board the nomination of Moore Stephens LLP for their reappointment as independent auditors of the Company at the forthcoming Annual General Meeting.

The AC has reviewed, with the management and the external auditors of the Company, Moore Stephens LLP, the accounting principles and policies adopted by the Group, and discussed audited financial statements of the Group for the FY2018. The financial statements have been audited by the Company's external auditors.

20 Arrangements to Purchase Shares or Debentures

Other than the warrant holdings disclosed above, at no time during the year was the Company or any of its subsidiaries, a part to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

21 Directors' Interests in Contracts of Significance

Other than disclosed above and in Note 34 to the financial statements, no contracts of significance to which the Company or its holding company or any of their respective subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the FY2018 or at any time during the FY2018.

22 Controlling Shareholders' Interests in Contracts of Significance

Save as disclosed below item 24, there was no contract of significance (whether for the provision of services to the Group or not) in relation to the Group's business to which the Company or any of its subsidiaries and controlling shareholders (as defined in the SEHK Listing Rules) of the Company or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Statement

For The Financial Year Ended 31 December 2018

23 Management Contracts

Save for service contracts of the executive Directors, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the FY2018.

24 Continuing Connected Transactions

We have entered into certain transactions with connected persons and these transactions constitute continuing connected transactions within the mean under the SEHK Listing Rules (the "Continuing Connected Transactions").

Other than the connected transactions set out in this section, the Group currently does not have any other on-going connected transaction.

(A) Continuing Connected Transactions exempt from reporting, annual review, announcement and independent shareholders' approval requirement

1. Framework agreement with Resem Technologies

We have entered into a framework agreement on 5 September 2016 with Resem Technologies Pte. Ltd. ("Resem Technologies") pursuant to which we agreed to supply industrial machines such as special purpose machine tools with mechanical components and motion control systems to Resem Technologies. The salient terms of the agreement are set out below:

- ***Contract period:*** The agreement shall commence on the 12 January 2017 (the "Listing Date"), and shall continue up to and including 31 December 2018. Subject to compliance with the requirements of the SEHK Listing Rules or, alternatively, any waivers obtained from strict compliance with such requirements, upon expiration of the above term or subsequent renewal term, the agreements automatically renewed for a successive period of three years thereafter (or such other period permitted under the SEHK Listing Rules).

- ***Pricing:*** the sale price of the industrial machines and motion control systems shall be determined with reference to the prevailing market price of similar products at the time when the order is placed by Resem Technologies Pte. Ltd. with the Group and will be on normal commercial terms or not more favourable terms than those offered by the Group to independent third parties at the relevant time.

Relationship

Resem Technologies is owned by Ms. Teo Sok Hun, a sister of Mr. Teo Cher Koon. She owns 70% shareholding interest in Resem Technologies. She is connected person of our Company under Rule 14A.07(1) of the SEHK Listing Rules.

Historical transaction amount

For the financial years ended 31 December 2018 and 2017, the total purchase amounts paid and payable by Resem Technologies to the Group amounted to Nil and Nil, respectively.

Directors' Statement

For The Financial Year Ended 31 December 2018

24 Continuing Connected Transactions (cont'd)

(A) Continuing Connected Transactions exempt from reporting, annual review, announcement and independent shareholders' approval requirement (cont'd)

1. Framework agreement with Resem Technologies (cont'd)

Proposed annual caps

For the financial year ended 31 December 2018, the total purchase amounts payable to the Group are not expected to exceed S$450,000.

Implication under the SEHK Listing Rules

As the applicable percentage ratios (other than the profits ratio) of such continuing connected transactions are expected to be less than 5% on an annual basis calculated with reference to Rule 14.07 of the SEHK Listing Rules and the annual caps are less than HK$3 million, of such continuing connected transactions are fully exempt from shareholders' approval, annual review and all disclosure requirements of Chapter 14A of the SEHK Listing Rules.

(B) Continuing Connected Transactions exempt from circular, independent financial advice and shareholders' approval requirements

1. License agreement with Maxon Motor

We have entered into a license agreement on 21 October 2016 (and supplemented by a letter agreement dated 21 October 2016) with Maxon Motor AG ("Maxon Motor"), one of our major suppliers and also our connected person at the subsidiary level, and which provides us with the exclusive supply of servo motors, gears, encoders and electronic control system fitting to such servo motors in Singapore, Malaysia, Thailand, Hong Kong, Indonesia, the Philippines and Vietnam. The salient terms of the agreement are set out below:

Contract period: The term of the agreement is two years from 1 January 2017 to 31 December 2018. Under the agreement we may commence negotiations regarding the extension of the agreement at least three months from the end of its term.

Pricing: The price charged by Maxon Motor is based on the price list of Maxon Motor offered to all its non-end users customers (whether independent or otherwise) and valid from time to time. We have the discretion to determine the resale prices of the supplied products.

Minimum purchase quantity: We have agreed to make certain amounts of purchases from Maxon Motor. The minimum purchase amounts from Maxon Motor pursuant to the license agreement with Maxon Motor are CHF2,400,000 and CHF2,600,000 for the years ending 31 December 2017 and 2018 respectively. If we fail to purchase the agreed amounts for two consecutive years, the license and distribution rights under the agreement shall become non-exclusive. As confirmed by our Directors, we were able to meet the minimum purchase requirement during the Track Record Period.

Directors' Statement

For The Financial Year Ended 31 December 2018

24 **Continuing Connected Transactions (cont'd)**

(B) Continuing Connected Transactions exempt from circular, independent financial advice and shareholders' approval requirements (cont'd)

1. License agreement with Maxon Motor (cont'd)

Territory: We are authorised to sell products within Singapore, Malaysia, Thailand, Hong Kong, Indonesia, the Philippines and Vietnam. We have undertaken not to actively acquire customers for supplied products or establish any branch or maintain any storage place outside of our designated geographical area. Maxon Motor is not permitted to sell its products to our competitors or competing businesses within the designated geographical area. Maxon Motor is also required to pass on all inquiries of potential customers in the designated geographic area to us, unless the direct support is requested of, or direct orders are placed with, Maxon Motor.

Credit term: We have been granted a credit term of 60 days.

Warranty and product return: Maxon Motor warrants that the products are free from defects in material and workmanship and that it has obtained product liability insurance. Maxon Motor further agrees to replace, repair or refund the reduced value of any defective products within the warranty period of 12 months, on the condition that its products were not used incorrectly or altered. As confirmed by our Directors, there were no defects in the products supplied by Maxon Motor that would have had a material impact on our business, financial condition or results of operations during the Track Record Period.

Limitation of liabilities: Maxon Motor's liabilities for defects in a particular product are limited to 5% of the total payments made by the relevant subsidiary of the Group to Maxon Motor for that product during the preceding six months. In case of direct claims by third parties against Maxon Motor, the Group has to indemnify Maxon Motor to the extent that the claim exceeds the agreed maximum thresholds for warranty or liability. As confirmed by our Directors, there was no such claim by third parties against Maxon Motor resulting in the Group's indemnifying Maxon Motor that would have had a material impact on our business, financial condition or results of operations during the Track Record Period.

Termination: The agreement may be terminated by either party by serving written notice upon an occurrence of any event of default, including the liquidation, bankruptcy or composition of any party.

Logistics and delivery: We bear the transportation costs and the risk of the products being damaged during transit.

Relationship

Maxon Motor is an associate of Interelectric AG ("Interelectric"). Interelectric owns 50% of the shareholding interest in Maxon Suzhou and Maxon Shanghai and hence, Maxon Motor is a connected person of our Company at the subsidiary level.

Directors' Statement

For The Financial Year Ended 31 December 2018

24 Continuing Connected Transactions (cont'd)

(B) Continuing Connected Transactions exempt from circular, independent financial advice and shareholders' approval requirements (cont'd)

1. License agreement with Maxon Motor (cont'd)

<u>Historical transaction amount</u>

For the financial years ended 31 December 2018 and 2017, the total purchase amount paid and payable by the Group to Maxon Motor amounted to S$38,092,000 and S$38,282,000, respectively.

<u>Proposed annual caps</u>

For the financial year ended 31 December 2019, the total purchase amounts payable by the Group to Maxon Motor are not expected to exceed S$51,600,000.

As Maxon Motor is a connected person of our Company at the subsidiary level and in light of the view of our Directors (including the independent non-executive Directors) as described under the paragraph headed "Confirmation from Our Directors in relation to Continuing Connected Transactions below, the transactions as contemplated under the license agreement with Maxon Motor are subject to the reporting, annual review and announcement requirements but exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the SEHK Listing Rules.

2. Service agreements with Maxon Motor

We have entered into two service agreements on 15 February 2008 and 28 January 2014, respectively (and supplemented by a letter agreement dated 1 September 2016) with Maxon Motor, and which are in relation to the provision of information technology services by Maxon Motor to Maxon Suzhou. The salient terms of the agreements are set out below:

Contract period: The service agreements are valid up to and including 31 December 2018, or such other earlier date as the parties to the agreements may otherwise agree in writing.

Pricing: The service fee payable to Maxon Motor by Maxon Suzhou shall not be less favourable than those charged against independent third parties of Maxon Motor from time to time.

<u>Relationship</u>

Maxon Motor is an associate of Interelectric AG ("Interelectric"). Interelectric owns 50% of the shareholding interest in Maxon Suzhou and Maxon Shanghai and hence, Maxon Motor is a connected person of our Company at the subsidiary level.

<u>Historical transaction amount</u>

For the financial years ended 31 December 2018 and 2017, the total service fee paid and payable by the Group to Maxon Motor amounted to S$171,000 and S$143,000, respectively.

Directors' Statement

For The Financial Year Ended 31 December 2018

24 **Continuing Connected Transactions (cont'd)**

(B) **Continuing Connected Transactions exempt from circular, independent financial advice and shareholders' approval requirements (cont'd)**

2. Service agreements with Maxon Motor (cont'd)

Proposed annual caps

For the financial year ended 31 December 2018, the total service fees payable by the Group to Maxon Motor are not expected to exceed S$300,000.

Implication under the SEHK Listing Rules

As Maxon Motor is a connected person of our Company at the subsidiary level and in light of the view of our Directors (including the independent non-executive Directors) as described under the paragraph headed "Confirmation from our Directors in relation to Continuing Connected Transactions" below, the transactions as contemplated under each of the framework agreements with Maxon Motor are subject to the reporting, annual review and announcement requirements but exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the SEHK Listing Rules.

Confirmation from Directors in relation to Continuing Connected Transactions

The Company's external auditor was engaged to report on the Group's continuing connected transactions in accordance with Singapore Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The external auditor has issued a letter containing the findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Rule 14A.56 of the SEHK Listing Rules:

- Nothing has come to the external auditor's attention that causes the external auditor to believe that the disclosed continuing connected transactions have not been approved by the Company's Board;
- For transactions involving the provision of goods or services by the Group, nothing has come to the external auditor's attention that causes the external auditor to believe that the disclosed continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group;
- Nothing has come to the external auditor's attention that causes the external auditor to believe that the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

Directors' Statement

For The Financial Year Ended 31 December 2018

24 Continuing Connected Transactions (cont'd)

(B) Continuing Connected Transactions exempt from circular, independent financial advice and shareholders' approval requirements (cont'd)

2. Service agreements with Maxon Motor (cont'd)

- With respect to the aggregate amount of each of the continuing connected transactions, nothing has come to the external auditor's attention that causes the external auditor to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

A copy of the external auditor's letter has been provided by the Company to the SEHK. In addition, all of the continuing connected transactions of the Company disclosed herein constitute related party transactions set out in Note 34 to the financial statements. All other related party transactions as described in Note 34 to the financial statements do not fall under the definition of "continuing connected transaction" or "connected transaction" under the SEHK Listing Rules.

The Independent Non-executive Directors of the Company have reviewed these transactions and confirmed that the continuing connected transactions have been entered into:

- In the ordinary and usual course of business of the Group;
- On normal commercial terms or better; and
- According to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company confirms that the Company has complied with the disclosure requirements under Chapter 14A of the SEHK Listing Rules in respect of the continuing connected transactions set out above.

25 Related Party Transactions

The Group entered into certain transactions with its related parties during the FY2018.

Details of the Related Party Transactions are set out in Note 34 to the financial statements. Except as disclosed above, none of the related party transactions constitute a connected transaction or continuing connected transaction under the SEHK Listing Rules.

26 Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2018, the persons or entities who have interests or short positions in the shares and underlying shares of the Company which have been disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO are as follows:

Directors' Statement

For The Financial Year Ended 31 December 2018

26 Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares (cont'd)

		Number of ordinary shares					
Name	Capacity	Personal interests	Corporate interests	Number of underlying shares held under share option scheme	Number of underlying shares held under warrant listing	Total	Approximate percentage of the issued share capital of the Company
Assetraise Holdings Limited	Beneficial owner	132,155,150	-	-	-	132,155,150	33.48%
Thang Yee Chin (note)	Interest of controlled corporation	-	132,155,150	-	-	132,155,150	33.48%
Karl Walter Braun	Beneficial owner	20,000,000	-	-	-	20,000,000	5.07%

Note:

Assetraise Holdings Limited, which is beneficially owned by Mr. Teo Cher Koon and his spouse Ms. Thang Yee Chin, are the beneficial owner of 132,155,150 Shares. By virtue of the SFO, Mr. Teo Cher Koon and his spouse Ms. Thang Yee Chin, are deemed to be interested in all of the Shares held by Assetraise Holdings Limited.

Save as disclosed above, as at 31 December 2018, the Directors are not aware of any other persons (who is not a Director or the Chief Executive) had an interest or short position in the shares or underlying shares of the Company (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the SEHK pursuant to Divisions 2 and 3 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under provision of the SFO) or was required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or as otherwise notified to the Company and the SEHK pursuant to the Model Code.

27 Pre-Emptive Rights

There are no provisions for pre-emptive rights under the constitution of the Company or laws of Singapore where the Company was incorporated.

28 Corporate Governance

The Company has complied with the principles and guidelines as set out in the code of Corporate Governance issued by the Monetary Authority of Singapore on 2 May 2012 and the Corporate Governance code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the SEHK Listing Rules, where applicable. Please refer to the section headed "Corporate Governance Report" in this annual report.

Directors' Statement

For The Financial Year Ended 31 December 2018

29 Compliance with Singapore Listing Manual and Hong Kong Model Code for Securities Transaction

In compliance with Rules 1207(19) of the Listing Manual (the "Listing Manual") of the Singapore Exchange Securities Trading Limited (the "SGX-ST") and the Model Code, the Company has adopted its own internal compliance code pursuant to the SGX-ST's and the Model Code's best practices on dealings in securities on terms no less exacting than the required standards of the Model Code and these are applicable to all its employees in relation to their dealings in the Company's securities. In furtherance, specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the FY2018.

The Company and its employees are not allowed to deal in the Company's shares during the period commencing 30 days immediately before the announcement of the Company's quarterly results and 60 days immediately before the announcement of the Company's full year results, and ending on the date of the announcement of the relevant results.

The Directors, management and executives of the Group are also expected to observe relevant insider trading laws at all times, even when dealing in securities within permitted trading period or they are in possession of unpublished price-sensitive information of the Company and they are not to deal in the Company's securities on short-term considerations.

30 Major Customers and Suppliers

For the FY2018, the Group sold less than 30% of its goods and services to its 5 largest customers.

For the FY2018, purchases attributable to the Group's largest supplier accounted for approximately 19.7% of the Group's total purchases and aggregate purchases attributable to the five largest suppliers of the Group accounted for approximately 57% of the Group's total purchases.

To the knowledge of the Directors, none of the Directors, or the irrespective close associates, or shareholders owning more than 5% of the Company's issued share capital had any beneficial interests in any of the five largest customers or suppliers.

31 Tax Relief

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holding of the Shares.

If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising any rights in relation to, the Shares, they are advised to consult a professional in taxation.

32 Environmental Policies and Performance

The Group continuously endeavours to promote environmental and social responsibility to employees and contribute the community. The Group is always in compliance with all the relevant laws and regulations. As a social responsible enterprise, the Group should keep promoting and enhancing the relevant environmental and social sustainable development of the regions and community.

Directors' Statement

For The Financial Year Ended 31 December 2018

32 Environmental Policies and Performance (cont'd)

As required by the SGX-ST Listing Manual and the SEHK Listing Rules, the Company is required to report on environmental, social and governance issues ('"ESG Information") on an annual basis during the same period covered in the Annual Report. As the Company requires more time to prepare and compile the relevant ESG Information, the Company will publish the ESG Information separately and in any event no later than three (3) months after the publication of the Annual Report. The Company will notify the shareholders by way of announcement via SGXNET, the website of the SEHK and the Company's website at www.isdnholdings.com/ investorrelations.html for the publication of the ESG Information in due course.

33 Donations

The Group made charitable donation of S$10,000 (2017:nil) during the year.

34 Directors' Interests in a Competing Business

During the year and up to the date of this statement, none of the Directors are considered to have any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group and have any other conflicts of interest, as required to be disclosed under the SEHK Listing Rules.

35 Deed of Non-Competition

The Company has received the written confirmations from Mr. Teo Cher Koon and his spouse Ms Thang Yee Chin, in respect of the compliance with the provisions of the deed of non-competition ("Deed of Non-competition"), entered into between the controlling shareholders and the Company as set out in the section headed "Relationship with Controlling Shareholders - Non-Competition Undertaking" of the Prospectus, during the year and up to the date of this annual report.

The Independent Non-executive Directors had reviewed and confirmed that the controlling shareholders have complied with the Deed of Non-competition and the Deed of Non-competition has been enforced by the Company in accordance with its terms during the year and up to the date of this annual report.

36 Equity-Linked Agreement

Other than the ISDN PSP and ISDN ESOS disclosed above, no equity-linked agreements were entered into by the Company during the FY2018 or subsisted at the end of the FY2018, which required the Company to issue any of its shares.

37 Sufficiency of Public Float

Upon dual listing of the shares of the Company on the Main Board of the SEHK, the Company shall maintain a sufficient public float from the date of listing to the date of this annual report. Based on the information that is publicly available to the Company and to the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained the prescribed minimum percentage of public float since 12 January 2017 (i.e. the date of dual listing) to the date of this annual report as required under the SEHK Listing Rules.

Directors' Statement

For The Financial Year Ended 31 December 2018

38 Independent Auditor

The Auditors, Moore Stephens LLP, have expressed their willingness to accept re-appointment. Moore Stephens LLP will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution for the re-appointment of Moore Stephens LLP as the auditor of the Company is expected to be proposed at the forthcoming annual general meeting.

The Board of Directors of the Company has, on the date of this statement, authorised these financial statements for issue.

On behalf of the Board of Directors,

....

TEO CHER KOON
Managing Director and President

LIM SIANG KAI
Chairman

Singapore
15 March 2019

Independent Auditor's Report

TO THE MEMBERS OF ISDN HOLDINGS LIMITED (Incorporated in Singapore)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ISDN Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) (SFRS(I)s) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for Opinion

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

Key Audit Matters

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

Independent Auditor's Report

TO THE MEMBERS OF ISDN HOLDINGS LIMITED (Incorporated in Singapore)

Key Audit Matters (cont'd)

Key Audit Matter	How our audit addressed the key audit matter
Impairment of trade receivables As at 31 December 2018, the carrying amount of the Group's trade receivables, net of allowance for expected credit loss ("ECL") of S$1,160,000 amounted to S$73,010,000, which represented 68% of its current assets. The collectability of trade receivables is a key element of the Group's working capital management, and is managed on an ongoing basis by management. The Group determines the ECL of trade receivables by making debtor-specific assessment of expected impairment loss for overdue trade receivables and using a provision matrix for remaining trade receivables that is based on the Group's historical observed default rates, customers' ability to pay and adjusted with forward-looking information. The assessment of correlation between historical observed default rates, forecast economic conditions and expected credit losses require the management to exercise significant judgement. Accordingly, we determined this as a key audit matter. The Group's accounting policies on allowance for impairment and the critical accounting estimates and judgements thereon are disclosed in Note 3(k) and Note 4(ii)(c) to the financial statements, respectively.	Our audit procedures included, amongst others, obtaining an understanding of the Group's processes and key controls relating to the monitoring of trade receivables and considering their aging to identify collection risks. We performed audit procedures including, amongst others, reviewing the reasonableness of significant judgement used by the management in assessing the recoverability of trade receivables and reviewing management's assessment of the recoverability of long outstanding and overdue trade receivables. We tested the reasonableness of management's assumptions and inputs used to develop the provision matrix, through analyses of ageing of trade receivables and historical credit loss experience, and reviewed data and information that management has used, including consideration of forward-looking information based on specific economic data. We checked the arithmetic accuracy of management's computation of the ECL. We checked to subsequent receipts from major debtors after the year end. We obtained documentary evidence, representation and explanations from management to assess the recoverability of long outstanding debts, where applicable. In addition, we reviewed the adequacy of the disclosures relating to allowance for impairment loss on trade receivables and credit risk in Note 19 and Note 35(a) to the financial statements, respectively.
Impairment of goodwill As at 31 December 2018, the Group has goodwill that arose from various acquisitions with an aggregate carrying amount of S$12,227,000. The goodwill has been allocated to the relevant cash generating unit ("CGU") under the respective operating segments as disclosed in Note 15 to the financial statements. As part of its annual impairment testing, management prepares value in use calculations ("VIU") to arrive at the recoverable amount of each CGU. These VIUs are based on cash flow forecasts of the CGUs, the preparation of which requires management to use assumptions and estimates relating to budgeted growth margin, revenue growth rate, terminal growth rate and discount rate of each CGU. Accordingly, we determined this as a key audit matter. The Group's accounting policies on impairment of goodwill is disclosed in Note 3(g) to the financial statements. The critical accounting estimates and judgements made in arriving at the assumptions used in the preparation of the cash flow forecasts by management are disclosed in Note 4(ii)(a) to the financial statements.	Our audit procedures included, amongst others, evaluating management's assumptions applied in the cash flow forecasts taking into consideration our knowledge of the CGUs' operations, performance and industry benchmarks. We also obtained an understanding of management's planned strategies on revenue growth and cost initiatives for these CGUs. We tested the robustness of management's forecast by comparing previous forecasts to actual results. In addition, we also validated key inputs used in the discounted cash flow forecasts, such as growth rates and discount rates, to historical data and external market data to assess the reasonableness of management's forecast. We tested management's sensitivity analysis of the recoverable amount of the CGUs based on changes to the key assumptions used in the cash flow forecasts. We also checked the mathematical accuracy of the underlying calculations. In addition, we reviewed the adequacy of the disclosure relating to impairment testing of goodwill in Note 15 to the financial statements.

Independent Auditor's Report

TO THE MEMBERS OF ISDN HOLDINGS LIMITED (Incorporated in Singapore)

Key Audit Matters (cont'd)

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td> Service concession arrangements
The Group has certain mini-hydropower plant projects under service concession arrangements entered into with local government authorities or agencies (the "Grantor") in Indonesia. The Group applies SFRS(I) INT 12 Service Concession Arrangements in its recognition of the consideration received from the Grantor in exchange for the construction services as financial asset for service concession arrangements within the scope of SFRS(I) INT 12.
The accounting for service concession arrangements is complex and involves significant judgment, particularly in relation to the identification and application of the appropriate accounting treatment for the recording of revenue and associated assets under SFRS(I) INT 12. In addition, the Group allocates the consideration for the construction services provided under the concession arrangements by reference to their relative fair values. The determination of the fair values of the financial receivables under these concession agreements includes complex calculations and significant estimations required such as discounts rates, future cash flows and other factors used in the determination of the amortised cost of financial asset and corresponding financial income. Accordingly, we determined this as a key audit matter.
The Group's accounting policies on service concession arrangements is disclosed in Note 3(k) to the financial statements. The critical accounting estimates and judgements made in the determination of the fair value of the service concession receivables by management are disclosed in Note 4(ii)(d) to the financial statements. </td>
<td> We evaluated the Group's process in assessing the applicability of SFRS(I) INT 12 and reviewed the associated agreements to assess whether these agreements are appropriately identified as service concession arrangements within the scope of SFRS(I) INT 12.
We obtained an understanding of management process for measuring construction revenue and service concession receivables. We reviewed the contractual terms of the service concession arrangement and inspected the underlying documentation to ascertain the progress of work including any material changes to contractual terms and costs to complete.
We reviewed management's estimation in determining the fair values of the service concession receivables including the discount rates, estimates of future cash flows and other factors are used in the determination of the amortised cost of financial asset and corresponding finance income.
In addition, we have assessed the appropriateness of the relate accounting entries made by management and reviewed the adequacy of the disclosure made relating to service concession arrangements in Note 29 to the financial statements. </td></tr>
</table>

Other Information

Management is responsible for the 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

TO THE MEMBERS OF ISDN HOLDINGS LIMITED (Incorporated in Singapore)

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.

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

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

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

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

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

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

Independent Auditor's Report

TO THE MEMBERS OF ISDN HOLDINGS LIMITED (Incorporated in Singapore)

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Ng Chiou Gee Willy.

Moore Stephens LLP
Public Accountants and
Chartered Accountants

Singapore

15 March 2019

Consolidated Statement of Comprehensive Income

For The Financial Year Ended 31 December 2018

	Notes	Group 2018 S$'000	Group 2017 S$'000
Revenue	5	301,990	291,963
Cost of sales		(221,441)	(218,198)
Gross profit		80,549	73,765
Other operating income	6	4,933	4,123
Distribution costs		(25,672)	(24,147)
Administrative expenses		(30,859)	(31,385)
Net impairment losses on financial assets	35	(2,503)	(13)
Other operating expenses		(2,085)	(3,397)
Finance costs	7	(1,035)	(812)
Share of profits of associates, net		368	615
Profit before income tax	8	23,696	18,749
Income tax	10	(7,118)	(5,069)
Profit for the year		16,578	13,680
Other comprehensive income, net of tax			
Items that may be subsequently reclassified to profit or loss:			
- Net fair value changes on cash flow hedge		(101)	-
- Exchange differences on translation		(1,727)	(917)
Total comprehensive income for the year		14,750	12,763
Profit for the year attributable to:			
Equity holders of the Company		10,946	9,489
Non-controlling interests		5,632	4,191
		16,578	13,680
Total comprehensive income for the year attributable to:			
Equity holders of the Company		9,417	8,685
Non-controlling interests		5,333	4,078
		14,750	12,763
Earnings per share:	11		
Basic		2.77	2.41
Diluted		2.77	2.41

The accompanying notes form an integral part of the financial statements

Consolidated Statement of Financial Position

As At 31 December 2018

	Notes	Group 31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
ASSETS				
Non-current Assets				
Property, plant and equipment	12	39,314	27,326	27,682
Investment properties	13	497	504	522
Land use rights	14	1,270	1,338	1,376
Goodwill	15	12,227	11,686	11,686
Associates	17	6,136	18,352	11,649
Service concession receivables	19	30,233	-	-
Deferred tax assets	26	139	316	59
Total non-current assets		89,816	59,522	52,974
Current Assets				
Inventories	18	55,183	50,159	38,902
Trade and other receivables	19	96,225	89,164	86,288
Cash and bank balances	20	41,877	38,303	38,683
Total current assets		193,285	177,626	163,873
Total Assets		283,101	237,148	216,847
EQUITY AND LIABILITIES				
Equity attributable to owners of the Company				
Share capital	21	70,984	70,981	62,408
Warrants issue	22	-	3,384	3,384
Reserves	23	72,767	62,255	55,425
		143,751	136,620	121,217
Non-controlling interests	16	38,457	15,206	14,927
Total Equity		182,208	151,826	136,144
Non-current Liabilities				
Bank borrowings	24	11,842	159	263
Finance lease liabilities	25	224	82	186
Deferred tax liabilities	26	657	266	-
Total non-current liabilities		12,723	507	449
Current Liabilities				
Bank borrowings	24	16,423	14,302	13,052
Finance leases liabilities	25	81	160	150
Trade and other payables	27	69,380	68,916	65,478
Current tax liabilities		2,286	1,437	1,574
Total current liabilities		88,170	84,815	80,254
Total Liabilities		100,893	85,322	80,703
Total Equity and Liabilities		283,101	237,148	216,847

The accompanying notes form an integral part of the financial statements

Statement of Financial Position

As At 31 December 2018

	Notes	Company 31 December 2018 S$'000	Company 31 December 2017 S$'000	Company 1 January 2017 S$'000
ASSETS				
Non-current Assets				
Property, plant and equipment		30	-	-
Subsidiaries	16	50,410	36,653	36,653
Associates	17	124	124	31
Total non-current assets		50,564	36,777	36,684
Current Assets				
Other receivables	19	363	115	74
Amount owing by subsidiaries	16	46,436	42,049	28,312
Dividend receivable		9,918	6,938	7,750
Cash and bank balances	20	3,023	2,692	346
Total current assets		59,740	51,794	36,482
Total Assets		110,304	88,571	73,166
EQUITY AND LIABILITIES				
Capital and Reserves				
Share capital	21	70,984	70,981	62,408
Warrants issue	22	-	3,384	3,384
Reserves	23	11,888	4,650	2,715
Total Equity		82,872	79,015	68,507
Non-current Liabilities				
Bank borrowings	24	11,455	-	-
Total non-current liabilities		11,455	-	-
Current Liabilities				
Bank borrowings	24	2,291	3,000	-
Other payables	27	13,686	6,556	4,659
Total current liabilities		15,977	9,556	4,659
Total Liabilities		27,432	9,556	4,659
Total Equity and Liabilities		110,304	88,571	73,166

The accompanying notes form an integral part of the financial statements

Consolidated Statement of Changes in Equity

For The Financial Year Ended 31 December 2018

	Attributable to equity holders of the Company								
	Share capital S$'000	Warrants issue S$'000	Merger reserve S$'000	Exchange translation reserve S$'000	Other reserves S$'000	Retained earnings S$'000	Total S$'000	Non-controlling interests S$'000	Total equity S$'000
Group									
Balance at 1 January 2018	70,981	3,384	(436)	(802)	4,921	58,572	136,620	15,206	151,826
Adjustment on initial application of SFRS(I) 9 (Note 2(a) C(iii))	-	-	-	-	-	(254)	(254)	(96)	(350)
Adjusted balance at 1 January 2018	70,981	3,384	(436)	(802)	4,921	58,318	136,366	15,110	151,476
Profit for the year	-	-	-	-	-	10,946	10,946	5,632	16,578
Other comprehensive loss for the year	-	-	-	(1,428)	(101)	-	(1,529)	(299)	(1,828)
Total comprehensive (loss)/income for the year	-	-	-	(1,428)	(101)	10,946	9,417	5,333	14,750
Shares issued pursuant to exercise of warrants (Note 21)	3	(3)	-	-	-	-	-	-	-
Warrants expired (Note 22)	-	(3,381)	-	-	-	3,381	-	-	-
Dividends to non-controlling interests	-	-	-	-	-	-	-	(3,893)	(3,893)
Acquisition of a subsidiary with non-controlling interests (Note 16(e))	-	-	-	-	-	-	-	22,156	22,156
Disposal of subsidiaries (Note 16(d))	-	-	-	177	-	80	257	(249)	8
Payment of dividends (Note 28)	-	-	-	-	-	(2,289)	(2,289)	-	(2,289)
Balance at 31 December 2018	70,984	-	(436)	(2,053)	4,820	70,436	143,751	38,457	182,208

The accompanying notes form an integral part of the financial statements

Consolidated Statement of Changes in Equity

For The Financial Year Ended 31 December 2018

	Attributable to equity holders of the Company								
	Share capital S$'000	Warrants issue S$'000	Merger reserve S$'000	Exchange translation reserve S$'000	Other reserves S$'000	Retained earnings S$'000	Total S$'000	Non-controlling interests S$'000	Total equity S$'000
Group									
Balance at 1 January 2017, as previously reported	62,408	3,384	(436)	(1,269)	4,694	52,436	121,217	14,927	136,144
Effect of adoption of new accounting standards (Note 2(a) A)	-	-	-	1,269	-	(1,269)	-	-	-
Adjusted balance at 1 January 2017	62,408	3,384	(436)	-	4,694	51,167	121,217	14,927	136,144
Profit for the year	-	-	-	-	-	9,489	9,489	4,191	13,680
Other comprehensive loss for the year	-	-	-	(802)	(2)	-	(804)	(113)	(917)
Total comprehensive (loss)/income for the year	-	-	-	(802)	(2)	9,489	8,685	4,078	12,763
Increase in share capital arising from public share offer (Note 21):									
Proceeds from shares issued	9,373	-	-	-	-	-	9,373	-	9,373
Share issue expense	(800)	-	-	-	-	-	(800)	-	(800)
Dividends to non-controlling interests	-	-	-	-	-	-	-	(4,264)	(4,264)
Acquisition of non-controlling interests	-	-	-	-	-	(522)	(522)	522	-
Deregistration of subsidiaries	-	-	-	-	(51)	-	(51)	(57)	(108)
Payment of dividends (Note 28)	-	-	-	-	-	(1,282)	(1,282)	-	(1,282)
Transfer to other reserves	-	-	-	-	280	(280)	-	-	-
Balance at 31 December 2017	70,981	3,384	(436)	(802)	4,921	58,572	136,620	15,206	151,826

The accompanying notes form an integral part of the financial statements

Consolidated Statement of Cash Flows

For The Financial Year Ended 31 December 2018

	2018 S$'000	2017 S$'000
Cash Flows from Operating Activities		
Profit before income tax	23,696	18,749
Adjustments for:		
Amortisation of land use rights	33	34
Trade receivables written off	135	156
Depreciation of property, plant and equipment	2,162	2,211
Depreciation of investment properties	19	19
Allowance for inventory obsolescence	1,028	1,309
Allowance for impairment loss on trade and other receivables	2,521	67
Gain on disposal/deregistration of interest in subsidiaries	(180)	(101)
Gain on disposal of property, plant and equipment, net	(155)	(5)
Loss on deemed disposal of an associate	77	-
Property, plant and equipment written off	15	4
Inventories written off	420	138
Write back of allowance for inventory obsolescence	(232)	(5)
Write back of allowance for impairment loss on trade receivables	(18)	(54)
Interest expense	1,035	812
Interest income	(252)	(108)
Share of profits of associates, net	(368)	(615)
Foreign currency on translation of foreign operations	(1,339)	1,194
Operating cash flow before working capital changes	28,597	23,805
Changes in working capital:		
Inventories	(6,377)	(12,699)
Trade and other receivables	752	(4,719)
Trade and other payables	(4,497)	4,362
Cash generated from operations	18,475	10,749
Interest paid	(686)	(812)
Interest received	252	108
Income tax paid	(5,708)	(5,197)
Net cash generated from operating activities	12,333	4,848

Consolidated Statement of Cash Flows

For The Financial Year Ended 31 December 2018

	2018 S$'000	2017 S$'000
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(2,632)	(2,095)
Additions to investment properties	(12)	-
Proceeds from disposal of property, plant and equipment	320	36
Net cash inflow on disposal of a subsidiary (Note 16)	563	-
Acquisition of subsidiary, net of cash (Note 16)	(5,297)	-
Loans to associates (Note 17)	(7,468)	(9,236)
Funds to an investee company	-	(56)
Dividend from associates	446	297
Repayment from associates	464	496
Promissory note issued	-	(1,280)
Amount due from investor	-	(662)
Net cash used in investing activities	(13,616)	(12,500)
Cash Flows from Financing Activities		
Dividends to equity holders of the Company	(2,289)	(1,282)
Dividends to non-controlling interests	(6,354)	(1,802)
Proceeds from bank loans	23,491	15,555
Proceeds from exercise of warrants	3	-
Repayments of bank loans	(11,214)	(15,121)
Proceeds from trust receipts and other borrowings, net	1,538	711
Repayments of finance leases, net	(183)	(94)
(Increase)/Decrease in fixed deposit pledged and restricted bank deposit	(4,372)	1,141
Proceeds from public share offer - net (Note 21)	-	8,573
Net cash generated from financing activities	620	7,681
Net (decrease)/increase in cash and cash equivalents	(663)	29
Cash and cash equivalents at beginning of the year	38,053	37,292
Effect of currency translation on cash and cash equivalents	(135)	732
Cash and cash equivalents at end of the year (Note 20)	37,255	38,053

The accompanying notes form an integral part of the financial statements

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

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

1 General

ISDN Holdings Limited (the "Company") is a public limited liability company incorporated and domiciled in Singapore and is dual listed on the Mainboard of the Singapore Exchange Securities Trading Limited ("SGX-ST") and the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK"). The Company's registered office and principle place of business is No. 10 Kaki Bukit Road 1, #01-30 KB Industrial Building, Singapore 416175.

The immediate and ultimate holding company is Assetraise Holdings Limited, a company incorporated in the British Virgin Islands. Assetraise Holdings Limited is beneficially owned entirely by Mr Teo Cher Koon, the Managing Director and President of the Company and his spouse, Ms Thang Yee Chin.

The Company's principal activities included the provision of technical consultancy, training services, and management services. The principal activities of its subsidiaries and associates are set out in Notes 16 and 17.

2 Application of Singapore Financial Reporting Standards (International) ("SFRS(I)s")

The Group has adopted SFRS(I) on 1 January 2018 and has prepared its first set of financial statements under SFRS(I) for the financial year ended 31 December 2018. As a result, the audited financial statements for the year ended 31 December 2017 was the last set of financial statements prepared under the previous Financial Reporting Standards in Singapore ("SFRS").

In adopting SFRS(I), the Group is required to apply all the specific transition requirements in SFRS(I) 1 *First-time Adoption of Singapore Financial Reporting Standards (International)*. Under SFRS(I) 1, these financial statements are required to be prepared using accounting policies that comply with each SFRS(I) effective at the end of the current reporting period. The same accounting policies are applied throughout all periods presented in these financial statements, subject to the mandatory exceptions and optional exemptions under SFRS(I) 1.

<u>Optional exemptions applied on adoption of SFRS(I)</u>

For first-time adopters, SFRS(I) 1 allows the exemptions from the retrospective application of certain requirements under SFRS(I). The Group has applied the following exemptions:

a) SFRS(I) 3 *Business Combination*s has not been applied to business combinations that occurred before the date of transition on 1 January 2017. The same classification as in its previous SFRS financial statements has been adopted.

Notes to the Financial Statements
For The Financial Year Ended 31 December 2018

2 Application of Singapore Financial Reporting Standards (International) ("SFRS(I)s") (cont'd)

Optional exemptions applied on adoption of SFRS(I) (cont'd)

b) SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates* has not been applied retrospectively to fair value adjustments and goodwill from business combinations that occurred before the date of transition to SFRS(I) on 1 January 2017. Such fair value adjustments and goodwill continue to be accounted for using the same basis as under SFRS 21.

c) Cumulative translation differences for all foreign operations are reset to zero as at the date of transition to SFRS(I) on 1 January 2017.

d) The Group has elected to apply the requirements in the SFRS(I) 1-23 *Borrowing Costs* from the date of transition to SFRS(I) on 1 January 2017. Borrowing costs that were accounted for previously under SFRS prior to date of transition are not restated.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

2 Application of Singapore Financial Reporting Standards (International) ("SFRS(I)s") (cont'd)

(a) First-time adoption of SFRS(I) and adoption of new standards

Reconciliation of the Group's equity

Consolidated statement of financial position

	Note	31 December 2017 SFRS	SFRS(I) 1	SFRS(I) 15	SFRS(I)s	1 January 2018 SFRS(I) 9	SFRS(I)s
		S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
ASSETS							
Non-current Assets							
Property, plant and equipment		27,326	-	-	27,326	-	27,326
Investment properties		504	-	-	504	-	504
Land use rights		1,338	-	-	1,338	-	1,338
Goodwill		11,686	-	-	11,686	-	11,686
Associates		18,352	-	-	18,352	-	18,352
Deferred tax assets		316	-	-	316	-	316
Total non-current assets		59,522	-	-	59,522	-	59,522
Current Assets							
Inventories	Bi.	50,003	-	156	50,159	-	50,159
Trade and other receivables	Ci(a).	89,164	-	-	89,164	(350)	88,814
Cash and bank balances		38,303	-	-	38,303	-	38,303
Total current assets		177,470	-	156	177,626	(350)	177,276
Total Assets		236,992	-	156	237,148	(350)	236,798
EQUITY AND LIABILITIES							
Equity attributable to owners of the Company							
Share capital		70,981	-	-	70,981	-	70,981
Warrants issue		3,384	-	-	3,384	-	3,384
Reserves	Ai. Bi. Ci(a). Cii.	62,313	-	(58)	62,255	(254)	62,001
		136,678	-	(58)	136,620	(254)	136,366
Non-controlling interests	Bi.	15,214	-	(8)	15,206	(96)	15,110
Total Equity		151,892	-	(66)	151,826	(350)	151,476
Non-current Liabilities							
Bank borrowings		159	-	-	159	-	159
Finance lease liabilities		82	-	-	82	-	82
Deferred tax liabilities		266	-	-	266	-	266
Total non-current liabilities		507	-	-	507	-	507
Current Liabilities							
Bank borrowings		14,302	-	-	14,302	-	14,302
Finance leases liabilities		160	-	-	160	-	160
Trade and other payables	Bi.	68,694	-	222	68,916	-	68,916
Current tax liabilities		1,437	-	-	1,437	-	1,437
Total current liabilities		84,593	-	222	84,815	-	84,815
Total Liabilities		85,100	-	222	85,322	-	85,322
Total Equity and Liabilities		236,992	-	156	237,148	(350)	236,798

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

2 Application of Singapore Financial Reporting Standards (International) ("SFRS(I)s") (cont'd)

(a) First-time adoption of SFRS(I) and adoption of new standards (cont'd)

Reconciliation of the Group's equity (cont'd)

Consolidated statement of financial position

	Note	1 January 2017			
		SFRS S$'000	SFRS(I) 1 S$'000	SFRS(I) 15 S$'000	SFRS(I)s S$'000
ASSETS					
Non-current Assets					
Property, plant and equipment		27,682	-	-	27,682
Investment properties		522	-	-	522
Land use rights		1,376	-	-	1,376
Goodwill		11,686	-	-	11,686
Associates		11,649	-	-	11,649
Deferred tax assets		59	-	-	59
Total non-current assets		52,974	-	-	52,974
Current Assets					
Inventories		38,902	-	-	38,902
Trade and other receivables		86,288	-	-	86,288
Cash and bank balances		38,683	-	-	38,683
Total current assets		163,873	-	-	163,873
Total Assets		216,847	-	-	216,847
EQUITY AND LIABILITIES					
Equity attributable to owners of the Company					
Share capital		62,408	-	-	62,408
Warrants issue		3,384	-	-	3,384
Reserves	Ai.	55,425	-	-	55,425
		121,217	-	-	121,217
Non-controlling interests		14,927	-	-	14,927
Total Equity		136,144	-	-	136,144
Non-current Liabilities					
Bank borrowings		263	-	-	263
Finance lease liabilities		186	-	-	186
Deferred tax liabilities		-	-	-	-
Total non-current liabilities		449	-	-	449
Current Liabilities					
Bank borrowings		13,052	-	-	13,052
Finance leases liabilities		150	-	-	150
Trade and other payables		65,478	-	-	65,478
Current tax liabilities		1,574	-	-	1,574
Total current liabilities		80,254	-	-	80,254
Total Liabilities		80,703	-	-	80,703
Total Equity and Liabilities		216,847	-	-	216,847

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

2 Application of Singapore Financial Reporting Standards (International) ("SFRS(I)s") (cont'd)

(a) First-time adoption of SFRS(I) and adoption of new standards (cont'd)

Reconciliation of the Group's total comprehensive income

Consolidated statement of comprehensive income

	Note	Year ended 31 December 2017 SFRS S$'000	SFRS(I) 1 S$'000	SFRS(I) 15 S$'000	SFRS(I)s S$'000
Revenue	Bi.	292,185	-	(222)	291,963
Cost of sales	Bi.	(218,354)	-	156	(218,198)
Gross profit		73,831	-	(66)	73,765
Other operating income		4,123	-	-	4,123
Distribution costs		(24,147)	-	-	(24,147)
Administrative expenses		(31,385)	-	-	(31,385)
Net impairment losses on financial assets		(13)	-	-	(13)
Other operating expenses		(3,397)	-	-	(3,397)
Finance costs		(812)	-	-	(812)
Share of profit of associates		615	-	-	615
Profit before income tax		18,815	-	(66)	18,749
Income tax		(5,069)	-	-	(5,069)
Profit for the year		13,746	-	(66)	13,680
Other comprehensive income, net of tax					
Items that may be subsequently reclassified to profit or loss:					
- Exchange differences on translation		(917)	-	-	(917)
Total comprehensive income for the year		12,829	-	(66)	12,763

Notes to the reconciliation of the Group's equity and total comprehensive income

A. SFRS(I) 1

In adopting SFRS(I) in 2018, the Group has applied the transition requirements in SFRS(I) 1 with 1 January 2017 as the date of transition. SFRS(I) 1 generally requires that the Group applies SFRS(I) that are effective at the end of the current reporting period on a retrospective basis, as if such accounting policy had always been applied, subject to the mandatory exceptions and optional exemptions in SFRS(I) 1. Except as described below, the application of the mandatory exceptions and the optional exemptions in SFRS(I) 1 did not have any significant impact on the financial statements.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

2 Application of Singapore Financial Reporting Standards (International) ("SFRS(I)s") (cont'd)

(a) First-time adoption of SFRS(I) and adoption of new standards (cont'd)

Notes to the reconciliation of the Group's equity and total comprehensive income (cont'd)

A. SFRS(I) 1 (cont'd)

Exchange foreign currency translation reserve (ETR)

The Group elected the optional exemption in SFRS(I) 1 to reset its cumulative ETR for all foreign operations to nil at the date of transition, and reclassified the cumulative ETR of S$1,269,000 as at 1 January 2017 determined in accordance with SFRS to retained earnings. After the date of transition, any gain or loss on disposal of any foreign operations will exclude translation differences that arose before the date of transition. By electing this optional exemption, the cumulative ETR increased by S$1,269,000 and retained earnings decreased by the same amount as at 1 January 2017.

B. SFRS(I) 15

SFRS(I) 15 *Revenue from Contracts with Customers* establishes a five-step model to account for revenue arising from contracts with customers, and introduces new contract cost guidance. Under SFRS(I) 15, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group adopted SFRS(I) 15 in its financial statements using the retrospective approach. All requirements of SFRS(I) 15 have been applied retrospectively, except for the application of the practical expedients as described below, and the information presented for 2017 has been restated.

Notes to the Financial Statements
For The Financial Year Ended 31 December 2018

2 Application of Singapore Financial Reporting Standards (International) (“SFRS(I)s”) (cont’d)

(a) First-time adoption of SFRS(I) and adoption of new standards (cont’d)

Notes to the reconciliation of the Group’s equity and total comprehensive income (cont’d)

B. SFRS(I) 15 (cont’d)

The impact upon the adoption of SFRS(I) 15, excluding the immaterial corresponding tax effects, is described below.

(i) Sales with a right of return

Certain sales contracts of the Group grant customers the right to return the product during a stipulated grace period if the customers are dissatisfied with the product. Under SFRS(I) 15, revenue is recognised to the extent that it is highly probable that there will be no returns from customers.

The application of SFRS(I) 15 in relation to sales with a right to return was effected retrospectively. Accordingly, the Group has increased refund liabilities (classified in trade and other payables) of S$222,000 and a right to recover returned goods (classified in inventories) of S$156,000 as at 31 December 2017. As a result of these adjustments, retained earnings decreased by S$58,000 as at 1 January 2018.

C. SFRS(I) 9

SFRS(I) 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. It also introduces a new "expected credit loss" (ECL) model and a new general hedge accounting model. The Group adopted SFRS(I) 9 from 1 January 2018.

The Group has elected to apply the short-term exemption to adopt SFRS(I) 9 on 1 January 2018. Accordingly, requirements of SFRS 39 *Financial Instruments: Recognition and Measurement* will continue to apply to financial instruments up to the financial year ended 31 December 2017 (Accounting policies Note 3(l)). Additionally, the Group is exempted from complying with SFRS(I) 7 for the comparative period to the extent that the disclosures required by the SFRS(I) 7 relate to the items within scope of SFRS(I) 9. As a result, the requirements under SFRS are applied in place of the requirements under SFRS(I) 7 and SFRS(I) 9 to comparative information about items within the scope of the SFRS(I) 9.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

2 Application of Singapore Financial Reporting Standards (International) ("SFRS(I)s") (cont'd)

(a) First-time adoption of SFRS(I) and adoption of new standards (cont'd)

<u>**Notes to the reconciliation of the Group's equity and total comprehensive income (cont'd)**</u>

C. SFRS(I) 9 (cont'd)

Changes in accounting policies resulting from the adoption of SFRS(I) 9 have been generally applied by the Group retrospectively, except as described below.

- The following assessments were made on the basis of facts and circumstances that existed at 1 January 2018.
  - The determination of the business model within which a financial asset is held;
  - The determination of whether the contractual terms of a financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding;
  - The designation of an equity investment that is not held-for-trading as at Fair Value through other Comprehensive Income (FVOCI); and
  - The designation and revocation of previous designations of certain financial assets and financial liabilities measured at Fair Value through profit or loss (FVPL).
- If a debt investment has low credit risk at 1 January 2018, the Group had assumed that the credit risk on the asset has not increased significantly since its initial recognition.
- New hedge accounting requirements are applied prospectively. All hedging relationships designated under SFRS 39 at 31 December 2017 met the criteria for hedge accounting under SFRS(I) 9 at 1 January 2018 and therefore were regarded as continuing hedging relationships.

The adoption of SFRS(I) 9 has not had a significant effect on the Group's accounting policies for financial liabilities.

The impact upon the adoption of SFRS(1) 9 as well as the new requirements are described below.

i. <u>Classification of financial assets and financial liabilities</u>

The following are the qualitative information regarding the reclassification between categories of financial instruments at the date of initial application of SFRS(I) 9.

Under SFRS(I) 9, financial assets are classified in the following categories: measured at amortised cost, FVOCI (debt instrument), FVOCI (equity instrument); or FVPL. The classification of financial assets under SFRS(I) 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. SFRS(I) 9 eliminates the previous SFRS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under SFRS(I) 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

2 Application of Singapore Financial Reporting Standards (International) ("SFRS(I)s") (cont'd)

(a) First-time adoption of SFRS(I) and adoption of new standards (cont'd)

Notes to the reconciliation of the Group's equity and total comprehensive income (cont'd)

C. SFRS(I) 9 (cont'd)

i. Classification of financial assets and financial liabilities (cont'd)

On the date of initial application of SFRS(I) 9 on 1 January 2018, the following table and the accompanying notes below explain the original measurement categories under SFRS 39 and the new measurement categories under SFRS(I) 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018:

		Group				
		Measurement category		Carrying amount		
	Note	SFRS 39	SFRS(I) 9	SFRS 39	SFRS(I) 9	Differences
				S$'000	S$'000	S$'000
Current financial assets						
Trade and other receivables*	(a)	Loans and receivables (amortised cost)	Amortised cost	83,539	83,189	350
Cash and bank balances		Loans and receivables (amortised cost)	Amortised cost	38,303	38,303	-
Non-current financial liabilities						
Bank borrowings		Financial liabilities (amortised cost)	Amortised cost	159	159	-
Finance lease liabilities		Financial liabilities (amortised cost)	Amortised cost	82	82	-
Current financial liabilities						
Bank Borrowings		Financial liabilities (amortised cost)	Amortised cost	14,302	14,302	-
Finance lease liabilities		Financial liabilities (amortised cost)	Amortised cost	160	160	-
Trade and other payables**		Financial liabilities (amortised cost)	Amortised cost	59,791	59,791	-

* Excluded advances to suppliers and prepayments

** Excluded advances from customers

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

2 **Application of Singapore Financial Reporting Standards (International) ("SFRS(I)s") (cont'd)**

(a) First-time adoption of SFRS(I) and adoption of new standards (cont'd)

Notes to the reconciliation of the Group's equity and total comprehensive income (cont'd)

C. SFRS(I) 9 (cont'd)

i. Classification of financial assets and financial liabilities (cont'd)

		Company				
		Measurement category		Carrying amount		
	Note	SFRS 39	SFRS(I) 9	SFRS 39 S$'000	SFRS(I) 9 S$'000	Differences S$'000
Current financial assets						
Other receivables	(a)	Loans and receivables (amortised cost)	Amortised cost	115	115	-
Amount owing by subsidiaries		Loans and receivables (amortised cost)	Amortised cost	42,049	42,049	-
Dividend receivables		Loans and receivables (amortised cost)	Amortised cost	6,938	6,938	-
Cash and bank balances		Loans and receivables (amortised cost)	Amortised cost	2,692	2,692	-
Current financial liabilities						
Other payables		Financial liabilities (amortised cost)	Amortised cost	6,556	6,556	-
Bank borrowings		Financial liabilities (amortised cost)	Amortised cost	3,000	3,000	-

(a) Trade and other receivables of the Group and the Company that were classified as loans and receivables under SFRS 39 are now classified at amortised cost. An increase of S$350,000 in the allowance for impairment loss on trade receivables was recognised in the opening retained earnings of the Group at 1 January 2018.

ii. Impairment of financial assets

SFRS(I) 9 replaces the 'incurred loss' model in SFRS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets, debt investments at FVOCI and intra-group financial guarantee contracts, but not to equity investments. The adoption of the new impairment model under SFRS(I) does not affect the carrying amount of the intra-group financial guarantee contracts at 1 January 2018, as the amount initially recognised less the cumulative amount of income recognised in accordance with SFRS(I) 15 is higher than the estimated ECL amount. As a result of the adoption of SFRS(I) 9, the Group presented the allowance for impairment losses related to trade receivables, separately in profit or loss. As a result, the Group reclassified net impairment losses amounting to S$13,000 under SFRS 39, from other income (S$54,000) and other operating expenses (S$67,000), to net impairment losses on financial assets in the consolidated statement of comprehensive income for the financial year ended 31 December 2017.

The Group has applied the simplified impairment approach to recognise only lifetime ECL impairment charges on all trade receivables that arise from SFRS(I) 15, Based on the assessment made, there was an increase of S$350,000 in the allowance for impairment, loss on trade receivables recognised in opening retained earnings of the Group as at 1 January 2018 on transition to SFRS(I) 9.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

2 Application of Singapore Financial Reporting Standards (International) ("SFRS(I)s") (cont'd)

(a) First-time adoption of SFRS(I) and adoption of new standards (cont'd)

Notes to the reconciliation of the Group's equity and total comprehensive income (cont'd)

C. SFRS(I) 9 (cont'd)

ii. Impairment of financial assets (cont'd)

On the date of initial application of SFRS(I) 9 on 1 January 2018, the closing loss allowances reconciling to the opening loss allowances are provided below:

	Trade receivables S$'000
Group	
Loss allowance as at 31 December 2017 under SFRS 39	685
Additional impairment recognised at 1 January 2018 on trade receivables as at 31 December 2017	350
Loss allowance as at 1 January 2018 under SFRS(I) 9	1,035

The application of SFRS(I) 9 impairment requirements at 1 January 2018 does not have a significant effect on the Company. Additional information about how the Group and the Company measure the loss allowances for impairment is described in Note 35.

iii. Transition impact on equity

A summary of the impact, excluding immaterial corresponding tax effect, of transition to SFRS(I) 9 on retained earnings and non-controlling interests at 1 January 2018 is provided below.

	Impact of adopting SFRS(I) 9 at 1 January 2018 S$'000
Group	
Retained earnings attributable to the equity holders of the Company	
Closing balance as at 31 December 2017 (SFRS 39)	58,572
Recognition of expected credit losses (SFRS(I) 9)	(254)
Opening balance as at 1 January 2018 (SFRS(I) 9)	58,318
Non-controlling interests	
Closing balance as at 31 December 2017 (SFRS 39)	15,206
Recognition of expected credit losses (SFRS(I) 9)	(96)
Opening balance as at 1 January 2018 (SFRS(I) 9)	15,110

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

2 Application of Singapore Financial Reporting Standards (International) ("SFRS(I)s") (cont'd)

(a) First-time adoption of SFRS(I) and adoption of new standards (cont'd)

D. Impact on the Statement of Cash Flows

There were no material adjustments to the Group's consolidated statement of cash flows arising from the transition from SFRS to SFRS(I) and the initial application of SFRS(I) 9 and SFRS(I) 15.

E. Impact on Company's Opening Balances

The Company's opening balance sheet was prepared as at 1 January 2017, which was the Company's date of transition to SFRS(I). There was no material impact to the Company's opening balances on adoption of SFRS(I).

(b) SFRS(I)s and SFRS(I) INTs issued but not yet effective (cont'd)

At the date of authorisation of these financial statements, the following standard have been issued and are relevant to the Group and Company but not yet effective:

Description	**Effective Date (Annual periods beginning on or after)**
SFRS(I) 16 *Leases*	1 January 2019
SFRS(I) INT 23 *Uncertainty over Income Tax Treatments*	1 January 2019
SFRS(I) 9 *Amendments to SFRS(I) 9: Prepayment Features with Negative Compensation*	1 January 2019
SFRS(I) 1-28 *Amendments to SFRS(I) 1-28: Long-term Interests in Associates and Joint Ventures*	1 January 2019
Annual Improvements to SFRS(I)s 2015-2017 Cycle	1 January 2019
Amendments to SFRS(I) 3 *Business Combinations*	1 January 2019
Amendments to SFRS(I) 11 *Joint Arrangements*	1 January 2019
Amendments to SFRS(I) 1-12 *Income Taxes*	1 January 2019
Amendments to SFRS(I) 1-23 *Borrowing Costs*	1 January 2019
SFRS(I) 1-19 Amendments to SFRS(I) 1-19: *Plan Amendment, Curtailment or Settlement*	1 January 2019
Amendments to SFRS(I) 10 and SFRS(I) 1-28 *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Deferred indefinitely, early application is still permitted

Except for SFRS(I) 16, the Group expects that the adoption of the other standards above will have no material impact on the financial statements in the period of initial application.

<u>SFRS(1) 16 *Leases*</u>

SFRS(I) 16 sets out a revised framework for the recognition, measurement, presentation and disclosure of leases, and replaces 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*. SFRS(I) 16 requires lessees to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, except where the underlying asset is of low value. The right-of-use asset is depreciated and interest expense is recognised on the lease liability.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

2 Application of Singapore Financial Reporting Standards (International) ("SFRS(I)s") (cont'd)

(b) SFRS(I)s and SFRS(I) INTs issued but not yet effective (cont'd)

SFRS(1) 16 *Leases* (cont'd)

The accounting requirements for lessors have not been changed substantially, and continue to be based on classification as operating and finance leases. Disclosure requirements have been enhanced for both lessors and lessees.

The Group plans to adopt SFRS(I) 16 on 1 January 2019 based on a permitted transition approach that does not restate comparative information, but recognises the cumulative effect of initially applying SFRS(I) 16 as an adjustment to the opening balance of retained earnings on 1 January 2019. The Group will elect the transition option to record in respect of lease previously classified as operating lease, the right-of-use assets on 1 January 2019 at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments as at 31 December 2018. The Group also plans to adopt an expedient offered by SFRS(I) 16, exempting the Group from having to reassess whether the pre-existing contract contain a lease.

As disclosed in Note 31(a), the Group has entered into non-cancellable operating leases of various property premises and office equipment as lessee. The Group does not expect any significant impact on the financial statements based on the existing operating leases, when the standard is applied as of 1 January 2019. The nature of expenses related to those leases will change as SFRS(I) 16 replaces the straight-line operating lease expense with depreciation charge for ROU assets and interest expense on lease liabilities.

The Group's activities as a lessor are not material and the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required.

3 Significant Accounting Policies

(a) Basis of Preparation

The consolidated financial statements of the Group and the statement of financial position of the Company have been prepared in accordance with the Singapore Financial Reporting Standards (International) ("SFRS(I)s") as issued by Accounting Standards Council. These are the Group's first financial statements prepared in accordance with SFRS(I) and SFRS(I) 1 *First-time Adoption of Singapore Financial Reporting Standards (International)* has been applied. In the previous financial years, the financial statements were prepared in accordance with Singapore Financial Reporting Standards in Singapore (SFRS). An explanation of how the transition to SFRS(I) and application of SFRS(I) 9 and SFRS(I) 15 have affected the reported financial position, financial performance and cash flows is provided in Note 2(a). These financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening SFRS(I) statements of financial position at 1 January 2017 for the purposes of the transition to SFRS(I), unless otherwise indicated. The accounting policies have been applied consistently by the Group entities.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 **Significant Accounting Policies (cont'd)**

(b) Group Accounting

(i) *Subsidiaries*

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

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

Goodwill on acquisitions of subsidiaries and businesses, represents the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous held equity interest in the acquiree over the fair value of the investee's identifiable net assets acquired. Goodwill on acquisitions of subsidiaries is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Gains and losses on the disposal of subsidiaries, include the carrying amount of goodwill relating to the entity sold.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, and liabilities and contingent liabilities assumed, in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 **Significant Accounting Policies (cont'd)**

(b) Group Accounting (cont'd)

(i) *Subsidiaries (cont'd)*

If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment indicator of the transferred assets. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group loses control of a subsidiary, it:

- derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
- derecognises the carrying amount of any non-controlling interest (including any components of other comprehensive income attributable to them);
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained in the former subsidiary at its fair value;
- re-classifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate; and
- recognises any resulting difference as a gain or loss in profit or loss.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Goodwill on acquisition of associates represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable net assets acquired. Goodwill on associates is included in the carrying amount of the investments. Gains and losses on the disposal of associates include the carrying amounts of goodwill relating to the entity sold.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 Significant Accounting Policies (cont'd)

(b) Group Accounting (cont'd)

(ii) *Associates (cont'd)*

Investments in associates are accounted for using the equity method of accounting less impairment losses, if any. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

When the Group reduces its ownership interest in an associate, but the Group continues to apply the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equal or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date 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.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) *Investment in subsidiaries and associates*

Investments in subsidiaries and associates are carried at cost less accumulated impairment losses in the statement of financial position of the Company.

On disposal of investments in subsidiaries and associates, the difference between the net disposal proceeds and the carrying amount of the investments are recognised in profit or loss.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 **Significant Accounting Policies (cont'd)**

(c) Foreign Currencies

(i) Functional and presentation currency

The individual financial statements of each entity in the Group are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

For the purpose of the consolidated financial statements, the results and financial position of each entity in the Group are expressed in Singapore Dollar ("S$"), which is the functional currency of the Company and the presentation currency for the consolidated financial statements. All values are rounded to the nearest thousand (S$'000) except when otherwise indicated.

(ii) Transactions and balances

In preparing the financial statements of each individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Currency translation differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the reporting date are recognised in profit or loss. Monetary items include primarily financial assets (other than equity investments), contract assets and financial liabilities. However, in the consolidated financial statements, currency translation difference arising from borrowings in foreign currencies and other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations, are recognised in the other comprehensive income and accumulated in the exchange translation reserve.

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

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in term of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

i. exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

ii. exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer to hedging accounting policies in Note 3 (i); and

iii. exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the net investment.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 **Significant Accounting Policies (cont'd)**

(c) Foreign Currencies (cont'd)

(iii) Translation of Group entities' financial statements

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing exchange rates at the reporting date;
- income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions dates, in which the case income and expenses are translating using the exchange rates at the dates of the transactions); and
- all resulting currency translation differences are recognised in other comprehensive income and accumulated in the exchange translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

(d) Property, Plant and Equipment

(i) Measurement

All items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure related to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenses are recognised in profit or loss when incurred.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 Significant Accounting Policies (cont'd)

(d) Property, Plant and Equipment (cont'd)

(iii) Depreciation

Depreciation is recognised so as to write off the cost of assets loss any residual values over their estimated useful lives, using the straight-line method as follows:

Freehold building	50 years
Leasehold properties	remaining lease period of 45 years to 50 years
Renovations	5 to 8 years
Motor vehicles	5 to 6 years
Plant and equipment	5 to 10 years
Furniture, fittings and office equipment	1 to 6 years

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

Construction-in-progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction-in-progress consists of construction costs including other attributable direct cost and finance costs incurred during the period of construction.

Construction-in-progress is classified to the appropriate category of property, plant and equipment when completed and ready for use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant leases.

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

The residual value, useful life and depreciation method are reviewed at each financial year end, with the effect of any changes in estimate accounted for on a prospective basis. The effects of any revision are recognised in profit or loss when the changes arise.

(iv) Disposal

Property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(e) Investment Properties

Investment properties which are properties held to earn rentals and/or for capital appreciation are initially recognised at cost, including transaction costs and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight-line method to write off the cost of the investment properties over their estimated remaining useful lives of 45 years to 50 years.

The residual value, useful life and depreciation method are reviewed at each financial year end, with the effects of any changes in estimate accounted for on a prospective basis. The effect of any revision are recognised in profit or loss when the changes arise.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 Significant Accounting Policies (cont'd)

(e) Investment Properties (cont'd)

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised and the carrying amounts of the replaced components are written off to profit or loss. The cost of maintenance, repairs and minor improvements is charged to profit or loss when incurred.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in profit or loss in the year of retirement or disposal.

(f) Land Use Rights

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses. The land use rights are amortised on a straight-line method over the term of the land use rights. The amortisation period and method are reviewed at each financial year end, with the effect of any changes in estimate accounted for on a prospective basis. The effect of any revision are recognised in profit or loss when the changes arise.

(g) Goodwill

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

For the purpose of impairment testing of goodwill, goodwill is allocated, from the acquisition date, to each of the Group's cash-generating-units ("CGU") or groups of CGU, that are expected to benefit from synergies arising from the business combination.

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

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

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

Where goodwill forms part of a cash-generating unit and part of the operation within that cash generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Notes to the Financial Statements

3 **Significant Accounting Policies (cont'd)**

(h) Government Grants

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

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

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

(i) Derivative financial instruments and Hedge Activities

The Group enters into a derivative financial instrument to manage its exposure to interest rate risk.

(i) Derivative financial instruments

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

(ii) Hedge accounting

The Group designates derivatives as hedging instruments in respect of interest rate risk on firm commitments as cash flow hedge. Note 35(b) sets out details of the fair values of the derivative instrument used for hedging purposes.

The Group's management strategies and hedge documentation are aligned with the requirements of SFRS(I) 9.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 **Significant Accounting Policies (cont'd)**

(i) Derivative Financial Instruments (cont'd)

(ii) Hedge accounting (cont'd)

Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk, which when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e.rebalances the hedge) so that it meets the qualifying criteria again.

(iii) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the other operating income.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated statement of comprehensive income as the recognised hedged item. However, when the forecast transaction that is hedged, results in the recognition of a non-financial asset (e.g. inventory) or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in other comprehensive income will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively.

Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 Significant Accounting Policies (cont'd)

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis.

Cost includes the actual cost of materials and incidentals in bringing the inventories into store and for manufactured inventories, the cost of work-in-progress and finished goods comprises raw materials, direct labour and related production overheads.

Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs of completion and costs necessary to make the sale. Allowance is made for slow-moving and obsolete items.

(k) Financial assets - accounting policies are applicable from 1 January 2018

(i) Classification and measurement

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value either through other comprehensive income (FVOCI) or through profit or loss (FVPL), and
- those to be measured at amortised cost

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Initial recognition

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 (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 **Significant Accounting Policies (cont'd)**

(k) Financial assets - accounting policies are applicable from 1 January 2018 (cont'd)

(i) Classification and measurement (cont'd)

Initial recognition (cont'd)

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 amount collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

The Group recognises a financial asset arising from a service concession arrangement when it has an unconditional contractual right to receive cash from or at the direction of the grantor for the construction services provided, and the right to receive cash depends only on the passage of time. Such financial assets are measured at fair value on initial recognition and classified as financial assets measured at amortised cost.

Subsequent measurement

a) Debt instruments

Debt instruments mainly comprise of cash and bank balances, trade and other receivables and service concession receivables. Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost:

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. For debt instrument that is measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss. Impairment losses are deducted from the gross carrying amount of these assets and are presented as separate line item in the profit or loss.

Interest income is recognised in statement of comprehensive income and is included in the "other income" line item.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 Significant Accounting Policies (cont'd)

(k) Financial assets - accounting policies are applicable from 1 January 2018 (cont'd)

(i) Classification and measurement (cont'd)

Subsequent Measurement (cont'd)

a) Debt instruments (cont'd)

FVOCI

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses (debt instruments measured at FVOCI that are not part of a designated hedging relationship) which are recognised in profit or loss.

When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in "other income" using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in profit or loss.

FVPL

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises. For debt investment that is measured at FVPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss. Interest income from these financial assets is included in "other income" using the effective interest rate method.

In addition, debt instruments that meet either the amortised cost criteria or the FVOCI criteria may be designated as at FVPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVPL.

(ii) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with the following financial instruments:

- financial assets measured at amortised costs; and
- intra-group financial guarantee contracts.

Loss allowances of the Group are measured on either of the following bases:

- 12-month ECLs – represents the ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECLs – represents the ECLs that will result from all possible default events over the expected life of a financial instrument or contract asset.

The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Notes to the Financial Statements
For The Financial Year Ended 31 December 2018

3 **Significant Accounting Policies (cont'd)**

(k) **Financial assets - accounting policies are applicable from 1 January 2018 (cont'd)**

(ii) Impairment (cont'd)

Simplified approach - Trade receivables

The Group applies the simplified approach to provide ECLs for all trade receivables (including service concession receivables) as permitted by SFRS(I) 9. The simplified approach requires expected lifetime losses to be recognised from initial recognition of the receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

General approach - Other financial instruments and financial guarantee contracts ("FGC")

The Group applies the general approach to provide for ECLs on all other financial instruments and financial guarantee contracts, which requires the loss allowance to be measured at an amount equal to 12-month ECLs at initial recognition.

At each reporting date, the Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs. In assessing whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information that is reasonable and supportable, including the Group's historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs.

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 Significant Accounting Policies (cont'd)

(k) Financial assets - accounting policies are applicable from 1 January 2018 (cont'd)

(ii) Impairment (cont'd)

General approach - Other financial instruments and financial guarantee contracts ("FGC") (cont'd)

The Company considers a FGC to be in default when the debtor of the loan is unlikely to pay its credit obligations to the creditor and the Company in full, without recourse by the Company to actions such as realising security (if any is held). The Company only applies a discount rate if, and to the extent that, the risks are not taken into account by adjusting the expected cash shortfalls.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. At each reporting date, the Group assesses whether financial assets carried at amortised cost, and debt investments at FVOCI are credit impaired.

Evidence that a financial asset is credit-impaired includes the observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower or a concession(s) that the lender(s) would not other consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Measurement of ECLs

ECLs are probability-weighted estimates of credit losses. Credit losses are measured at the, present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 **Significant Accounting Policies (cont'd)**

(k) Financial assets - accounting policies are applicable from 1 January 2018 (cont'd)

(ii) Impairment (cont'd)

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(iii) Recognition and derecognition

Financial assets are recognised when, and only when the Group becomes party to the contractual provisions of the instruments. All regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVOCI, the cumulative gain or loss previously accumulated in the fair value adjustment reserve is reclassified to profit or loss. On derecognition of an investment in equity instrument, the difference between the carrying amount and sales proceed is recognised in profit or loss if there was no election made to recognise fair value changes in other comprehensive income. If the Group has elected on initial recognition to measure the equity instrument at FVOCI, the cumulative gain or loss previously accumulated in the fair value adjustment reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Trade receivables that are factored out to banks and other financial institutions with recourse to the Group are not derecognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 Significant Accounting Policies (cont'd)

(l) Financial assets – accounting policies applied until 31 December 2017

As disclosed in Note 2(a), the Group has applied SFRS(I) 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

(i) Classification

Until 31 December 2017, the Group classified its financial assets in loans and receivables. The classification depended on the nature of the asset and the purpose for which the assets were acquired. Management determined the classification of its financial assets at initial recognition and re-evaluates this designation at each reporting date.

<u>Loans and receivables</u>

Loans and receivables were non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They were presented as current assets, except for those expected to be realised later than 12 months after the reporting period which were presented as non-current assets. Loans and receivables were presented as "trade and other receivables" and "cash and bank balances" on the statement of financial position.

(ii) Recognition and derecognition

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

The Group derecognised a financial asset only when the contractual rights to the cash flows from the financial asset had expired, or had been transferred and transferred substantially all the risks and rewards of ownership of the financial asset to another entity.

If the Group neither transferred nor retained substantially all the risks and rewards of ownership and continued to control the transferred asset, the Group recognised its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retained substantially all the risks and rewards of ownership of a transferred financial asset, the Group continued to recognise the financial asset and also recognised a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of consideration received was recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset was transferred to profit or loss

Trade receivables that were factored out to banks and other financial institutions with recourse to the Group were not derecognised until the recourse period had expired and the risks and rewards of the receivables had been fully transferred. The corresponding cash received from the financial institutions was recorded as borrowings.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 Significant Accounting Policies (cont'd)

(l) Financial assets – accounting policies applied until 31 December 2017 (cont'd)

(iii) Initial measurement

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

(iv) Subsequent measurement

Loans and receivables and financial assets were subsequently carried at amortised cost using the effective interest method.

(v) Impairment

The Group assessed at each reporting date whether there was objective evidence that a financial asset or a group of financial assets was impaired and recognised an allowance for impairment when such evidence existed.

Loans and receivables

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

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

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

(m) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowings of funds.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using effective interest method.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 Significant Accounting Policies (cont'd)

(n) Cash and cash equivalents

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

(o) Share Capital

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

(p) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(q) Warrants Issue

Proceeds from the issuance of warrants, net of issue expenses, are credited to warrants reserve which is non-distributable. Warrants reserve is transferred to share capital upon the exercise of warrants and the warrants reserve in relation to the unexercised warrants at the expiry of the warrants will be transferred to retained earnings.

(r) Dividends to Company's Shareholders

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

(s) Financial Guarantees

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

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 **Significant Accounting Policies (cont'd)**

(s) **Financial Guarantees (cont'd)**

Financial guarantee in the separate financial statements –accounting policies from 1 January 2018

Financial guarantees contracts are recognised as a financial liability at the time the guarantee is issued. Financial guarantee are measured initially at their fair values and, if not designated as "fair value through profit and loss", and do not arise from a transfer of a financial assets, are subsequently measured at the higher of:

a. the amount of the loss allowance determined in accordance with expected credit loss model under SFSR(I) 9; and

b. the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the principles of SFRS(I) 15.

ECLs are probability-weighted estimate of credit losses. ECLs are measured for financial guarantees issued as the expected payment to reimburse the holder less any amounts that the Company expects to recover. Loss allowance for ECLs for financial guarantee issued are presented in the Company's statement of financial position as "loan and borrowings'.

Intra-group transactions with regards to the financial guarantees are eliminated on consolidation.

Financial guarantee in the separate financial statements –accounting policies applied until 31 December 2017

The policy applied in the comparative information presented for 2017 is similar to that applied for 2018. However, for subsequent measurement, the financial guarantees were measured at the higher of the amortised amount and the present value of any expected payment to settle the liabilities when a payment under the contract has become probable.

(t) **Financial Liabilities**

(i) Financial liabilities

The Group recognises a financial liability on its statements of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument.

Financial liabilities (including bank borrowings and trade and other payables) are initially measured at fair value, plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integrated part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the amortised costs of a financial liability.

Bank borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the reporting period.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 Significant Accounting Policies (cont'd)

(t) Financial Liabilities (cont'd)

(ii) Derecognition of financial liabilities

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

(u) Offsetting of Financial Assets and Financial Liabilities

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

(v) Impairment of Non-Financial Assets other than Goodwill

Non-financial assets other than goodwill are tested for impairment whenever there is any indication that these assets may be impaired.

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any), on an individual asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

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

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 **Significant Accounting Policies (cont'd)**

(v) Impairment of Non-Financial Assets other than Goodwill (cont'd)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(w) Revenue Recognition

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 (PO) 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.

(i) Goods and services sold

The Group supplies integrated engineering solutions which comprise motion control solutions, specialised engineering solutions and industrial computing solutions to various industries.

Revenue from sale of goods and services in the ordinary course of business is recognised when the control of the goods and services has transferred, being when the goods and services are delivered to the customer, the customer has full discretion over the manner of distribution and price to sell the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has not have accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has the objective evidence that all criteria for acceptance have been satisfied. A receivable is recognised when the goods are delivered as this represents the point in time that the right to consideration is unconditional because only the passage of time is required before the payment is due.

Revenue is recognised at a point in time following the timing of satisfaction of the PO. If a PO is satisfied over time, revenue is recognised based on the percentage of completion reflecting the progress towards complete satisfaction of that PO.

Certain sales contracts of the Group grant customers the right to return the product during a stipulated grace period up to one year if the customers are dissatisfied with the product. Therefore, a refund liability and a right to the returned goods are recognised in relation to goods expected to be returned. Accumulated experience is used to estimate the numbers of returns at the time of sale at a portfolio level using the expected value method. Because the level of product returns has been consistent over previous years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of the assumption and the estimated amount of returns are reassessed at each reporting date.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 Significant Accounting Policies (cont'd)

(w) Revenue Recognition (cont'd)

(ii) Service concession arrangements

Revenue related to construction or services under a service concession arrangement is recognised over time. Operation or service revenue is recognised in the period in which the services are provided by the Group. If the service concession arrangement contains more than one performance obligation, then the consideration received is allocated with reference to the relative stand-alone selling prices of the services delivered.

(iii) Rendering of services

Technical service income

Technical service income is recognised when the service has been performed and rendered.

Property management income

The Group provides property management service to tenants of its leasehold properties and is recognised when the service has been performed and rendered.

Administrative income and commission income

Administrative income and commission income are recognised in the period in which the services have been performed and rendered.

(x) Employee Benefits

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

(i) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

(ii) Employee leave entitlements

No provision has been made for employee annual leave entitlements as generally any unconsumed annual leave not utilised will be forfeited.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 **Significant Accounting Policies (cont'd)**

(y) Leases

(i) When the Group is the lessee

Lessee – Finance lease

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

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

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

Lessee – Operating lease

Leases of property premises where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease.

Contingent rents are recognised as an expense in profit or loss when incurred.

(ii) When the Group is the lessor

Lessor - Operating lease

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

Contingent rents are recognised as income in profit or loss when earned.

(z) Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Notes to the Financial Statements
For The Financial Year Ended 31 December 2018

3 Significant Accounting Policies (cont'd)

(z) Income Tax (cont'd)

(ii) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The Group recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 **Significant Accounting Policies (cont'd)**

(z) **Income Tax (cont'd)**

(ii) Deferred tax (cont'd)

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefit embodied in the investment property over time, rather than through sale.

(iii) Current and deferred tax for the period

Current and deferred tax are recognised as income or an expense in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where the current and deferred tax arises from the initial accounting for a business combination, the tax effect is taken into account in the accounting for the business combination.

(aa) **Related Parties**

A related party is defined as follows:

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the "reporting entity").

a. A person or a close member of that person's family is related to a reporting entity if that person:

   i. has control or joint control over the reporting entity;
   ii. has significant influence over the reporting entity; or
   iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

b. An entity is related to a reporting entity if any of the following conditions applies:

   i. the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
   ii. one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
   iii. both entities are joint ventures of the same third party;
   iv. one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

3 **Significant Accounting Policies (cont'd)**

(aa) Related Parties (cont'd)

b. An entity is related ro a reporting if any of the following conditions applies (cont'd)

v. the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
vi. the entity is controlled or jointly controlled by a person identified in (a);
vii. a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
viii. the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

(ab) Segment Reporting

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

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

4 Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

(i) Critical judgements in applying accounting policies

In the process of applying the Group's accounting policies, the application of judgements that are expected to have a significant effect on the amounts recognised in the financial statements are discussed below.

(a) Allowance for inventory obsolescence

Changes in market conditions and technology advances, and the corresponding effects on customer's demand levels and specification requirements, may result in excess, slow-moving or obsolete inventories that command selling prices below costs. At the end of each reporting period, the Group reviews the carrying amount of its inventories to ensure that they are stated at the lower of cost and net realisable value ("NRV"). Management uses judgement in the estimation of the NRV and allowance for inventory obsolescence, based on the best available facts and circumstances at the end of each reporting period. Inappropriate judgment in the estimates made could result in changes to the amount of the allowance for inventory obsolescence.

During the financial year, the Group recognised a net allowance for inventory obsolescence of S$796,000 (2017: S$1,304,000) (Notes 6 and 8). In addition, certain inventories which were determined to be obsolete and unusable amounting to S$420,000 (2017: S$138,000) (Note 8) were written off during the financial year.

The carrying amount of the Group inventories and allowances for inventory obsolescence as at 31 December 2018 are set out in Notes 18.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

4 Critical Accounting Judgements and Key Sources of Estimation Uncertainty (cont'd)

(ii) Key sources of estimation uncertainty

The estimates at 1 January 2017 and 31 December 2017 are consistent with those made for the same dates in accordance with SFRS. The estimates used by the Group to present these amounts in accordance with SFRS(I) reflect conditions at 1 January 2017, the date of transition of SFRS(I) and as of 31 December 2017.

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

(a) Impairment of goodwill

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired. The recoverable amount of the cash-generating unit ("CGU") to which goodwill has been allocated is based on value in use ("VIU") calculation. VIU is based on cash flow forecast, the preparation of which requires management to use assumptions and estimates relating budgeted growth margin, revenue growth rate, terminal growth rate and discount rate of each CGU. Changes to the assumptions and estimates used could result in changes in the carrying amount of the goodwill.

The details of the estimation of VIU and the carrying amount of the goodwill as at 31 December 2018 are set out in Note 15.

(b) Income taxes

The Group has exposures to income taxes in numerous jurisdictions. To determine the income tax liabilities, management is required to estimate the amount of capital allowances and the deductibility of certain expenses at each tax jurisdiction. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. Management also assessed the probabilities that deferred tax assets resulting from deductible temporary differences and unutilised tax losses, if any, can be utilised to offset future taxable income. 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 Group has recognised income tax expense of S$7,118,000 (2017: S$5,069,000) for the financial year ended 31 December 2018.

The carrying amounts of the Group's current income tax liabilities, deferred tax assets and deferred tax liabilities as at 31 December 2018 are disclosed in Note 26.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

4 Critical Accounting Judgements and Key Sources of Estimation Uncertainty (cont'd)

(ii) Key sources of estimation uncertainty (cont'd)

(c) Allowance for expected credit loss of trade receivables

The Group uses a provision matrix to calculate allowance for expected credit loss (ECL) for trade receivables. The provision rates are based on internal credit ratings for groupings of various customer segments that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates in the recent past two years. The Group will calibrate the matrix to adjust historical credit loss experience with forward-looking information. At every reporting date, historical default rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between internal credit ratings, historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in the internal credit ratings of the customers. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The information about the ECLs on the Group's trade receivables is disclosed in Note 35. The carrying amount of the Group's trade receivables as at 31 December 2018 is disclosed in Note 19.

(d) Service concession arrangements

The Group recognises the consideration received or receivable in exchange for the construction services as a financial receivable under a service concession arrangement. The consideration received or receivable shall be recognised initially at fair value.

The financial receivable under a service concession arrangement requires the Group to make an estimate of a number of factors, which include, inter alia, fair value of the construction services, expected future supply of electricity produced by the relevant mini-hydropower plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates are determined by the Group's management based on their experience and assessment on current and future market conditions.

The information about the service concession arrangements is disclosed in Note 29. The carrying amount of the Group's service concession receivables as at 31 December 2018 is disclosed in Note 19.

Notes to the Financial Statements
For The Financial Year Ended 31 December 2018

5 **Revenue**

(a) Disaggregation of revenue

The Group revenue is disaggregated by the type of goods or services provided to customers, the geographical market, and the timing of goods and services transferred.

	For the year ended 31 December 2018				
Segments	**Motion control S$'000**	**Other Specialised engineering solutions S$'000**	**Industrial computing solutions S$'000**	**Others S$'000**	**Total S$'000**
Type of goods or service					
Engineering solutions – motion control	236,281	-	-	-	**236,281**
Other specialised engineering solutions	-	59,121	-	-	**59,121**
Industrial computing solutions	-	-	5,596	-	**5,596**
Others	-	-	-	992	**992**
Total revenue from contracts with customers	**236,281**	**59,121**	**5,596**	**992**	**301,990**
Geographical markets					
Singapore	32,464	4,985	5,560	-	**43,009**
PRC	166,067	44,770	-	-	**210,837**
Hong Kong	11,790	98	-	992	**12,880**
Malaysia	7,689	934	29	-	**8,652**
Others	18,271	8,334	7	-	**26,612**
Total revenue from contracts with customers	**236,281**	**59,121**	**5,596**	**992**	**301,990**
Goods or services transferred at a point in time	**236,281**	**59,121**	**5,596**	**992**	**301,990**

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

5 Revenue (cont'd)

(a) Disaggregation of revenue (cont'd)

	For the year ended 31 December 2017				
Segments	**Motion control S$'000**	**Other Specialised engineering solutions S$'000**	**Industrial computing solutions S$'000**	**Others S$'000**	**Total S$'000**
Type of goods or service					
Engineering solutions – motion control	223,683	-	-	-	**223,683**
Other specialised engineering solutions	-	62,086	-	-	**62,086**
Industrial computing solutions	-	-	6,101	-	**6,101**
Others	-	-	-	93	**93**
Total revenue from contracts with customers	**223,683**	**62,086**	**6,101**	**93**	**291,963**
Geographical Markets					
Singapore	30,276	8,781	6,049	93	**45,199**
PRC	162,575	44,888	-	-	**207,463**
Hong Kong	10,059	140	-	-	**10,199**
Malaysia	6,552	893	24	-	**7,469**
Others	14,221	7,384	28	-	**21,633**
Total revenue from contracts with customers	**223,683**	**62,086**	**6,101**	**93**	**291,963**
Goods or services transferred at a point in time	**223,683**	**62,086**	**6,101**	**93**	**291,963**

Set out below, is the reconciliation of the revenue from contracts with customers with the revenue information disclosed in the segment information (Note 30):

	For the year ended 31 December 2018				
Segments	**Motion control S$'000**	**Other Specialised Engineering Solutions S$'000**	**Industrial Computing Solutions S$'000**	**Others S$'000**	**Total S$'000**
Revenue					
External customers	236,281	59,121	5,596	992	**301,990**
Inter-segment sales	7,694	1,228	178	-	**9,100**
	243,975	60,349	5,774	992	**311,090**
Inter-segment eliminations	(7,694)	(1,228)	(178)	-	**(9,100)**
Total revenue from contracts with customers	**236,281**	**59,121**	**5,596**	**992**	**301,990**

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

5 **Revenue (cont'd)**

(a) Disaggregation of revenue (cont'd)

Segments	Motion control S$'000	Other Specialised Engineering Solutions S$'000	Industrial Computing Solutions S$'000	Others S$'000	Total S$'000
	For the year ended 31 December 2017				
Revenue					
External customers	223,683	62,086	6,101	93	**291,963**
Inter-segment sales	3,347	1,810	170	-	**5,327**
	227,030	63,896	6,271	93	**297,290**
Inter-segment eliminations	(3,347)	(1,810)	(170)	-	**(5,327)**
Total revenue from contracts with customers	**223,683**	**62,086**	**6,101**	**93**	**291,963**

6 **Other Operating Income**

	Group 2018 S$'000	Group 2017 S$'000
Interest income:		
- interest on bank deposits	150	30
- interest on loan to an associate	102	78
Total interest income on financial assets at amortised cost	252	108
Commission income	879	651
Gain on disposal of property, plant and equipment	179	5
Gain on disposal of interests/ Deregistration of a subsidiary	180	101
Government grant	185	80
Operating lease rental income:		
- investment properties	60	61
- sub-let of office/warehouse premises	515	525
Property management income	413	301
Technical service income	603	982
Write back of allowance for inventory obsolescence*	232	5
Miscellaneous income	1,435	1,304
	4,933	4,123

* The write back of allowance for inventory obsolescence was due to the sale of goods above their net realisable values during the current financial year.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

7 Finance Costs

	Group	
	2018	2017
	S$'000	S$'000
Interest expense on:		
- Bank loans	959	761
- Trust receipts	57	32
- Finance leases	19	19
Total interest expenses for financial liabilities not classified at fair value through profit and loss	1,035	812

8 Profit before Income Tax

	Group	
	2018	2017
	S$'000	S$'000
Profit before income tax has been arrived at after charging:		
Amortisation of land use rights	33	34
Audit fees		
- Company's auditors*	387	261
- other auditors	219	129
Dual-listing expenses	-	1,100
Depreciation of property, plant and equipment		
- recognised in cost of sales	368	395
- recognised in distribution costs	241	207
- recognised in administrative expenses	1,553	1,609
	2,162	2,211
Depreciation of investment properties	19	19
Other operating expenses included:		
- trade receivables written off	135	156
- allowance for inventory obsolescence	1,028	1,309
- loss on disposal of plant and equipment	24	-
- property, plant and equipment written off	15	4
- inventories written off	420	138
- foreign exchange losses, net	282	1,750
- loss on deemed disposal of associates	77	-
Operating lease rental expense	1,826	1,817

* There was no non-audit fee paid/payable to the Company's auditors during the financial years ended 2018 and 2017.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

9 Employee Benefits

	Group 2018 S$'000	Group 2017 S$'000
Directors' fees	137	130
Directors' remuneration		
- salaries and related costs	5,071	4,083
- defined contribution plans	33	30
Key management personnel (other than directors)		
- salaries and related costs	7,155	6,006
- defined contribution plans	518	550
Other than directors and key management personnel		
- salaries and related costs	19,340	19,933
- defined contribution plans	2,810	3,606
	35,064	34,338

Details of Directors' emoluments are set out as follows:

	Directors' fees S$'000	Directors' remuneration S$'000	Other benefits S$'000	Discretionary bonuses S$'000	Retirement scheme contributions S$'000	Total S$'000
For the year ended 31 December 2018						
Independent directors						
- Lim Siang Kai (Chairman)	53	-	-	-	-	53
- Soh Beng Keng	42	-	-	-	-	42
- Tan Soon Liang	42	-	-	-	-	42
Executive directors						
- Teo Cher Koon	-	739	89	2,763	12	3,603
- Kong Deyang	-	142	36	1,302	21	1,501
	137	881	125	4,065	33	5,241
For the year ended 31 December 2017						
Independent directors						
- Lim Siang Kai (Chairman)	50	-	-	-	-	50
- Soh Beng Keng	40	-	-	-	-	40
- Tan Soon Liang	40	-	-	-	-	40
Executive directors						
- Teo Cher Koon	-	709	42	2,198	10	2,959
- Kong Deyang	-	146	36	952	20	1,154
	130	855	78	3,150	30	4,243

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

9 Employee Benefits (cont'd)

(a) Directors' inducement and termination benefits

None of the Directors received or will receive any inducement and termination benefits during the financial years ended 31 December 2018 and 2017.

(b) Directors' waived emoluments

None of the Directors waived or agreed to waive any emoluments during the financial years ended 31 December 2018 and 2017.

(c) Consideration provided to third parties for making available Directors' services

The Company did not pay consideration to any third parties for making available Directors' services during the financial years ended 31 December 2018 and 2017.

(d) Information about loans, quasi-loans and other dealings in favour of Directors, controlled bodies corporate by and connected entities with such Directors during the financial years ended 31 December 2018 and 2017 .

There were no loans, quasi-loans and other dealings in favour of Directors, controlled bodies corporate by and connected entities with such Directors during the financial years ended 31 December 2018 and 2017.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the financial years ended 31 December 2018 and 2017.

Five highest paid individuals

For the financial years ended 31 December 2018 and 2017, of the five individuals with highest emoluments, two are the Executive Directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the remaining individuals for the financial years ended 31 December 2018 and 2017 are set out below.

	Group	
	2018	**2017**
	S$'000	**S$'000**
Salaries, allowance and benefits in kind	1,543	870
Discretionary bonuses	235	242
Retirement scheme contributions	45	54
	1,823	1,166

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

9 Employee Benefits (cont'd)

Their emoluments paid by the Group are within the following bands:

	Group	
	2018	2017
	Number of individuals	
S$200,001 to S$300,000	-	1
S$300,001 to S$400,000	1	1
S$400,001 to S$500,000	1	1
S$1,000,001 to S$1,100,000	1	-
S$1,100,001 to S$1,200,000	-	1
S$1,500,001 to S$1,600,000	1	-
S$2,000,001 to S$3,000,000	-	1
S$3,600,001 to S$3,700,000	1	-
	5	5

10 Income Tax

	Group	
	2018	2017
	S$'000	S$'000
Current income tax		
- Singapore	244	7
- PRC	6,125	4,880
- Outside Singapore and the PRC	267	224
- Over provision in respect of prior years	(86)	(51)
	6,550	5,060
Deferred tax (Note 26)		
- Withholding tax on the profits of the Group's subsidiaries	344	132
- Under/(Over) provision in respect of prior years	224	(123)
	568	9
	7,118	5,069

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

10 Income Tax (cont'd)

The income tax expense on the profit before income tax varies from the amount of income tax expense determined by applying the applicable tax rates in each jurisdiction the Group operates in due to the following differences:

	Group	
	2018 S$'000	2017 S$'000
Profit before income tax	23,696	18,749
Income tax calculated at applicable tax rates	5,756	4,640
Non-deductible expenses	908	485
Singapore statutory stepped income exemption	(141)	(85)
Deferred tax assets not recognised	191	28
Share of results of associates	(78)	(91)
Withholding tax on undistributed earnings of certain of the Group's PRC subsidiaries	344	266
Over/(under) provision in respect of prior years:		
- current income tax	(86)	(51)
- deferred income tax	224	(123)
	7,118	5,069

Non-deductible expenses relate to certain operating expenses which are not deductible for tax purposes in the jurisdiction the Group operates in.

The corporate tax rate applicable to the Company and those entities of the Group incorporated in Singapore is 17% (2017: 17%). The corporate tax rate applicable to those entities of the Group incorporated in Malaysia and Hong Kong is 24% (2017: 25%) and 16.5% (2017: 16.5%), respectively. For those entities of the Group operating in the People's Republic of China ("PRC"), the PRC income tax is calculated at the applicable tax rate of 25% (2017: 25%). The remaining entities of the Group operating in jurisdictions other than the above have either no taxable income or are not material.

Subject to the satisfaction of the conditions for group relief, tax losses of S$2,783,000 (2017: S$1,159,000) arising in the current year are transferred from the Company to a Singapore incorporated subsidiary under the group relief system. These tax losses are transferred to the subsidiary at no consideration.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

10 Income Tax (cont'd)

Unrecognised tax losses

As at 31 December 2018, the Group has unutilised tax losses of approximately S$7.8 million (2017: S$7.4 million) which can be carried forward and used to offset against future taxable income of those Group entities in which the tax losses arose, subject to the agreement of the tax authorities and compliance of the relevant provisions of the tax legislation of the respective jurisdictions in which they operate. Deferred tax asset arising from certain of these unutilised tax losses carried forward amounted to S$7.8 million (2017: S$6.65 million) has not been recognised in accordance with the Group's accounting policy stated in Note 3(z). The deferred tax asset not recognised is estimated to be S$1.3 million (2017: S$1.1 million).

The unutilised tax losses of Singapore entities of the Group have no expiry date, while the unutilised tax losses of the PRC entities of the Group expires 5 years from the year the tax losses arose. Unutilised tax losses of entities of the Group from other jurisdictions are not material.

Unrecognised temporary differences relating to investments in subsidiaries

According to a joint circular of the Ministry of Finance and the State Administration of Taxation, Cai Shui (2008) No.1, only the profits earned by a foreign-investment enterprise prior to 1 January 2008, when distributed to foreign investors, can be exempted from withholding tax. Whereas, dividends distributed of the profit generated thereafter, shall be subject to EIT at 10% (or at the concessionary rate of 5%, if applicable) and withheld by the PRC entity, pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Details Implementation Rules.

As at 31 December 2018, deferred tax liabilities of S$610,000 (2017: S$266,000) (Note 26) has been recognised for taxes that would be payable based on the applicable concessionary rate of 5% withholding tax on the expected distributable earnings of certain Group's subsidiaries in the PRC in the foreseeable future. No deferred tax has been recognised on the undistributed earnings of the remaining Group's subsidiaries in the PRC as management has determined that these earnings will not be distributable in the foreseeable future. Such temporary difference for which no deferred tax liability has been recognised aggregate to approximately S$56.2 million (2017: S$40.1 million). The deferred tax liability not recognised is estimated to be S$2.8 million (2017: S$2.0 million).

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

11 Earnings Per Share

	Group	
	2018 Singapore cents per share	2017 Singapore cents per share
Basic earnings per share	2.77	2.41
Fully diluted earnings per share	2.77	2.41

Basic earnings per share

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

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	Group	
	2018 S$'000	2017 S$'000
Profit for the year attributable to equity holders of the Company	10,946	9,489

	Group	
	2018	2017
Weighted average number of ordinary shares for the purposes of basic earnings per share	394,685,586	393,479,471

Diluted earnings per share

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

The Group has no dilution in its earnings per share as at 31 December 2018. The outstanding warrants as at 31 December 2017 were anti-dilutive because their exercise price was higher than the average share price during the relevant financial year.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

12 Property, Plant and Equipment

	Freehold land S$'000	Leasehold properties S$'000	Renovations S$'000	Motor vehicles S$'000	Plant and equipment S$'000	Furniture, fittings and office equipment S$'000	Construction in progress S$'000	Total S$'000
Group								
2018								
Cost								
At 1 January 2018	787	25,815	2,156	3,357	5,973	7,352	1,066	46,506
Acquisition through business combination (Note 16 (e))	2,497	-	-	32	-	1	9,716	12,246
Additions	-	-	441	803	1,036	597	-	2,877
Disposals	-	-	(5)	(639)	(92)	(176)	-	(912)
Written off	-	-	-	(26)	-	(10)	-	(36)
Disposal of subsidiaries	-	-	(25)	-	(87)	(7)	-	(119)
Translation adjustment	-	(676)	15	(48)	(45)	(402)	55	(1,101)
At 31 December 2018	3,284	25,139	2,582	3,479	6,785	7,355	10,837	59,461
Accumulated depreciation								
At 1 January 2018	-	5,327	1,792	2,363	4,132	5,566	-	19,180
Depreciation for the year	-	510	190	434	462	566	-	2,162
Disposals	-	-	(4)	(524)	(55)	(164)	-	(747)
Written off	-	-	-	(12)	-	(9)	-	(21)
Disposal of subsidiaries	-	-	(6)	-	(11)	(2)	-	(19)
Translation adjustment	-	(111)	7	(87)	13	(230)	-	(408)
At 31 December 2018	-	5,726	1,979	2,174	4,541	5,727	-	20,147
Net book value								
At 31 December 2018	3,284	19,413	603	1,305	2,244	1,628	10,837	39,314
2017								
Cost								
At 1 January 2017	770	25,889	1,905	3,248	5,223	6,474	1,100	44,609
Additions	-	-	152	217	771	949	6	2,095
Disposals	-	-	-	(113)	(9)	(50)	-	(172)
Written off	-	-	-	-	(9)	(29)	-	(38)
Translation adjustment	17	(74)	99	5	(3)	8	(40)	12
At 31 December 2017	787	25,815	2,156	3,357	5,973	7,352	1,066	46,506
Accumulated depreciation								
At 1 January 2017	-	4,815	1,510	2,011	3,595	4,996	-	16,927
Depreciation for the year	-	520	186	437	539	529	-	2,211
Disposals	-	-	-	(90)	(8)	(43)	-	(141)
Written off	-	-	-	-	(8)	(26)	-	(34)
Translation adjustment	-	(8)	96	5	14	110	-	217
At 31 December 2017	-	5,327	1,792	2,363	4,132	5,566	-	19,180
Net book value								
At 31 December 2017	787	20,488	364	994	1,841	1,786	1,066	27,326
At 1 January 2017	770	21,074	395	1,237	1,628	1,478	1,100	27,682
Company								
2018								
Cost								
At 1 January 2018	-	-	-	-	-	-	-	-
Additions	-	-	20	-	-	21	-	41
At 31 December 2018	-	-	20	-	-	21	-	41
Accumulated depreciation								
At 1 January 2018	-	-	-	-	-	-	-	-
Depreciation for the year	-	-	4	-	-	7	-	11
At 31 December 2018	-	-	4	-	-	7	-	11
Net book value								
At 31 December 2018	-	-	16	-	-	14	-	30

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

12 Property, Plant and Equipment (cont'd)

The Group's leasehold properties are set out below:

Description and location	Gross Area (approximately)	Use	Encumbrance
Leasehold properties			
No. 10 Kaki Bukit Road 1 #01-29 KB Industrial Building Singapore 416175	469 sq. m	Office, workshop and warehouse	Mortgaged for banking facilities
No. 10 Kaki Bukit Road 1 #01-30 KB Industrial Building Singapore 416175	469 sq. m	Office, workshop and warehouse	Mortgaged for banking facilities
No. 10 Kaki Bukit Road 1 #01-37 KB Industrial Building Singapore 416175	469 sq. m	Office, workshop and warehouse	Mortgaged for banking facilities
No. 10 Kaki Bukit Road 1 #01-40 KB Industrial Building Singapore 416175	469 sq. m	Office, workshop and warehouse	Mortgaged for banking facilities
No. 1128 Jiangxing East Road Wujiang Economic Development Zone People's Republic of China ("PRC")	40,657 sq. m	Office, workshop and warehouse	Mortgaged for banking facilities

As at 31 December 2018, the net book value of the leasehold properties of the Group set out above that are mortgaged to secure the Group's bank borrowings, as disclosed in Note 24, was S$18,503,000 (2017: S$16,312,000), 1 January 2017: S$20,092,000).

During the financial year, the Group acquired with an aggregate cost of S$2,877,000 (2017:S$2,095,000) of which S$245,000 (2017:Nil) were acquired by means of finance leases. Cash payments of S$2,632,000 (2017:S$2,095,000) were made to purchase property, plant and equipment.

As at 31 December 2018, the net book value of property, plant and equipment of the Group held under finance leases was S$432,000 (2017: S$278,000, 1 January 2017: S$474,000).

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

13 Investment Properties

	Group	
	2018	2017
	S$'000	S$'000
Cost		
Balance at 1 January	947	945
Additions	12	-
Translation adjustment	-	2
Balance as at 31 December	959	947
Accumulated depreciation		
Balance at 1 January	443	423
Depreciation for the year	19	19
Translation adjustment	-	1
Balance at 31 December	462	443
Net book value		
Balance at 31 December	497	504
Balance at 1 January		522

The Group applies the cost model for its investment properties. The market value of these investment properties approximates S$903,000 (2017: S$958,000, 1 January 2017 S$785,000) as at the statement of financial position date based on directors' valuations. The valuations were arrived at by reference to market evidence of transaction prices for similar properties. The fair value hierarchy is disclosed in Note 35(b).

The Group's investment properties are set out below:

Description and location	Gross Area (approximately)	Tenure	Use	Encumbrance
Freehold building				
H.S.(D) 224335 Lot No. PTD 41692 Mukim Senai-Kulai District Johore, Malaysia	270 sq. m	Freehold Building	Leased out to third party	None
Leasehold properties				
No. 85 Genting Lane #05-01A Guan Hua Warehouse Building Singapore 349569	95 sq. m	60 years expiring December 2041	Leased out to third party	None
No. 85 Genting Lane #05-01 Guan Hua Warehouse Building Singapore 349569	170 sq. m	60 years expiring December 2041	Leased out to third party	None

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

13 Investment Properties (cont'd)

Investment properties are leased to third parties under operating leases. During the financial year, rental income from these investment properties amounted to S$60,000 (2017: S$61,000); and direct operating expenses amounted to S$30,000 (2017: S$31,000).

As at 1 January 2017, the net book value of investment properties of the Group amounted to S$467,000 were mortgaged to secure ther Group's borrowings, and these mortgaged had been fully discharged as at 31 December 2017.

14 Land Use Rights

	Group	
	2018	**2017**
	S$'000	**S$'000**
Cost		
Balance at 1 January	1,644	1,647
Translation adjustment	(44)	(3)
Balance at 31 December	1,600	1,644
Accumulated amortisation		
Balance at 1 January	306	271
Amortisation for the year	33	34
Translation adjustment	(9)	1
Balance at 31 December	330	306
Net book value		
Balance at 31 December	1,270	1,338
Balance at 1 January		1,376
Amount to be amortised:		
- not later than one year	33	34
- later than one year but not later than five years	132	137
- later than five years	1,105	1,167
	1,270	1,338

The land use rights relate to two parcels of state-owned land situated in the PRC. The land use rights have a remaining tenure of 38 years (2017: 39 years).

As at 31 December 2018 and 2017, and 1 January 2017, the land use rights are mortgaged to secure the Group's bank borrowings as disclosed in Note 24.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

15 Goodwill

	Group	
	2018	2017
	S$'000	S$'000
Balance at 1 January	11,686	11,686
Additional goodwill recognised from business combinations occurring during the year (Note 16 (e))	541	-
Balance at 31 December	12,227	11,686

Impairment testing of goodwill

The goodwill arising on consolidation relates to the excess of the cost of acquisitions over the fair value of the Group's share of the net identifiable assets acquired in the following subsidiaries ("cash-generating units" or "CGUs") under the respective operating segments as set out below.

	Group		
	31 December 2018	31 December 2017	1 January 2017
	S$'000	S$'000	S$'000
Engineering Solutions – Motion Control			
- Servo Dynamics (Thailand) Co., Ltd ("Servo Thailand")	75	75	75
- TDS Technology (S) Pte Ltd ("TDS")	2,103	2,103	2,103
Other Specialised Engineering Solution			
- Dirak Asia Pte Ltd ("Dirak Asia")	9,508	9,508	9,508
Others			
- Aenergy Holdings Company Limited ("Aenergy") (Note 16(e))	541	-	-
	12,227	11,686	11,686

The Group assessed the recoverable amount of each CGU based on value in use calculations, which uses cash flow projections based on financial budgets approved by management covering a five-year period. A long-term growth rate into perpetuity has been determined as the lower of the nominal GDP rates for the countries in which the CGU operates. The growth rates used are based on the average historical growth rate of each CGU and past experience and with reference to the long-term average growth rates of the industries and markets in which the CGUs operate. The discount rate was a pre-tax measure based on the Group's weighted average cost of capital, adjusted for certain adjustment factors to reflect specific risks relating to the CGU. The pre-tax discount rates used, which we estimated to reflect the then market assessments of the time value of money and the risks specific to the CGUs' pre-tax cash flows.

Notes to the Financial Statements

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15 Goodwill (cont'd)

The key assumptions used in the estimation of value-in-use are set out below.

	Group		
	31 December 2018	31 December 2017	1 January 2017
Engineering Solutions – Motion Control			
Growth rates	1% to 5%	0% to 3%	5%
Perpetual growth rate	2% to 3.5%	2% to 3%	1.5%
Pre-tax discount rate	10% to 12%	7.3% to 9.3%	4% to 6%
Other Specialised Engineering Solution			
Growth rates	0% to 10%	0% to 6.5%	5%
Perpetual growth rate	6%	6.5%	2.5%
Pre-tax discount tax	16%	9.3%	6%

No impairment testing of goodwill arising from the acquisition of Aenergy as the fair value of the net identifiable assets acquired was determined only provisionally for the reason disclosed in Note 16(e).

Sensitivity analysis

Management believes that any reasonably possible change in the key assumptions i.e. growth rates and pre-tax discount rates, on which the recoverable amounts were based would not cause the carrying amounts of the major CGUs, namely TDS and Dirak Asia, (the sensitivity analysis excludes Servo Thailand since the goodwill is considered not to be significant) to exceed their recoverable amounts.

If the management's estimated growth rates and pre-tax discount rates applied to the discounted cash flows for the major CGUs are decreased and increased by 1% (2017: 1%), respectively, the relevant recoverable amounts would still be in excess of their carrying amounts of the respective CGUs.

16 Subsidiaries

	Company		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Non-current assets			
Unquoted equity shares, at cost	36,783	23,026	23,026
Loans to subsidiaries	13,627	13,627	13,627
	50,410	36,653	36,653
Current assets			
Amounts owing by subsidiaries	47,936	43,549	29,812
Less: Allowance for impairment loss	(1,500)	(1,500)	(1,500)
	46,436	42,049	28,312

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

16 Subsidiaries (cont'd)

The loans to subsidiaries, which are quasi-equity loans, form part of the Company's net investment in the subsidiaries. The loans are unsecured and interest-free, and the settlement is neither planned nor likely to be settled in the foreseeable future. As the loans are, in substance, a part of the Company's net investment in the subsidiaries, they are accordingly stated at cost.

The Group has effective equity interest in certain subsidiaries of less than 50%. In assessing whether the Group has control over the entities where it holds less than a majority of voting rights, the Group has concluded that it holds the substantive rights to direct the entities' relevant activities (i.e. financing and operating activities) and/or there are strong operational barriers or incentives that would prevent (or deter) the other third parties from exercising their rights, and/or has majority of the board representatives. As the Group has determined to have control over these entities, they are accordingly accounted as subsidiaries.

The movement in the allowance for impairment loss during the financial year is as follows:

	Company	
	2018	2017
	S$'000	S$'000
Current assets		
Amounts owing by subsidiaries		
At 1 January and 31 December	1,500	1,500

The amounts owing by subsidiaries are non-trade in nature, unsecured, interest-free and repayable on demand in cash.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

16 Subsidiaries (cont'd)

The subsidiaries of the Group as at the statement of financial position date are set out below:

Name	Country of incorporation/ principal place of business	Registered/ issued and fully paid share capital*	Effective equity interest held by the Group			Principal activities
			31 Dec 2018 %	31 Dec 2017 %	1 Jan 2017 %	
Held by the Company						
Motion Control Group Pte Ltd[1]	Singapore	S$17,531,255	100	100	100	Investment holding
Servo Dynamics Pte Ltd[1]	Singapore	S$1,600,000	100	100	100	Motion control solutions and industrial computing solutions
Portwell Singapore Pte Ltd[1]	Singapore	S$100,000	100	100	100	Industrial computing solutions
Leaptron Engineering Pte Ltd[1]	Singapore	S$300,000	100	100	100	Other specialised engineering solutions
ISDN Investments Pte Ltd[1]	Singapore	S$13,757,001	100	100	100	Investment holdings
Held by Motion Control Group Pte Ltd						
Precision Motion Control Pte Ltd[1]	Singapore	S$300,000	100	100	100	Motion control solutions
Servo Dynamics Co., Ltd.[2] [4]	PRC	US$2,400,000	100	100	100	Motion control solutions
Servo Dynamics (Thailand) Company Limited[4]	Thailand	THB16,900,000	59.73	59.73	59.73	Motion control solutions
Servo Engineering Sdn Bhd[3]	Malaysia	MYR350,000	90	90	90	Motion control solutions
Servo Dynamics (H.K.) Limited[4]	Hong Kong	HK$128,570	100	100	100	Motion control solutions
Eisele Asia Co., Ltd[2] [4]	PRC	US$210,000	50	50	50	Other specialised engineering solutions
IGB (HK) Company Ltd[2] [4]	Hong Kong	HK$10,000	51	51	51	Investment holdings

Notes to the Financial Statements
For The Financial Year Ended 31 December 2018

16 Subsidiaries (cont'd)

Name	Country of incorporation/ principal place of business	Registered/ issued and fully paid share capital*	Effective equity interest held by the Group			Principal activities
			31 Dec 2018 %	31 Dec 2017 %	1 Jan 2017 %	
Held by Motion Control Group Pte Ltd (cont'd)						
Servo Dynamics Sdn Bhd(3)	Malaysia	MYR3	100	100	100	Motion control solutions
Excel Best Industries (Suzhou) Co., Ltd(2) (4)	PRC	US$4,000,000	100	100	100	Properties holding
Weiyi M&E Equipment (Shanghai) Co., Ltd(2) (4)	PRC	US$140,000	51	51	51	Inactive
Suzhou PDC Co., Ltd(2) (4)	PRC	US$4,800,000	100	100	100	Properties holding
Gateway Motion (Shanghai) Co., Ltd(2) (4)	PRC	US$210,000	100	100	100	Motion control solutions
JAPV Mechanical Technology (Wu Jiang) Co., Ltd(2) (4)	PRC	US$450,000	95.33	95.33	95.33	Other specialised engineering solutions
DBASIX Singapore Pte Ltd(1)	Singapore	S$1,600,000	75	75	51.92	Investment holding
TDS Technology (S) Pte Ltd(1)	Singapore	S$1,000,000	61.18	61.18	61.18	Motion control solutions
ISDN Enterprise Mangement (Wu Jiang) Co., Ltd (2) (4)	PRC	US$100,000	100	100	100	Investment holding
Accel Technologies (China) Co., Ltd(2) (4)	PRC	US$210,000	100	100	100	Other specialised engineering solutions
A Tracks Pte Ltd(1)	Singapore	S$100	70	70	70	Motion control solutions
Dirak Asia Pte Ltd(1) (5) (7)	Singapore	S$554,690	49	49	49	Other specialised engineering solutions
Suzhou Xiancheng Automation Technology Co., Ltd(2) (4)	PRC	US$210,000	100	100	100	Motion control solutions
Held by Servo Dynamics Pte Ltd						
Maxon Motor (Suzhou) Co., Ltd(2) (4) (5)	PRC	US$690,000	50	50	50	Motion control solutions

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

16 Subsidiaries (cont'd)

Name	Country of incorporation/ principal place of business	Registered/ issued and fully paid share capital*	Effective equity interest held by the Group			Principal activities
			31 Dec 2018 %	31 Dec 2017 %	1 Jan 2017 %	
Held by <u>Servo Dynamics Pte Ltd</u> (cont'd)						
Maxon Electronic Machine International Trade (Shanghai) Co., Ltd(2) (4) (5)	PRC	US$200,000	50	50	50	Motion control solutions
Servo Dynamics Engineering Company Limited(4) (5)	Vietnam	US$300,000	51	51	51	Motion control solutions
Maxon Motor SEA Pte Ltd(5) (6)	Singapore	S$500,000	50	-	-	Motion control solutions
Held by <u>Servo Dynamics Co., Ltd</u>						
Su Zhou Servo Dynamics Co., Ltd(2) (4)	PRC	US$600,000	100	100	100	Motion control solutions
Beijing Junyizhicheng Technology Developing Co., Ltd(2) (4)	PRC	RMB2,000,000	100	100	100	Motion control solutions
Shenzhen Servo Dynamics Co., Ltd(2) (4)	PRC	RMB6,000,000	100	100	100	Motion control solutions
Beijing Bei Cheng Xin Kong Ci Fu Technology Co., Ltd(2) (4) (5)	PRC	RMB2,000,000	50	50	50	Other specialised engineering solutions
Trace Linear Technology (Suzhou) Co., Ltd(2) (4) (5)	PRC	EUR300,000	-	50	50	Motion control solutions
Held by <u>IGB (H.K.) Co., Ltd</u>						
SEJINIGB (Suzhou) Co., Ltd(2) (4)	PRC	US$510,000	51	51	51	Other specialised engineering solutions
Held by <u>DBASIX Singapore Pte Ltd</u>						
Shanghai DBASIX M&E Equipment Co., Ltd(2) (4)	PRC	US$420,000	75	75	51.92	Other specialised engineering solutions
DBASIX Malaysia Sdn Bhd(3)	Malaysia	MYR500,000	75	75	51.92	Other specialised engineering solutions
Held by <u>TDS Technology (S) Pte Ltd</u>						
ADL Control (S) Pte Ltd(1) (5)	Singapore	S$100,000	45.9	45.9	45.9	Motion control solutions

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

16 Subsidiaries (cont'd)

Name	Country of incorporation/ principal place of business	Registered/ issued and fully paid share capital*	Effective equity interest held by the Group			Principal activities
			31 Dec 2018 %	31 Dec 2017 %	1 Jan 2017 %	
Held by TDS Technology (S) Pte Ltd (cont'd)						
TDS Technology (Penang) Sdn Bhd[3] [5]	Malaysia	MYR100,000	48.94	48.94	48.94	Motion control solutions
TDS Technology (KL) Sdn Bhd[3] [5]	Malaysia	MYR100,000	48.94	48.94	48.94	Motion control solutions
PT TDS Technology[2] [5]	Indonesia	IDR878,900,000	36.71	36.71	36.71	Motion control solutions
SDL Control (Penang) Sdn Bhd[3]	Malaysia	MYR2	61.18	61.18	61.18	Motion control solutions
SDL Control (KL) Sdn Bhd[3]	Malaysia	MYR2	61.18	61.18	61.18	Motion control solutions
Held by ISDN Investments Pte Ltd						
Agri Source Pte Ltd[1]	Singapore	S$250,000	100	100	100	Investment holdings
ISDN Resource Pte Ltd[1]	Singapore	S$1,000,000	100	100	100	Investment holdings
ISDN Energy Pte Ltd[1]	Singapore	S$1,960	100	100	51	Inactive
ISDN Myanmar Power Pte Ltd[1]	Singapore	S$1	100	100	100	Inactive
LAA Energy HK Company Limited[2] [4]	Hong Kong	HK$1	100	100	100	Investment holdings
ISDN Road & Belt Energy Pte Ltd[1]	Singapore	S$100	51	51	100	Inactive
ISDN Bantaeng Pte Ltd[1]	Singapore	S$205,254	80.5	80.5	60	Investment holdings
Aenergy Holdings Company Limited[4] [5]	Hong Kong	HK$105,668,666	50	-	-	Investment holdings
Held by LAA Energy HK Company Limited						
PT LAA Energy[2] [4]	Indonesia	IDR140,100,000,000	90	90	90	Inactive

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For The Financial Year Ended 31 December 2018

16 **Subsidiaries (cont'd)**

Name	Country of incorporation/ principal place of business	Registered/ issued and fully paid share capital*	Effective equity interest held by the Group			Principal activities
			31 Dec 2018 %	31 Dec 2017 %	1 Jan 2017 %	
Held by <u>Agri Source Pte Ltd</u>						
Agri Source Farms Sdn Bhd(3)	Malaysia	MYR600,000	100	100	100	Inactive
Agri Source Suzhou Co., Ltd(2) (4)	PRC	US$4,000,000	-	100	100	Inactive
Dietionary Farm Holding Pte Ltd(1)	Singapore	S$1,200,000	100	100	100	Investment holdings
Prima Infrastructure Sdn Bhd(2) (5)	Malaysia	MYR500,000	49	49	49	Land holding
Held by <u>Dietionary Farm Holding Pte Ltd</u>						
Dietionary Farms Sdn Bhd(2) (4)	Malaysia	MYR350,000	100	100	100	Carrying out hydroponic growing with the application of our in-house motion control solutions
Held by <u>Aenergy Holdings Company Limited</u>						
PT Potensia Tomini Energi(4) (5)	Indonesia	IDR10,000,000,000	40	-	-	Inactive
PT Charma Paluta Energy(4) (5)	Indonesia	IDR3,600,000,000	40	-	-	Construction of a mini hydropower plant in progress
PT SDM Bahagia Sejahtera(4) (5)	Indonesia	IDR20,000,000,000	47.5	-	-	Investment holdings
PT Abantes Energi Indonesia(4) (5)	Indonesia	IDR20,000,000,000	24.5	-	-	Inactive
PT Simalem Bumi Energi(4) (5)	Indonesia	IDR20,000,000,000	24.5	-	-	Inactive
PT Senina Hidro Energi(4) (5)	Indonesia	IDR20,000,000,000	24.5	-	-	Inactive
PT Karo Bumi Energi(4) (5)	Indonesia	IDR20,000,000,000	24.5	-	-	Construction of a mini hydropower plant in progress
PT Galang Hidro Energi(4) (5)	Indonesia	IDR20,000,000,000	24.5	-	-	Inactive

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

16 Subsidiaries (cont'd)

Name	Country of incorporation/ principal place of business	Registered/ issued and fully paid share capital*	Effective equity interest held by the Group			Principal activities
			31 Dec 2018 %	31 Dec 2017 %	1 Jan 2017 %	
Held by Aenergy Holdings Company Limited (cont'd)						
PT Alabama Energy[4] [5]	Indonesia	IDR5,000,000,000	40.5	-	-	Construction of a mini hydropower plant in progress
Held by PT SDM Bahagia Sejahtera						
PT Punggawa Datara Energy[4] [5]	Indonesia	IDR14,375,000,000	22.05	-	-	Inactive
Held by ISDN Resources Pte Ltd						
Jin Zhao Yu Pte Ltd[1]	Singapore	S$3,000	51	51	51	Inactive
ISDN NBA Resources Pte Ltd[1] [6]	Singapore	S$1	100	100	-	Inactive
Held by ISDN Bantaeng Pte Ltd						
PT ISDN Bantaeng Corporation[2] [4]	Indonesia	IDR14,623,000,000	68.42	68.42	51	Inactive
Held by Dirak Asia Pte Ltd						
Suzhou Dirak Co., Ltd[1] [5] [7]	PRC	US$210,000	49	49	49	Other specialised engineering solutions
Suzhou D Snap Technologies Co., Ltd[1] [5] [7]	PRC	US$750,000	49	49	49	Other specialised engineering solutions
Taiwan Dirak Co., Ltd[1] [5] [7]	Republic of China (Taiwan)	TWD5,000,000	29.89	29.89	29.89	Other specialised engineering solutions
Zhuzhou Dirak Technology Co., Ltd[1] [5] [7]	PRC	RMB5,080,000	29.4	29.4	29.4	Other specialised engineering solutions
Held by Suzhou Dirak Co., Ltd						
Beijing Dirak Co., Ltd[1] [5] [7]	PRC	RMB500,000	31.85	31.85	31.85	Other specialised engineering solutions

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

16 **Subsidiaries (cont'd)**

Name	Country of incorporation/ principal place of business	Registered/ issued and fully paid share capital*	Effective equity interest held by the Group			Principal activities
			31 Dec 2018 %	31 Dec 2017 %	1 Jan 2017 %	
Held by Suzhou Dirak Co., Ltd (Cont'd)						
Dirak (Shanghai) Co., Ltd[(1) (5) (7)]	PRC	RMB100,000	49	49	49	Inactive
Held by Servo Dynamics (H.K.) Limited						
SDHK (Shenzhen) Technology Co., Ltd[(4)]	PRC	RMB1,000,000	100	100	100	Inactive
Held by Leaptron Engineering Pte Ltd						
PT Leaptron Engineering[(4)]	Indonesia	IDR4,860,400,000	100	100	100	Inactive

*Registered paid-up capital as at 31 December 2018, disclosed in the local currency of respective subsidiary

(1) Audited by Moore Stephens LLP Singapore
(2) Audited or reviewed by Moore Stephens LLP Singapore for FRS consolidation purposes
(3) Audited by member firms of Moore Stephens International Limited in the respective countries
(4) Audited by other firms of certified public accountants for statutory purposes
(5) Accounted as a subsidiary as the Group has control over the entity
(6) Incorporated during the financial year
(7) The other 1% ownership interest is held by the Managing Director and President of the Company

Notes to the Financial Statements
For The Financial Year Ended 31 December 2018

16 Subsidiaries (cont'd)

Interest in subsidiaries with material non-controlling interests:

Name of subsidiary	Country of incorporation/ principal place of business	Proportion of ownership and voting rights held by non-controlling interests			Total comprehensive income/(loss) allocated to non-controlling interests			Accumulated non-controlling interests		
		31 Dec 2018	31 Dec 2017	1 Jan 2017	31 Dec 2018 S$'000	31 Dec 2017 S$'000	1 Jan 2017 S$'000	31 Dec 2018 S$'000	31 Dec 2017 S$'000	1 Jan 2017 S$'000
Dirak Asia subgroup	Singapore	51%	51%	51%	1,015	506	474	7,236	6,412	6,121
Maxon Motor (Suzhou) Co., Ltd ("Maxon Suzhou")	PRC	50%	50%	50%	3,585	3,419	3,264	4,436	4,200	4,155
Individual immaterial subsidiaries with non-controlling interests					733	153	1,280	26,785	4,594	4,651
Total					5,333	4,078	5,018	38,457	15,206	14,927

Dirak Asia Subgroup was established under the law of the Singapore on 30 September 1997 with an approved registered capital of S$554,690. Dirak Asia Subgroup is principally engaged in the other specialised engineering solutions. Dirak Asia Group was owned as to 50% by Dirak Holding GmbH, 49% by Motion Control Group Pte Ltd and 1% by Mr Teo Cher Koon.

Maxon Suzhou was established under the laws of the PRC on 4 September 1995 with an approved registered capital of US$210,000. Maxon Suzhou is principally engaged in the provision of motion control solutions. Maxon Suzhou was owned as to 50% by Servo Dynamics and 50% by Interelectric AG ("Interelectric") since September 2002.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

16 Subsidiaries (cont'd)

The summarised financial information for the Dirak Asia subgroup and Maxon Suzhou are set out below. The summarised financial information below represents amounts before intergroup eliminations.

Summarised statement of financial position

	Dirak Asia subgroup			Maxon Suzhou		
	31December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Current						
Assets	21,245	21,752	17,461	22,757	22,739	17,284
Liabilities	(9,100)	(10,761)	(7,209)	(14,052)	(14,589)	(9,209)
Net current assets	12,145	10,991	10,252	8,705	8,150	8,075
Non-current						
Assets	2,043	1,582	1,750	227	251	235
Liabilities	-	-	-	(60)	-	-
Net non-current assets	2,043	1,582	1,750	167	251	235
Net assets	14,188	12,573	12,002	8,872	8,401	8,310

Summarised statement of comprehensive income

	Dirak Asia subgroup		Maxon Suzhou	
	2018 S$'000	2017 S$'000	2018 S$'000	2017 S$'000
Revenue	29,201	25,949	53,226	49,750
Profit before income tax	2,768	1,573	10,091	8,743
Income tax	(778)	(580)	(2,922)	(1,905)
Profit after tax and total comprehensive income	1,990	993	7,169	6,838
Other summarised information				
Cash flow generated from operating activities	794	467	9,686	3,787
Dividends to non-controlling interests during the year	104	92	3,210	3,358
Acquisition of property, plant and equipment	969	638	86	79

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

16 Subsidiaries (cont'd)

Significant restrictions

The nature and extent of significant restrictions on the Group's ability to use or access assets and settle liabilities of subsidiaries with material non-controlling interests are:

Cash and cash equivalents of S$5,341,000 (2017: S$8,385,000) held by Maxon Suzhou and Maxon Shanghai in PRC are subject to local exchange control regulations. These control regulations places restriction on the amount of currency being exported other than through dividends.

(a) Change in the Group's ownership interest in a subsidiary

In 2018, the Company has subscribed 10,000,000 ordinary shares in the share capital of its wholly-owned subsidiary, ISDN Investments Pte Ltd for a total cash consideration of S$13,757,000. As a result, the issued and paid-up share capital of ISDN Investments Pte Ltd has increased to S$13,757,001. The additional investment will be deployed to fund in Indonesia under the Group's hydropower business in Indonesia.

(b) Incorporation of a subsidiary

In 2018, the Company wholly-owned subsidiary, Servo Dynamics Pte Ltd ("Servo Dynamics"), incorporated a new subsidiary, Maxon Motor SEA Pte. Ltd. ("Maxon SEA") in Singapore, with Interelectric AG to engage in the business of supplying high-precision drive systems as well as encoders, gears and control electronics. Servo Dynamics holds 50% equity interests in Maxon SEA, for a total capital cash consideration of S$250,000. As at 31 December 2018, the capital cash contribution of S$250,000 from non-controlling interest remain outstanding and included in other receivables as disclosed in Note 19.

(c) Striking-off of a subsidiary

In 2018, a wholly-owned subsidiary of the Group, Agri Source Suzhou Co., Ltd, has been voluntarily struck off, and has a net cash inflow from the striking-off amounting to S$227,000.

(d) Disposal of a subsidiary

In 2018, a wholly-owned subsidiary of the Group, Servo Dynamics Co., Ltd., disposed of its entire shareholding interest (being 50% of the issued and paid-up share capital) in T RACE Linear Technology (Suzhou) Co., Ltd. ("Trace") to a third party for a cash consideration of EUR250,000 (equivalent to S$383,000).

The attributable assets and liabilities of the subsidiary disposed and the cash flows relating to the disposal are set out as below:-

Analysis of asset and liabilities over which control was lost

	2018 S$'000
Current assets	662
Non-current assets	101
Current liabilities	(264)
	499
Less: Non-controlling interest	(249)
Net assets disposed	250

Notes to the Financial Statements
For The Financial Year Ended 31 December 2018

16 Subsidiaries (cont'd)

(d) Disposal of a subsidiary (cont'd)

Gain on disposal of a subsidiary

	2018 S$'000
Cash consideration received	383
Net assets disposed	(250)
	133
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity on loss of control of subsidiary	47
Gain on disposal of a subsidiary	180

Cash inflow arising from disposal of a subsidiary

	2018 S$'000
Consideration received in cash and cash equivalents	383
Less: Cash and cash equivalent disposed of	(47)
Net cash inflow from disposal of a subsidiary	336

(e) Step-up acquisition of Aenergy Holdings Company Limited ("Aenergy") and its subsidiaries ("Aenergy subgroup"), previously an associate

On 27 December 2018, the Company's wholly-owned subsidiary company, ISDN Investments Pte Ltd, subscribed for additional new ordinary shares in the share capital of Aenergy (formerly an associate of the Group - Note 17), for a total consideration of US$6,875,000 (equivalent to S$9,439,000). The consideration was satisfied by capitalisation of part of the total loan amounts granted to Aenergy subgroup during the current financial year as disclosed in Note 17.

Following the completion of this subscription, the Group's equity interest in Aenergy increased from 39.9% to 50.0%. Consequently, the Aenergy subgroup is considered as subsidiaries of the Group and the consolidated financial position of Aenergy subgroup was accordingly consolidated into the Group's financial statements with effect as of 31 December 2018.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

16 **Subsidiaries (cont'd)**

(e) **Step-up acquisition of Aenergy Holdings Company Limited ("Aenergy") and its subsidiaries ("Aenergy subgroup"), previously an associate (cont'd)**

Details of the assets acquired, liabilities recognised and consideration transferred in respect of the above step-up acquisition are as follow:

	S$'000
Provisional fair value of assets acquired and liabilities recognised with effect as of 31 December 2018	
Cash and bank balances	4,142
Trade and other receivables	7,289
Service concession receivables (Note 19)	30,233
Property, plant and equipment[#] (Note 12)	12,246
Trade and other payables	(10,473)
Total provisional identifiable net assets at fair value	43,437
Non-controlling interests	(22,156)
	21,281
Less: Far value of deemed disposed of 39.9% interest in Aenergy	(12,383)
Provisional fair value of identifiable net assets acquired	8,898
Consideration	
Consideration transferred	9,439
Less: Provisional fair value of identifiable net assets acquired	(8,898)
Provisional goodwill arising on acquisition of 10.1% interest in Aenergy	541
Net Cash outflow arising from acquisitions of subsidiaries	
Consideration transferred - via capitalisation of loan amount	9,439
Less: Cash and cash equivalents acquired	(4,142)
Net cash outflow from acquisition of subsidiaries	5,297

[#] These comprised mainly freehold land and construction in progress in relation to a mini hydroelectric power plant owned by the Aenergy subgroup which does not fall within the scope of SFRS(I) INT 12.

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16 Subsidiaries (cont'd)

(e) Step-up acquisition of Aenergy Holdings Company Limited ("Aenergy") and its subsidiaries ("Aenergy subgroup"), previously an associate (cont'd)

The initial accounting for the acquisition of Aenergy subgroup in relation to the purchase price allocation has only been determined provisionally based on the management's best estimate of the likely fair value of the net identifiable assets at the date of acquisition. Aenergy subgroup's assets mainly comprised the carrying amounts of three mini hydropower plants under construction, of which two of these power plants are under service concession arrangements. The provisional fair value of these assets is subject to an independent valuation to be carried out within one year from the date of acquisition.

Subject to independent valuation and any new information obtained within one year from the acquisition about facts and circumstances that existed at the date of acquisition that identify adjustment to the provisional amounts, or any additional provisions that existed at the date of acquisition, the initial accounting for the acquisition will then be revised.

<u>Goodwill arising on acquisition</u>

Goodwill arose in the acquisition of Aenergy subgroup because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on this acquisition is not expected to be deductible for tax purposes.

<u>Impact of acquisition on the results of the Group</u>

Included in the Group's profit for the year is S$356,000, being share of loss attributable to Aenergy subgroup, that has been accounted for using equity method of accounting. The Group recognised "share of result from associates" being the operating result of Aenergy subgroup for the period up to the completion of the step-up acquisition date, i.e. with effect on 31 December 2018.

Had the business combinations been effected at 1 January 2018, management estimates that consolidated revenue of the Group would have increased by S$12.4 million, and the consolidated profit for the year would have decreased by S$0.9 million. In determining these amounts, management has assumed that the provisional fair value adjustments that arose on the date of acquisition mentioned above would have been the same if the acquisition had occured on 1 January 2018.

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17 Associates

	Group			Company		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Unquoted equity shares, at cost	2,306	5,873	2,376	100	100	-
Share of post-acquisition profits	6,068	4,811	4,196	24	24	-
Dividends received	(2,428)	(1,982)	(1,533)	-	-	-
Translation adjustment	8	(514)	(319)	-	-	-
	5,954	8,188	4,720	124	124	-
Loans to associates	182	10,164	6,929	-	-	31
	6,136	18,352	11,649	124	124	31

All of the above associates are accounted for using the equity method in these consolidated financial statements.

As at 31 December 2018, investment in associates includes goodwill of S$154,000 (2017 and 1 January 2017: S$154,000).

During the financial year, the Group recognised dividend income of S$234,000 (2017: S$449,000) from its investments in associates. The dividend of S$446,000 (2017: S$297,000) has been received in cash. As at 31 December 2017, the balance of dividend receivables from associates of S$212,000 had been included in other receivables as disclosed in Note 19.

Loans to associates represent quasi-equity loans, which form part of the Group's net investment in the associates. These loans to associates are unsecured and interest-free, and the settlement is neither planned nor likely to be settled in the foreseeable future. As the loans are, in substance, a part of the Group's net investment in the associate, they are accordingly stated at cost.

Associates which are invidually material

The summarised financial information in respect of the Group's material associate, and not adjusted for the percentage of equity interest held by the Group is set out below.

(a) Aenergy Holdings Limited and its subsidiaries (Aenergy subgroup)

	Aenergy subgroup		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Current assets	-	20,037	13,424
Non-current assets	-	12,826	9,632
Current liabilities	-	(1,024)	(4,955)
Non-controlling interests	-	(171)	(283)

	2018 S$'000	2017 S$'000
Revenue	12,404	-
Loss for the year*	(891)	(1,094)
Total comprehensive loss	(891)	(1,094)

* Share of loss attributable to Aenergy subgroup amounted to S$356,000 was included in the Group's profit for the year, accounted for using the equity method accounting.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

17 **Associates (cont'd)**

Associates which are invidually material (cont'd)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Aenergy subgroup recognised in the consolidated financial statements:

	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Net assets of Aenergy subgroup	-	31,839	18,101
Proportion of the Group's ownership	-	39.9%	37.5%
Carrying amount of the Group's interest in Aenergy subgroup	-	12,704	6,788

(b) JM Vistec System Pte Ltd and its subsidiaries (JM Vistec subgroup)

	JM Vistec subgroup		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Current assets	7,218	7,128	5,322
Non-current assets	62	65	85
Current liabilities	(3,237)	(4,020)	(2,735)

	2018 S$'000	2017 S$'000
Revenue	12,030	15,877
Profit for the year	199	1,188
Total comprehensive income	199	1,188

Reconciliation of the above summarised financial information to the carrying amount of the interest in JM Vistec subgroup recognised in the consolidated financial statements:

	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Net assets of JM Vistec subgroup	4,043	3,173	2,673
Proportion of the Group's ownership	40%	40%	40%
Carrying amount of the Group's interest in JM Vistec subgroup	1,617	1,269	1,069

Notes to the Financial Statements
For The Financial Year Ended 31 December 2018

17 Associates (cont'd)

Associates which are individually material (cont'd)

(c) Prestech Industrial Automation Pte Ltd (Prestech)

	Prestech		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Current assets	3,236	3,555	2,404
Non-current assets	1,910	1,073	1,212
Current liabilities	(407)	(470)	(958)
Non-current liabilities	(784)	(466)	-

	2018 S$'000	2017 S$'000
Revenue	4,020	4,654
Profit for the year	681	1,228
Total comprehensive income	681	1,228

Reconciliation of the above summarised financial information to the carrying amount of the interest in Prestech recognised in the consolidated financial statements:

	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Net assets of Prestech	3,955	3,692	2,658
Proportion of the Group's ownership	37.5%	37.5%	37.5%
Carrying amount of the Group's interest in Prestech	1,483	1,385	997

(d) Maxon Motor Taiwan Co., Ltd (Maxon Taiwan)

	Maxon Taiwan		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Current assets	2,836	2,409	1,971
Non-current assets	9	24	44
Current liabilities	(1,176)	(942)	(747)
Non-current liabilities	(1)	(2)	(2)

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

17 **Associates (cont'd)**

Associates which are individually material (cont'd)

(d) Maxon Motor Taiwan Co., Ltd (Maxon Taiwan) (cont'd)

	2018 S$'000	2017 S$'000
Revenue	4,658	3,888
Profit for the year	776	659
Total comprehensive income	776	659

Reconciliation of the above summarised financial information to the carrying amount of the interest in Maxon Taiwan recognised in the consolidated financial statements:

	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Net assets of Maxon Taiwan	1,668	1,489	1,266
Proportion of the Group's ownership	50%	50%	50%
Carrying amount of the Group's interest in Maxon Taiwan	834	745	633

Associates which are individually not material

The summarised financial information of the associates that are individually not material, and not adjusted for the percentage of equity interest held by the Group, is as follows:

	Group		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Assets and Liabilities:			
- total assets	12,926	15,233	14,641
- total liabilities	7,048	9,450	7,480
Results:			
- revenue	7,167	7,093	11,860
- profit/(loss) for the year	32	(951)	1,571
- other comprehensive income/(loss)	32	(951)	1,571

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

17 Associates (cont'd)

The activities of the associates are strategic to the Group's activities. The associates of the Group as at the statement of financial position date are set out below:

Name	Country of incorporation/ principal place of business	Effective equity interest held by the Group			Principal activities
		31 December 2018 %	31 December 2017 %	1 January 2017 %	
Held by the Company					
Emmett Capital (Pte) Ltd[2] [5]	Singapore	50.0	50.0	50.0	Corporate finance advisory
Held by ISDN Investments Pte Ltd					
Aenergy Holdings Company Limited[2] [4]	Hong Kong	-	39.90	37.50	Investment holding
Held by Servo Dynamics Pte Ltd					
Maxon Motor Taiwan Co., Ltd[4] [5]	Republic of China (Taiwan)	50	50	50	Motion control solutions
Held by Motion Control Group Pte Ltd					
DKM South Asia Pte Ltd[4]	Singapore	35	35	35	Motion control solutions
Precision Motion Control Philippines Inc.[4]	Philippines	40	40	40	Motion control solutions
IDI Laser Services Pte Ltd[4]	Singapore	33.33	33.33	33.33	Laser solutions
Prestech Industrial Automation Pte Ltd[4]	Singapore	37.5	37.5	37.5	Motion control solutions
JM Vistec System Pte Ltd[1]	Singapore	40	40	40	Other specialised engineering solutions
Held by ISDN Myanmar Power Pte Ltd					
C&I Renewable Limited[4]	British Virgin Islands	30.0	30.0	-	Renewable energy solutions
Held by TDS Technology (S) Pte Ltd					
TDS Technology (Thailand) Company Limited[4]	Thailand	28.14	28.14	28.14	Motion control solutions

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

17 Associates (cont'd)

Name	Country of incorporation/ principal place of business	Effective equity interest held by the Group			Principal activities
		31 December 2018 %	31 December 2017 %	1 January 2017 %	
Held by <u>JM Vistec System Pte Ltd</u>					
JM Vistec (Suzhou) Co., Ltd[4]	PRC	40	40	40	Other specialised engineering solutions
JM Vision Technologies Co., Ltd[4]	Republic of China (Taiwan)	40	40	40	Other specialised engineering solutions
C True Vision Pte Ltd[1]	Singapore	40	40	40	Other specialised engineering solutions
JM Vistec System (Thailand) Co., Ltd[4]	Thailand	19.6	19.6	19.6	Other specialised engineering solutions
SofKore GmbH[4] [6]	Germany	40	-	-	Other specialised engineering solutions
Held by <u>Aenergy Holdings Company Limited</u>					
PT Potensia Tomini Energi[2] [4]	Indonesia	-	31.92	30	Inactive
PT Charma Paluta Energy[2] [4]	Indonesia	-	31.92	30	Construction of a mini hydropower plant in progress
PT SDM Bahagia Sejahtera[2] [4]	Indonesia	-	37.91	35.63	Investment holdings
PT Abantes Energi Indonesia[2] [4]	Indonesia	-	19.55	18.38	Inactive
PT Simalem Bumi Energi[2] [4]	Indonesia	-	19.55	18.38	Inactive
PT Senina Hidro Energi[2] [4]	Indonesia	-	19.55	18.38	Inactive
PT Karo Bumi Energi[2] [4]	Indonesia	-	19.55	18.38	Construction of a mini hydropower plant in progress
PT Galang Hidro Energi[2] [4]	Indonesia	-	19.55	18.38	Inactive

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

17 Associates (cont'd)

Name	Country of incorporation/ principal place of business	Effective equity interest held by the Group			Principal activities
		31 December 2018 %	31 December 2017 %	1 January 2017	
Held by PT SDM Bahagia Sejahtera					
PT Punggawa Datara Energy[2] [4]	Indonesia	-	18.58	17.46	Inactive
Held by ISDN Resource Pte Ltd					
PT Leaptron Armadatrans International[2] [4]	Indonesia	49	49	49	Inactive
Held by C&I Renewable Limited					
C&I Renewable HK Limited[4]	Hong Kong	30.0	30.0	-	Investment holding
C&I Power Storage HK Limited[4] [6]	Hong Kong	30.0	-	-	Investment holding
C&I Singapore Renewable and Innovative Tech Pte Ltd[4] [6]	Singapore	30.0	-	-	Research and experimental development on environment and clean technologies
Held by C&I Renewable HK Limited					
Suzhou Comtec Tianyi Solar Technology Ltd. [4]	PRC	30.0	30.0	-	Renewable energy solutions

(1) Audited by Moore Stephens LLP Singapore
(2) Audited or reviewed by Moore Stephens LLP Singapore for SFRS(I) consolidation purposes
(3) Audited by member firms of Moore Stephens International Limited in the respective countries
(4) Audited by other firms of certified public accountants for statutory purposes
(5) No management control over the financial and operating policy decisions
(6) Incorporated during the financial year

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

17 Associates (cont'd)

(a) Incorporation of associates

(i) In 2018, the Company has through its associated Company, JM Vistec System Pte. Ltd. ("JM Vistec"), incorporated a new entity, SofKore GmbH. ("SofKore") in Germany. SofKore has a registered share capital of EUR 25,000 divided into 25,000 common shares, with a partially paid-up share capital of EUR12,500, representing 50% interest in SofKore, held wholly by JM Vistec.

(ii) In 2018, C&I Renewable Limited a 30% owned associated company of the Group, has incorporated two new wholly-owned subsidiaries:

- C&I Power Storage HK Limited in Hong Kong with an issued and paid up share capital of HK$1.00; and

- C&I Singapore Renewable and Innovative Tech Pte. Ltd in Singapore with an issued and paid up capital of US$500,000.

(a) Aenergy subgroup

(i) Acquisition of 81% interest in PT Alabama Energy ("PT Alabama")

In 2018, the Group completed the acquisition of 81% interest in PT Alabama through its associated company, Aenergy, for a total consideration of US$1,050,000 (equivalent to S$1.3 million), satisfied via capitalisation of partial of the loans from Aenergy to PT Alabama. Upon completion of the acquisition, the Group has an effective interest of 32.3% in PT Alabama. PT Alabama has a mini-hydropower plant under construction, under a service concession arrangement.

(ii) Change in the Group's ownership interest in Aenergy subgroup

Prior to the completion of step acquisition of Aenergy subgroup as disclosed in Note 16, the Group held an effective interest of 39.9% interest in Aenergy and accounted for the investment in Aenergy subgroup as associates of the Group.

In 2018, the Group provided additional capital funds of approximately US$12.3 million to Aenergy subgroup, of which US$2.65 million was from the settlement of an amount due from investor as disclosed in Note 19(d). Subsequent to the transfer of these capital funds, an amount of US$6.85 million equivalent to S$9.4 million was capitalised as issued and paid-up capital of Aenergy as disclosed in Note 16. Consequently, the Group's effective interest in Aenergy increased from 39.9% to 50% (2017: 37.5% to 39.9%), and accordingly, considered as subsidiary (2017: associate) of the Group, as the Group has control over Aenergy subgroup. The change in the Group's ownership interest in Aenergy subgroup resulted in a loss on deemed disposal of associate of S$77,000 recognised in profit and loss.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

18 Inventories

	Group		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Components parts	38,555	21,443	16,565
Finished goods	20,736	35,068	26,134
Work-in-progress	1,604	1,793	2,164
Goods-in-transit (finished goods)	3,162	353	1,369
Total inventories at cost	64,057	58,657	46,232
Less: Allowance for inventory obsolescence	(8,874)	(8,498)	(7,330)
Total inventories at the lower of cost and net realisable value	55,183	50,159	38,902
Cost of inventories sold recognised as cost of sales in the consolidated statement of comprehensive income	220,377	217,796	193,384

The amounts of inventory obsolescence written-back and made during the financial year are disclosed in Note 6 and Note 8, respectively.

Included in finished goods are rights to recover returned goods from customers amounting to S$99,000 (2017: S$156,000; 1 January 2017: Nil). These are measured by reference to the former carrying amount of the sold inventories less any expected costs to recover those inventories and any potential decrease in the value of the returned inventories to the Group. Refund liabilities in respect of these returned goods from customers were also recognised in trade and other payables as disclosed in Note 27.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

19 Trade and Other Receivables

	Group			Company		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Non-current:						
Service concession receivables (Note 29)	30,233	-	-	-	-	-
Current:						
Trade receivables, net of impairment (a):						
- note receivables (b)	6,669	6,247	6,147	-	-	-
- third parties	61,651	58,119	59,707	-	-	-
- associates	2,963	2,490	2,237	-	-	-
- related parties	1,727	1,597	1,340	-	-	-
	73,010	68,453	69,431	-	-	-
Other receivables, net of impairment:						
Funding to investee companies (c)	5,928	4,532	4,476	-	-	-
Amount due from investor (d)	-	3,536	3,072	-	-	-
Advances to associates (e)	144	122	113	30	-	-
Advances to related parties (e)	522	138	24	-	-	-
Deposits	912	530	673	7	-	-
Loans to associates (f)	353	817	1,313	9	-	-
Promissory note due (g)	1,176	1,280	-	-	-	-
Sundry debtors (h)	4,282	4,131	3,731	37	-	-
	13,317	15,086	13,402	83	-	-
Advances paid to						
- suppliers	8,953	5,158	2,756	-	-	-
Prepayments	945	467	699	280	115	74
	96,225	89,164	86,288	363	115	74
	126,458	89,164	86,288	363	115	74

(a) Trade receivables are non-interest bearing and are usually due within 30 - 90 days term. Included in trade receivables as at 31 December 2018 were trade receivables from third parties amounted to S$781,000 (2017: S$734,000, 1 January 2017: S$792,000) which are under the Account Receivables Bulk Factoring arrangement (Note 24) via a bank facility agreement entered by a subsidiary of the Group. These factored trade receivables are included in trade receivables as the subsidiary still retains the risks and rewards associated with the delay and default in payment by customers.

(b) The note receivables from banks mature at varying dates within the next twelve months from the end of the reporting period.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

19 Trade and Other Receivables (cont'd)

(c) Funding to investee companies, net of impairment:

	Group		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Note (c)(i)	426	417	447
Note (c)(ii)	3,902	3,891	3,928
Note (c)(iii)	1,801	-	-
Others	236	224	101
	6,365	4,532	4,476
Less: Allowance for impairment loss	(437)	-	-
	5,928	4,532	4,476

(i) In prior years, ISDN Investments has provided the initial funding of US$330,000 under an investment agreement entered into for the proposed acquisition of certain equity interest in the investee company in Indonesia for it mining business. The funding is interest-bearing at 10% per annum and is secured by personal guarantees and 100% shares pledged by the existing shareholders of the investee company. In 2018, the parties agree to terminate the investment agreement and the Group is in negotiation with the investee company for the balance of funding of US$310,000 (equivalent to S$426,000 as at 31 December 2018) to be repaid to ISDN Investment before 31 December 2019 and collateralised by a third person's personal undertaking to guarantee for the repayment by the investee company. Management is of the view that the repayment amount is not credit-impaired based on the repayment plan under negotiation and the financial standing of the third person guarantor.

(ii) In prior years, ISDN Resource has provided a total funding of US$2.9 million under the mining operation agreements entered into with two investee companies in Indonesia to which ISDN Resource will provide financing and other management related services for the investee companies' mining business. This funding is secured by unconditional personal guarantees and shares pledged of two major shareholders of the investee companies. In 2018, the parties agree to terminate the mining operation agreements and the Group is in negotiation with the investee companies for the funding amount (equivalent to S$3.902 million as at 31 December 2018) to be repaid to ISDN Resource before 31 December 2019, including enforcing against the unconditional personal guarantees of the two major shareholders. Management is of the view that the repayment amount is not credit-impaired based on the repayment plan under negotiation and the financial standing of the guarantors.

(iii) This being prepaid capital investment funding via Aenergy to an investee company which holds a mini-hydropower plant project. This capital investment will be capitalised as part of the acquisition consideration for 80% equity interest in the investee company once the power purchase agreement in relation to the mini-hydropower plant project is secured and signed.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

19 Trade and Other Receivables (cont'd)

(d) In prior years, ISDN Investments had entered into a sale and purchase agreement (the "SPA") with Mr Robert Alexander Stone (the "Purchaser"), to dispose of 3,181 ordinary shares in Aenergy representing approximately 17.5% of the total issued share capital of Aenergy (the "Sale Shares") to the Purchaser (the "Disposal"). The aggregate consideration was repaid partially in cash, and the remaining balance had been recorded as amount due from investor. In 2018, this amount was settled in full through payment made to Aenergy as disclosed in Note 17(b).

(e) The advances to associates and related parties are non-trade, unsecured, interest-free, and are repayable on demand in cash.

(f) The loans to associates are unsecured, interest-free, and repayable on demand, except an amount of S$383,000 as at 31 December 2017 incurred interest of 5% to 6.9% per annum. This interest-bearing loan was fully repaid in 2018.

(g) In 2017, ISDN Investment issued a promissory note to an individual amounted to US$950,000 (equivalent to S$1.801 million as at 31 December 2018), which is secured on 100% of shares in a company beneficially owned by the individual, interest-bearing at 6.5% per annum, and is repayable within the next twelve months from the date of the loan drawndown. The repayment date may be extended at the discretion of ISDN Investment. The purpose of the loan was to explore for overseas investment opportunities for the Group. In 2018, the promissory note became due and the parties are in negotiation to extend the promissory note up to 31 December 2019 and collateralised by certain plants and machinery beneficially owned by the individual. Management is of the view that the promissory note is not credit-impaired based on the repayment plan under negotiation and the fair value of the collateralised plants and machinery.

(h) Included in sundry debtors is an amount of S$250,000 being the amount due from a non-controlling interest in relation to capital cash consideration for a newly incorporated subsidiary as disclosed in Note 16(b).

(i) The aging analysis of trade receivables, after net of allowance for impairment loss of the Group based on invoice date is as follows:

	Group		
	31 December 2018	31 December 2017	1 January 2017
	S$'000	S$'000	S$'000
Within 30 days	28,419	32,554	32,701
31 – 90 days	26,695	20,473	19,711
Over 90 days	17,896	15,426	17,019
	73,010	68,453	69,431

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

19 Trade and Other Receivables (cont'd)

The detailed ageing analysis of trade receivables of the Group as at 31 December 2018 is follows:

		Trade receivables past due			
	Current S$'000	31 – 90 days S$'000	90 - 365 days S$'000	>365 days S$'000	Total S$'000
Group					
Trade receivables					
- gross carrying amount at default	28,494	26,842	17,719	1,115	74,170
Loss allowance – lifetime ECL	(85)	(268)	(213)	(594)	(1,160)
	28,409	26,574	17,506	521	73,010

Loss allowance for trade receivables has always been measured at an amount equal to lifetime expected credit loss (ECL) as disclosed in the accounting policy Note 3(k)(ii). The Group's exposure to credit risks, and allowance for impairment loss on trade receivables (and other receivables) are disclosed in Note 35.

20 Cash and Bank Balances

	Group			Company		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Cash and bank balances	38,591	37,996	35,807	3,023	2,692	346
Fixed deposits	3,286	307	2,876	-	-	-
	41,877	38,303	38,683	3,023	2,692	346
Effective interest rate per annum	0.1% to 5.00%	0.1% to 5.00%	0.1% to 5.80%	-	-	-

The fixed deposits have a maturity period of 1 to 24 months (2017: 1 to 12 months) which are not held for investment purpose but are placed to have better yield returns than cash at banks, These fixed deposits are readily convertible to cash to meet the Group's cash commitments in the short term, if required.

For the purpose of presentation in the consolidated statement of cash flows, the consolidated cash and cash equivalents comprised the following:

	Group		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Cash and bank balances and fixed deposits	41,877	38,303	38,683
Less: restricted bank deposits	(1,430)	-	-
Less: fixed deposits pledged	(3,192)	(250)	(1,391)
Cash and cash equivalents	37,255	38,053	37,292

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

20 Cash and Bank Balances (cont'd)

Included in the fixed deposits pledged is an amount of approximately S$2.94 million for banker's performance guarantee issue to the Grantor in relation to one of those service concession arrangements disclosed in Note 29.

As at 31 December 2018, cash and cash equivalents denominated in Chinese Renminbi amounted to approximately S$16,725,000 (2017: S$20,151,000, 1 January 2017: S$17,884,000). The Chinese Renminbi is not freely convertible into other currencies. However, under China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Chinese Renminbi for other currencies through banks authorised to conduct foreign exchange business.

21 Share Capital

	Issued and fully paid			
	No. of ordinary shares		Amount	
	2018	2017	2018 S$'000	2017 S$'000
Group and Company				
As at 1 January	394,684,950	354,684,950	70,981	62,408
Public share offer, net	-	40,000,000	-	8,573
Exercise of warrants (Note 22)	4,236	-	3	-
As at 31 December	394,689,186	394,684,950	70,984	70,981

Ordinary shares of the Company do not have any par value. The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and rank equally with respect to the Company's residual assets.

The shares of the Company have been dual listed on the Main Board of The Stock Exchange of Hong Kong Limited on 12 January 2017 and a total of 40 million new ordinary shares at HK$1.25 per share was issued, with gross proceeds of approximately S$9,373,000, net of share issue expense of S$800,000.

22 Warrants Issue

	No. of warrants		Amount	
	2018	2017	2018 S$'000	2017 S$'000
Group and Company				
As at 1 January	179,972,475	179,972,475	3,384	3,384
Warrants conversion to ordinary shares (Note 21)	(4,236)	-	(3)	-
Warrants expired	(179,968,239)	-	(3,381)	-
As at 31 December	-	179,972,475	-	3,384

On 13 November 2013, the Company issued a renounceable non-written rights issue of 179,972,475 warrants at an issue price of S$0.02 for each warrant. Each warrant carries the right to subscribe to 1 new ordinary share of the Company at an exercise price of S$0.60 for each new share, on the basis of one warrant for every 2 existing ordinary shares, to be exercised at any time during the period commencing on and including the date of issue of the warrants and expiring on the date immediately preceding the fifth anniversary of the date of issue of the warrants i.e. 9 November 2018.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

22 Warrants Issue (cont'd)

During the financial year ended 31 December 2018, 4,236 warrants were exercised to acquire ordinary shares. The warrants expired on 9 November 2018.

23 Reserves

	Group			Company		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Merger reserve (a)	(436)	(436)	(436)	-	-	-
Exchange translation reserve (b)	(2,053)	(802)	-	-	-	-
Other reserves (c)	4,820	4,921	4,694	(279)	(178)	(178)
Retained earnings	70,436	58,572	51,167	12,167	4,828	2,893
	72,767	62,255	55,425	11,888	4,650	2,715

Movements in reserves for the Group are set out in the consolidated statement of changes in equity.

(a) The merger reserve arose from the difference between the nominal value of shares issued by the Company and the nominal value of shares of the subsidiaries acquired under the pooling-of-interest method of consolidation in 2005.

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

(c) Other reserves comprise of statutory reserve fund and cash flow hedging reserve.

(i) Statutory reserve fund

In accordance with the relevant laws and regulations of the PRC, the subsidiaries of the Group in the PRC should set aside a statutory reserve fund by way of appropriation of 10% of their profit after tax as reported in the PRC statutory financial statements each year.

The statutory reserve fund may be used to offset any accumulated losses or increase the registered capital of the subsidiaries, subject to approval from the relevant PRC authorities. The appropriation of the cumulative total of the statutory reserve fund is capped at 50% of the subsidiary's registered capital. The statutory reserve is not available for dividend distribution to shareholders.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

23 Reserves (cont'd)

(c) Other reserves comprise of statutory reserve fund and cash flow hedging reserve. (cont'd)

(i) Statutory reserve fund (cont'd)

	Group	
	2018	2017
	S$'000	S$'000
At 1 January and 31 December	4,921	4,921

(ii) Cash flow hedging reserve

The cash flow hedging reserve comprises the portion of the cumulative net change in the fair value of hedging instruments deemed effective in cash flow hedges. The cumulative gain or loss on the hedging instrument is reclassified to profit or loss only when the hedged transactions affects the profit or loss or directly included in the initial cost or other carrying amount of a non-financial asset or non-financial liability.

	Group and Company	
	2018	2017
	S$'000	S$'000
At 1 January	-	-
Loss recognised on interest rate cap	(101)	-
At 31 December (Note 27)	(101)	-

The details of the hedging arrangement are disclosed in Note 35(a) under interest rate risk.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

24 Bank Borrowings

	Group			Company		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Non-current liabilities						
Secured bank loans	11,792	-	-	11,455	-	-
Unsecured bank loans	50	159	263	-	-	-
	11,842	159	263	11,455	-	-
Current liabilities						
Secured bank loans	2,742	2,367	3,810	2,291	-	-
Unsecured bank loans	8,812	5,604	6,564	-	-	-
Unsecured loan from financial institution	-	3,000	-	-	3,000	-
Trust receipts	4,088	2,597	1,886	-	-	-
Account receivables bulk factoring	781	734	792	-	-	-
	16,423	14,302	13,052	2,291	3,000	-
Total interest-bearing liabilities	28,265	14,461	13,315	13,746	3,000	-

	Group			Company		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Repayable:						
- Not later than one year	16,423	14,302	13,052	2,291	3,000	-
- Later than one year but not later than two years	4,673	111	263	4,582	-	-
- Later than two years but not later than five years	7,169	48	-	6,873	-	-
	28,265	14,461	13,315	13,746	3,000	-

In 2018, the Company obtained a USD bank loan of US$10 million (equivalent to S$13.746 million). The bank loan is repayable in five instalments equivalent 16.67% of the loan amount, every six months, commencing in December 2019 and final payment of all outstanding in July 2022.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

24 Bank Borrowings (cont'd)

Terms and debt repayment schedule

Terms and conditions of the outstanding bank borrowings are as follows:

	Currency	Nominal interest rate	Year of maturity	Group 31 December 2018 S$'000	Group 31 December 2017 S$'000	Group 1 January 2017 S'000	Company 31 December 2018 S$'000	Company 31 December 2017 S$'000
Secured bank loan	RMB	PBOC Base Rate + 108%	2017	-	-	1,411	-	-
Secured bank loan	MYR	COF + 2%	2021	387	424	444	-	-
Secured bank loan	RMB	COF +2.5%	2019	401	-	-	-	-
Secured bank loan	USD	LIBOR + 3%	2022	13,746	-	-	13,746	-
Secured bank loan	USD	COF + 2%	2018	-	1,347	1,200	-	-
Secured bank loan	RMB	PBOC Base Rate + 120%	2018	-	596	755	-	-
Unsecured bank loan	RMB	PBOC Base Rate + 125%	2019	609	636	628	-	-
Unsecured bank loan	RMB	PBOC Base Rate + 110%/120%	2019	3,210	4,355	3,955	-	-
Unsecured bank loan	SGD	COF + 2.5%	2017	-	-	400	-	-
Unsecured bank loan	SGD	2.9%	2017	-	-	763	-	-
Unsecured bank loan	SGD	3.5%	2019 -2020	459	772	1,081	-	-
Unsecured bank loan	USD	COF + 1.75%	2019	3,210	-	-	-	-
Unsecured bank loan	USD	COF + 2%	2019	1,374	-	-	-	-
Unsecured loan from financial institution	SGD	6.7%	2018	-	3,000	-	-	3,000
Trust receipt 1	SGD	COF + 2.5%	2019	848	936	953	-	-
Trust receipt 2	USD	COF + 2.5%	2019	737	1,319	593	-	-
Trust receipt 3	SGD	COF + 1.5%	2019	459	342	340	-	-
Trust receipt 4	USD	COF + 1.75%	2019	1,558	-	-	-	-
Trust receipt 5	USD	COF + 1.5%	2019	224	-	-	-	-
Trust receipt 6	SGD	SIBOR + 2.2%	2019	262	-	-	-	-
Account receivables bulk factoring	SGD	COF + 3.25%	2019	781	734	792	-	-
Total interest-bearing liabilities				28,265	14,461	13,315	13,746	3,000

The Company did not have any bank borrowings as at 1 January 2017.

Certain of the bank loans of the Group are secured over leasehold buildings (Note 12), land use rights (Note 14) fixed deposit (Note 20) and corporate guarantees provided by the Company and other subsidiaries as well as personal guarantee by the directors of the subsidiaries.

The weighted average effective interest rate of the Group's bank borrowings is 4.18% (2017: 5.25%) per annum.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

24 Bank Borrowings (cont'd)

The reconciliation of movement of liabilities to cash flows arising from financing activities is presented below:

		Cash flows			
	1 January S$'000	Proceeds S$'000	Repayments S$'000	Other charges S$'000	31 December S$'000
Group					
2018					
Bank borrowings	11,130	23,491	(11,214)	(11)	23,396
Trust receipts	2,597	20,202	(18,711)	-	4,088
Account receivables bulk financing	734	956	(909)	-	781
	14,461	44,649	(30,834)	(11)	28,265
2017					
Bank borrowings	10,637	15,555	(15,121)	59	11,130
Trust receipts	1,886	8,099	(7,388)	-	2,597
Account receivables bulk financing	792	-	-	(58)	734
	13,315	23,654	(22,509)	1	14,461

25 Finance Lease Liabilities

	Group		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Minimum lease payments payable:			
- due not later than one year	86	179	168
- due later than one year and not later than five years	269	94	207
	355	273	375
Finance charges allocated to future years	(50)	(31)	(39)
Present value of minimum lease payments	305	242	336
Non-current liabilities			
Due later than one year	224	82	186
Current liabilities			
Due not later than one year	81	160	150
	305	242	336

The weighted average effective interest rate of the Group's finance leases is 2.33% (2017: 2.79%) per annum.

Finance leases relate to motor vehicles and office equipment with varying lease terms. The Group has options to purchase these assets for a nominal amount at the conclusion of the lease agreements. The Group's obligation under finance leases are secured by the lessors' title to the leased assets.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

26 Deferred Taxation

	Group		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Deferred tax assets			
- to be recovered after one year	139	316	59
Deferred tax liabilities			
- to be settled after one year	(657)	(266)	-

	1 January S$'000	Recognised in profit or loss S$'000	Disposal S$'000	Translation adjustments S$'000	31 December S$'000
Group					
2018					
Deferred tax assets					
Temporary differences property, plant and equipment	85	(85)	-	-	-
Unabsorbed capital allowances	104	(104)	-	-	-
Unutilised tax losses*	127	(127)	-	-	-
Provisions	-	139	-	-	139
	316	(177)	-	-	139
Deferred tax liabilities					
Withholding tax on distributable earnings (Note 10)	(266)	(344)	-	-	(610)
Others	-	(47)	-	-	(47)
	(266)	(391)	-	-	(657)
2017					
Deferred tax assets					
Temporary differences property, plant and equipment	59	26	-	-	85
Unabsorbed capital allowances	-	104	-	-	104
Unutilised tax losses*	-	127	-	-	127
	59	257	-	-	316
Deferred tax liabilities					
Withholding tax on distributable earnings (Note 10)	-	(266)	-	-	(266)

* The deferred tax assets arose from the Company's unutilised tax losses of Nil (2017: S$747,000), which can be carried forward and it is probable to be used to offset against the future taxable income of its Singapore incorporated subsidiaries under the group relief system.

Notes to the Financial Statements
For The Financial Year Ended 31 December 2018

27 Trade and Other Payables

	Group			Company		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Trade payables (a):						
- note payables (b)	-	1	2,083	-	-	-
- third parties	27,394	30,935	27,641	-	-	-
- associates	72	48	125	-	-	-
- related parties	6,787	4,712	7,417	-	-	-
Refund liabilities (c)	141	222	-			
	34,394	35,918	37,266	-	-	-
Advances received from:						
- customers	10,597	9,125	6,449	-	-	-
Accrued operating expenses (d)	6,095	5,548	6,871	723	1,601	2,268
Accrued salaries and bonuses	12,794	10,434	6,729	5,567	4,357	1,921
Amount owing to an associate (e)	31	1,280	3,784	-	-	-
Amount owing to non-controlling interests (e)	720	716	733	-	-	-
Amount owing to subsidiaries (e)	-	-	-	7,193	489	-
Derivatives (f)	101	-	-	101	-	-
Other payables (g)	4,648	5,895	3,646	102	109	470
	69,380	68,916	65,478	13,686	6,556	4,659

(a) Trade payables are non-interest bearing and are usually settled within 30 - 90 days term.

(b) Note payables to banks matured at varying dates within the next twelve months from the end of the reporting period.

(c) The refund liabilities relate to customers' right to return products during a stipulated grace period. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be return. The Group uses its accumulated historical experience to estimate the number of returns using the expected value method.

(d) Included in accrued operating expenses of the Group and the Company was an amount of S$349,000 (2017 and 1 January 2017:Nil) being interest payable on bank borrowings.

(e) The amounts owing to an associate, non-controlling interests and subsidiaries are non-trade, unsecured, interest-free, and repayable on demand in cash.

(f) In 2018, the Company entered into an interest rate cap to hedge against floating interest payments on a USD loan with a notional amount of to US$10 million (equivalent to S$13.7 million) (Note 24). The fair value on the derivative is categorised as Level 2 under the fair value hierarchy disclosed in Note 35.

(g) Included in other payables of the Group was an amount of S$579,000 (2017: S$3,326,000, 1 January 2017: S$865,000) being dividend payable to non-controlling interests.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

27 Trade and Other Payables (cont'd)

(h) The aging analysis of trade payables of the Group based on invoice date is as follows:

	Group		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Within 30 days	22,220	32,491	29,105
31 – 90 days	9,474	2,601	5,046
Over 90 days	2,700	826	3,115
	34,394	35,918	37,266

28 Dividends

	Group and Company	
	2018 S$'000	2017 S$'000
Tax-exempt (one-tier) final dividend of Singapore 0.6 cents (2017: Singapore 0.3 cents) per share paid in respect of the financial year ended 31 December 2017 (2017: 31 December 2016)	2,289	1,282

The Board of Directors of the Company recommends the payment of a tax-exempt (one-tier) final dividend of Singapore 0.7 cents per share in respect of the financial year ended 31 December 2018 to be approved by the shareholders of the Company at the forthcoming Annual General Meeting. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2019, subject to the shareholders' approval at the Company's forthcoming Annual General Meeting.

Tax consequences of proposed dividends

The above-mentioned proposed dividends to the shareholders by the Company have no income tax consequences (2017: Nil).

29 Service concession arrangements

The Group has a 50% interest in Aenergy subgroup see step-acquistion of Aenergy subgroup as disclosed in Note 16(e), which is primarily involved in developing mini-hydropower plants in Indonesia. Aenergy, through its subsidiaries, entered into two long term service concession arrangements with PT PLN (Persero) (the Grantor), an Indonesia government-owned corporation to build and operate 2 mini-hydropower plants, namely PLTM Anggoci and PLTM Kandibata 1 (collectively the "Power Plants") in North Sumatra Province, Indonesia. The construction of the 2 power plants are expected to be completed and available for use in 2019 and 2020, respectively.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

29 Service concession arrangements (cont'd)

Pursuant to the service concession arrangements, the Group has to develop (build, operate and transfer (BOT)), including designing, planning, engineering, financing and constructing, testing and commissioning of the Power Plants. The concession period is 25 years from the commercial operation date. The Group will be responsible for any maintenance services required during the concession period. Under the terms of the agreement, the Group agreed to distribute and sell all electricity produced by the Power Plants to the Grantor and the Grantor agreed to buy all the electricity generated by the Power Plants at the purchase prices determined in the power purchase agreements. At the end of the concession period, the plants become the property of the Grantor and the Group will have no further involvement in its operation or maintenance requirements.

The service concession agreement does not contain a renewal option. The rights of the Grantor to terminate the agreement include failure to perform any material obligation under the arrangement by the Group and in the event of a material breach in the terms of the agreement. The rights of the Group to terminate the agreement include failure of the Grantor to make payment under the agreement, a material breach in the terms of the agreement, and any changes in law that would render it impossible for the Group to fulfil its obligations/requirements under the agreement.

Upon the completion of the acquisition of Aenergy subgroup with effect on of 31 December 2018, the Group has recognised service concession receivables of S$30,233,000 (Note 19) recognised in relation to the above said service concession arrangements.

As at 31 December 2018, the Group has performance guarantees issued to the Grantor in relation to the development of mini-hydropower plants amounting to approximately S$5.3 million.

30 Segment Information

The business of the Group is organised into the following business segments:

- Provision of Engineering Solutions - Motion Control
- Other Specialised Engineering Solutions
- Industrial Computing Solutions

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment results represent the profit earned by each segment without allocation of corporate expenses, rental income, share of profit/(loss) of associates, interest income, finance costs and income tax. Segment assets/liabilities are all operating assets/liabilities that are employed by a segment in its operating activities and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. This is the measure reported to management for the purposes of resource allocation and assessment of segment performance. Segment revenue includes transfer between operating segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar goods. The transfers are eliminated on consolidation. No operating segments have been aggregated to form the reportable segments above.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

30 Segment Information (cont'd)

(a) Reportable Operating Segments

	Engineering Solutions - Motion Control		Other Specialised Engineering Solutions		Industrial Computing Solutions		Others		Elimination		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
Revenue												
External sales	236,281	223,683	59,121	62,086	5,596	6,101	992	93	-	-	301,990	291,963
Inter-segment sales	7,694	3,347	1,228	1,810	178	170	-	-	(9,100)	(5,327)	-	-
	243,975	227,030	60,349	63,896	5,774	6,271	992	93	(9,100)	(5,327)	301,990	291,963
Results												
Segment results	13,734	18,015	10,491	1,684	247	580	(838)	(194)	-	-	23,634	20,085
Share of profit/(loss) of associates	701	1,027	-	-	-	-	(333)	(412)	-	-	368	615
Corporate expenses											(98)	(1,833)
Rental income											575	586
Interest income											252	108
Finance costs											(1,035)	(812)
Profit before income tax											23,696	18,749
Income tax											(7,118)	(5,069)
Profit for the year											16,578	13,680
Assets												
Segment assets	133,491	124,496	38,760	38,732	2,476	2,942	58,981#	8,922	(11,344)	(6,789)	222,364	168,303
Goodwill	2,178	2,178	9,508	9,508	-	-	541	-	-	-	12,227	11,686
Associates	5,266	4,688	-	-	-	-	870	13,664	-	-	6,136	18,352
Investment properties											497	504
Cash and bank balances											41,877	38,303
Consolidated total assets											283,101	237,148
Liabilities												
Segment liabilities	55,274	53,737	14,163	14,203	305	491	3,007	2,777	(11,344)	(6,789)	61,405	64,419
Bank borrowings and finance lease liabilities											28,570	14,703
Income tax liabilities											2,286	1,437
Others unallocated corporate liabilities											8,632	4,763
Consolidated total liabilities											100,893	85,322

This included the assets of Aenergy subgroup as at 31 December 2018.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

30 Segment Information (cont'd)

(a) Reportable Operating Segments (cont'd)

	Engineering Solutions - Motion Control		Other Specialised Engineering Solutions		Industrial Computing Solutions		Others		Elimination		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
Other information												
Capital expenditure on												
- Property, plant and equipment	1,572	1,332	971	693	2	43	47	27	-	-	2,592	2,095
- Addition to investment properties	12	-	-	-	-	-	-	-	-	-	12	-
Other non-cash expenses												
Depreciation of properties, plant and equipment	1,489	1,502	611	608	39	11	23	90	-	-	2,162	2,211
Depreciation of investment properties	19	19	-	-	-	-	-	-	-	-	19	19
- amortisation of land use rights	33	34	-	-	-	-	-	-	-	-	33	34
- trade and other receivables written off	116	71	19	47	-	-	-	38	-	-	135	156
- allowance for inventory obsolescence	747	641	281	668	-	-	-	-	-	-	1,028	1,309
- allowance for impairment loss on trade and other receivables	1,882	34	67	33	-	-	572	-	-	-	2,521	67
- property, plant and equipment written off	1	4	14	-	-	-	-	-	-	-	15	4
- inventories written off	135	124	285	14	-	-	-	-	-	-	420	138
- write back of allowance for impairment loss on trade receivables	(13)	(54)	-	-	-	-	(5)	-	-	-	(18)	(54)
- write back of allowance for inventory obsolescence	-	(5)	(232)	-	-	-	-	-	-	-	(232)	(5)

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

30 Segment Information (cont'd)

(b) Geographical Information

The Group operates in four principal geographical areas - Singapore (country of domicile), the PRC, Hong Kong and Malaysia.

Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follows:

	Revenue from external customers		Non-current assets	
	2018	**2017**	**2018**	**2017**
	S$'000	**S$'000**	**S$'000**	**S$'000**
Singapore	43,009	45,199	18,538	34,128
PRC	210,837	207,463	22,439	22,891
Hong Kong	12,880	10,199	993	1,369
Malaysia	8,652	7,469	890	904
Others	26,612	21,633	46,956	230
	301,990	291,963	89,816	59,522

(c) Information about Major Customers

The Group's revenue from any single external customer is less than 10%.

31 Commitments

(a) Operating lease commitments

<u>*Where the Group is a lessor*</u>

The Group leases out investment properties and sub-let of office/warehouse premises under non-cancellable operating leases. These leases have varying terms and renewal rights.

At the statement of financial position date, commitments in respect of non-cancellable operating leases as lessor are as follows:

	Group		
	31 December 2018	**31 December 2017**	**1 January 2017**
	S$'000	**S$'000**	**S$'000**
Future minimum lease payment receivable:			
- not later than one year	608	544	522
- later than one year and not later than five years	234	466	310
	842	1,010	832

The remaining tenure period of the aforesaid operating leases are within 1 to 4 years (2017: 1 to 3 years).

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

31 **Commitments (cont'd)**

(a) Operating lease commitments (cont'd)

Where the Group is a lessee

The Group leases various property premises and office equipment under non-cancellable operating leases. These leases have varying terms and renewal rights.

At the statement of financial position date, commitments in respect of non-cancellable operating leases as lessee are as follows:

	Group		
	31 December 2018 S$'000	**31 December 2017 S$'000**	**1 January 2017 S$'000**
Future minimum lease payment payable:			
- not later than one year	1,574	1,537	1,221
- later than one year but not later than five years	1,892	1,350	779
- later than five years	51	-	-
	3,517	2,887	2,000

The remaining tenure period of the aforesaid operating leases are within 1 to 10 years (2017: 1 to 6 years).

(b) Capital Commitments

Capital expenditure contracted for at the statement of financial position date but not recognised in the financial statements is as follows:

	Group	
	2018 S$'000	**2017 S$'000**
Commitment in respect of acquisition of plant and equipment*	44,279	58

* Capital expenditures mainly in relation to the construction of mini hydropower plants.

32 **Contigent liabilities**

In October 2018, an indirect wholly owned subsidiary of the Group, Beijing Junyizhicheng Technology Developing Co., Ltd ("SD Beijing"), was served with a writ of summons filed by Mr Wang Yu (the "Plaintiff") in the Beijing Dongcheng People's Court (the "BJ Court") which the Plaintiff alleged, among other things, that the Plaintiff had extended a loan of RMB9.5 million to Mr Duan Hong Xing, an ex-employee of SD Beijing (the "Alleged Loan") and SD Beijing stood as a guarantor for the Loan (the "Alleged Guarantee").

The Group is not involved in the Alleged Loan and did not provide the Alleged Guarantee. SD Beijing has appointed its legal counsel in the People's Republic of China ("PRC") and has filed certain applications to the BJ Court in dispute of the allegations made by the Plaintiff. The matter is still under the proceedings of the BJ Court.

Notes to the Financial Statements
For The Financial Year Ended 31 December 2018

32 Contigent liabilities (cont'd)

The Company has also carried out an investigation into transactions undertaken by SD Beijing during the year and the findings from the said investigation have indicated there may have been, among others, misconduct or misappropriation of funds on the part of Mr Duan Hong Xing during his employment with SD Beijing. The amount involved was approximately RMB7.6 million.

As at the date of these financial statements, the foregoing matters are still ongoing. With respect to the writ of summons filed against SD Beijing, SD Beijing will vigorously defend itself against the said allegations and based on the advice of the PRC legal counsel, the directors of the Company are of the view that no provision for liabilities is required to be recognised in the financial statements. With respect to the amount of RMB7.6 million (equivalent to S$1.52 million) that may have been misappropriated by Mr Duan Hong Xing, the Group has fully recognised an allowance for impairment loss for the said amount (Note 35) in the financial statements.

33 Corporate Guarantees

	Group		Company	
	2018	2017	2018	2017
	S$'000	S$'000	S$'000	S$'000
Corporate guarantees provided to banks in connection with banking facilities granted to subsidiaries	-	-	30,185	11,461

The corporate guarantees disclosed above were not recorded at fair value, as in the opinion of the management, the difference in the interest rates, by comparing the actual rates charged by the banks with these guarantees made available, with the estimated rates that the banks would have charged had those guarantees not been available, is not material.

34 Related Party Transactions

In addition to the related party information disclosed elsewhere in the financial statements, the following are significant transactions of the Group and the subsidiaries with their related parties at mutually agreed amounts during the financial year:

	Group		Subsidiaries	
	2018	2017	2018	2017
	S$'000	S$'000	S$'000	S$'000
Sales to associates	(1,754)	(1,857)	-	-
Sales to related parties	(198)	(166)	(5,665)	(4,908)
Purchases from associates	708	845	-	-
Purchases from related parties	2,186	2,102	38,934	38,893
Administrative income charged to associates	(44)	(50)	-	-
Rental charged to a related party	(363)	(330)	-	-
Rental charged to associates	(1)	-	-	-
Interest charged to associates	(158)	(78)	-	-
Interest charged by a related party	-	-	25	23
Management fee charged to related party	(55)	(43)	-	-
Other expenses charged by related parties	-	-	553	143
Other income charged to a related party	(89)	(15)	(178)	(142)
Other income charged to associates	(85)	-	-	-

34 Related Party Transactions (cont'd)

The related parties mainly pertain to:

(i) The entities appointed the Managing Director of the Group as their director.

(ii) Non-controlling interest of certain subsidiaries and the related parties of the non-controlling interest.

The remuneration of the Group's key management personnel, which includes the Directors of the Company, are disclosed in Note 9.

35 Financial Instruments

(a) Financial Risk Management Objectives and Policies

The Group's activities expose it to foreign currency risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management strategy, which remains unchanged from prior year, seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance. The Board of Directors of the Company is responsible for setting the objectives and underlying principles of financial risk management for the Group. The Audit Committee provides independent oversight to the effectiveness of the risk management process.

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

Foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases transaction, loans/funds to third parties/investees and bank borrowings that are denominated in a currency other than the respective functional currencies of the entities of the Group. The currencies giving rise to this risk are primarily Renminbi (RMB), United States Dollars (USD), Swiss Franc (CHF) and Euro.

To manage the foresaid foreign currency risk, the Group maintains a natural hedge, whenever possible, by depositing foreign currency proceeds from sales into foreign currency bank accounts which are primarily used for payments of purchases in the same currency denomination.

In addition, the Group adopts the use of forward currency contracts to mitigate the foreign currency risk where viable. Under the Group risk management policy, any hedging transaction amount up to S$100,000 in equivalent requires prior approval from the Managing Director of the Company. Any hedging transaction amount more than S$100,000 in equivalent requires prior approval from the Audit Committee. As at the statement of financial position date, the Group did not have any outstanding forward currency contracts.

In relation to its overseas investments in foreign subsidiaries whose net assets are exposed to currency translation risks and which are held for long term investment purposes, the differences arising from such translation are recorded under other comprehensive income and foreign currency translation reserve. These translation differences are reviewed and monitored on a regular basis.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

35 Financial Instruments (cont'd)

(a) Financial Risk Management Objectives and Policies (cont'd)

Foreign currency risk (cont'd)

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

	RMB S$'000	USD S$'000	CHF S$'000	Euro S$'000
Group				
2018				
Financial assets				
Trade and other receivables	53,926	40,474	1,668	1,873
Cash and bank balances	16,725	6,165	761	1,224
	70,651	46,639	2,429	3,097
Financial liabilities				
Bank borrowings	4,220	20,848	-	-
Trade and other payables	26,608	5,299	6,117	2,679
	30,828	26,147	6,117	2,679
Net financial assets/(liabilities)	39,823	20,492	(3,688)	418
Less: Net financial assets denominated in the respective entities' functional currencies	(39,823)	-	-	-
Currency exposure	-	20,492	(3,688)	418
2017				
Financial assets				
Trade and other receivables	45,861	12,037	1,138	1,473
Cash and bank balances	20,153	7,697	1,489	1,072
	66,014	19,734	2,627	2,545
Financial liabilities				
Bank borrowings	5,587	2,666	-	-
Trade and other payables	35,426	2,434	2,859	1,148
	41,013	5,100	2,859	1,148
Net financial assets/(liabilities)	25,000	14,634	(232)	1,397
Less: Net financial assets denominated in the respective entities' functional currencies	(25,000)	-	-	-
Currency exposure	-	14,634	(232)	1,397

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

35 Financial Instruments (cont'd)

(a) Financial Risk Management Objectives and Policies (cont'd)

Foreign currency risk (cont'd)

	RMB S$'000	USD S$'000	CHF S$'000	Euro S$'000
Group				
1 January 2017				
Financial assets				
Trade and other receivables	50,087	8,256	1,252	1,235
Cash and bank balances	17,884	9,159	1,479	2,035
	67,971	17,415	2,731	3,270
Financial liabilities				
Bank borrowings	6,749	890	-	996
Trade and other payables	31,075	9,816	3,378	2,553
	37,824	10,706	3,378	3,549
Net financial assets/(liabilities)	30,147	6,709	(647)	(279)
Less: Net financial assets denominated in the respective entities' functional currencies	(30,147)	-	-	-
Currency exposure	-	6,709	(647)	(279)

If the following currencies strengthen by 5% (2017: 5%) against S$ at the statement of financial position date, with all other variables being held constant, the effect arising from the net financial assets/(liabilities) position will be as follows:

	Group		
	Increase/(Decrease) profit before tax		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
USD	1,025	732	335
CHF	(184)	(12)	(32)
EURO	21	70	(14)

A 5% strengthen of S$ against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, with all other variables being held constant.

No disclosure for foreign currency risk has been made for the Company as it was considered not to be a significant risk. Financial assets and financial liabilities of the Company denominated in foreign currencies as at the statement of financial position date were not significant.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

35 Financial Instruments (cont'd)

(a) Financial Risk Management Objectives and Policies (cont'd)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rate. The Group's exposure to interest rates arises primarily from interest-earning financial assets and interest-bearing financial liabilities.

Interest-earning financial assets primarily relate to fixed deposits that are short term in nature and are not held for speculative purposes but are placed to have better yield returns than cash at banks. Management does not expect fixed deposit rates to fluctuate materially in the coming year from the current level and hence does not present the sensitivity analysis.

Interest-bearing financial liabilities mainly relate to bank borrowings. The Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings. The Group actively reviews its debt portfolio, taking into account the investment holding period and the nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve a certain level of protection against rate hikes.

The Group's bank borrowings at variable rates on which effective hedges have not been entered into are denominated mainly in Singapore Dollars ("SGD"), Renminbi ("RMB") and United States Dollars ("USD"). If the SGD, RMB and USD interest rates increase/decrease by 0.5% (2017: 0.5%) with all other variables being held constant, the Group's profit before tax will be approximately lower/higher by S$13,000, S$21,000 and S$36,000 respectively (2017: S$29,000, S$28,000 and S$13,000) as a result of higher/lower interest expenses on these bank borrowings.

Interest rate cap arrangement

The Group/Company entered into an interest rate cap arrangement to hedge floating interest payments on a USD bank loan obtained in 2018.

The USD bank loan bears floating interest rate based on USD LIBOR plus 3% per annum. The interest cap rate is 3% per annum. In the event the USD LIBOR rate exceeds the interest cap rate, the Group/Company will receive the difference in monies from the bank, to be settled on a net basis on a half yearly basis.

The interest rate cap arrangement is for exchanging floating rate interest amount for fixed rate interest amount and is designated as a cash flow hedge in order to reduce the Group's cash flow exposure resulting from the variable interest rate on the said bank loan. The interest rate cap amounts and the interest rate payments on the bank loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on the bank loan affect profit or loss. No sensitivity analysis has been disclosed as the effect is considered not to be material.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

35 Financial Instruments (cont'd)

(a) Financial Risk Management Objectives and Policies (cont'd)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. For trade receivables, the Group adopts the policy of dealing only with customers with an appropriate credit history, and obtaining sufficient security where appropriate to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties.

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

The Group does not identify specific concentrations of credit risk with regards to trade receivables, as the amounts recognised in the statement of financial position resemble a large number of receivables from various customers. In addition, the Group has credit exposure from certain other receivables as disclosed in Note 19 (c) and (g). Management believes that there is no significant change in the credit quality of these debtors, based on their knowledge of the debtors' businesses and its financial condition, as well as the on-going business dealings/relationships with the debtors. As the Group does not hold any collateral, other than for those other receivables disclosed in Note 19, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statement of financial position.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk associated with the industry and country in which customers operate, as these factors may have an influence on credit risk. Details of concentration of revenue are included in Note 30.

The Group has established credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, if they are available, financial statements, credit agency information and industry information and sale limits are established for each customer, which represents the maximum open amount. Customers failing to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group has applied the simplified approach in SFRS(I) 9 to measure the loss allowance at lifetime ECL. The Group determined the expected credit losses on trade receivables by using a provision matrix, estimated based on the Group's past two years historical credit loss experience, including their credit characteristics, geographical location, and adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

35 Financial Instruments (cont'd)

(a) Financial Risk Management Objectives and Policies (cont'd)

Credit risk (cont'd)

Trade receivables (cont'd)

Exposure to credit risk

The exposure to credit risk for trade receivables at the reporting date by geographic region was as follows:

	Group		
	31 December 2018 S$'000	**31 December 2017 S$'000**	**1 January 2017 S$'000**
By geographical areas			
Singapore	9,727	22,074	8,943
China	53,816	34,553	49,284
Hong Kong	1,864	2,912	3,423
Malaysia	1,224	1,418	1,508
Others	6,379	7,496	6,271
	73,010	68,453	69,429

The Group measures its credit risk on customers based on the Group's internal credit ratings . The internal credit ratings for customers are segmented by geographical region, age of customer relationship and past credit loss experience with the customers and also defined using qualitative and quantitative factors that are indicative of the risk of default. The Group's provision for loss allowance is based on the Group's past due as the Group's historical credit loss experience does not show significantly different loss patterns for different customers' credit rating by geographic region as shown in the table below.

Customer internal credit rating

A	These customers are good pay masters with timely payment within the credit terms. Management is of the opinion that credit risk to these customers are relatively low/minimal, therefore no provision is required.
B	Payment usually takes 1 to 3 months after credit terms. Payment is certain and with low risk of default.
C	Payment usually takes more than 3 months after credit terms. Payment is certain and risk of default are fair.
D	Customers that falls within this category are smaller establishments and with not and has a longer payment process. Risk of default is substandard.
E	Default is possible. Risk of credit impaired is high.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

35 Financial Instruments (cont'd)

(a) Financial Risk Management Objectives and Policies (cont'd)

Credit risk (cont'd)

Trade receivables (cont'd)

Exposure to credit risk (cont'd)

The Group's credit risk exposure in relation to trade receivables from contracts with customers under SFRS(I) 9 as at 31 December 2018 are set out in the provision matrix as presented below.

	China			Singapore and others			
Customer internal credit ratings	**Weighted average loss rate (%)**	**Gross carrying amount S$'000**	**Loss allowance S$'000**	**Weighted average loss rate (%)**	**Gross carrying amount S$'000**	**Loss allowance S$'000**	**Total loss allowance S$'000**
Group							
A	0%	37,774	-	0%	15,499	-	-
B	0.38%	3,146	(12)	0.23%	1,097	(3)	(15)
C	1.08%	5,622	(61)	0.93%	682	(6)	(67)
D	1.26%	7,400	(94)	1.11%	1,946	(21)	(115)
E	100%	574	(574)	100%	389	(389)	(963)
		55,556			19,614		
			(741)			(419)	1,160

The movements in relation to credit loss allowance for impairment of trade receivables during the year are as follows:

	Lifetime ECL S$'000
Group	
As at 1 January 2018 per SFRS 39	685
Adjustment on initial application of SFRS(I) 9	350
As at 1 January 2018 per SFRS(I) 9	1,035
Impairment loss recognised in profit or loss during the year	
- Impairment loss recognised	230
- Reversal of impairment loss on trade receivables	(18)
- Translation adjustment	(87)
	125
As at 31 December 2018 per SFRS(I) 9	1,160

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

35 Financial Instruments (cont'd)

(a) Financial Risk Management Objectives and Policies (cont'd)

Credit risk (cont'd)

Service concession receivables

As disclosed in Notes 19 and 29, the Group has service concession receivables from service concession arrangements in relation to mini-hydropower plants in Indonesia. Management estimates the loss allowance on service concession receivables equal to lifetime ECL, taking into account credit quality of the Grantor and the future prospects of the relevant industry. There has been no change in estimation technique or significant assumptions made as at the reporting date in assessing the loss allowance for these service concession receivables. Accordingly, the Group measured the impairment loss allowance using lifetime ECL and determined that the ECL is insignificant.

Other receivables

For the purpose of impairment assessment, other receivables are considered to have low credit risk as they are not due for payment at the end of the reporting period and there has been no significant increase in the risk of default on the receivables since initial recognition (other than those disclosed below). Accordingly, for the purpose of impairment assessment for these receivables, the loss allowance is measured at an amount equal to 12-month ECL.

In determining the ECL, management has taken into account the historical default experience and the financial position of the counterparties, adjusted for factors that are specific to the debtors and general economic conditions of the industry in which the debtors operate, in estimating the probability of default of each of these financial assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in measuring the loss allowance using 12-month ECL and the Group has determined the ECL is insignificant.

The following table shows the movement in relation to expected credit loss allowance for impairment of other receivables.

Group	**12-month ECL S$'000**
Balance as at January 1, 2018	-
Impairment loss recognised in profit or loss*	2,291
Balance as at 31 December 2018	2,291

* The impairment loss recognised relates to the estimated credit losses on certain other receivables as disclosed in Note 19(c) and (g), as there has been a significant increase in credit risk since initial recognition (considered Under-performing under the Group's credit risk grading guidelines described below) as the Group are currently negotiating for a repayment plan with the relevant parties. The loss allowance for these receivables have been accordingly measured using lifetime ECL.

Notes to the Financial Statements
For The Financial Year Ended 31 December 2018

35 Financial Instruments (cont'd)

(a) Financial Risk Management Objectives and Policies (cont'd)

Credit risk (cont'd)

Cash and bank balances

Bank deposits are with reputable financial institutions with high credit-ratings assigned by international credit-rating agencies. Impairment on cash and cash equivalents has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. The Group uses a similar approach for assessment of ECL for cash and cash equivalents those used for debt investments. The amount of the allowance on cash and cash equivalents was immaterial.

Amounts owing by subsidiaries and financial guarantees to subsidiaries

As at 31 December 2018, the Company has amounts owing by subsidiaries as disclosed in Note 16. The Company assessed the latest performance and financial position of the counterparties, adjusted for the future outlook of the industry and country in which the counterparties operate in, and concluded that there has been no significant increase in credit risk since the initial recognition of the amounts owing by subsidiaries. Accordingly, the Company measured the impairment loss allowance using 12-month ECL and determined that the ECL is insignificant.

The Company has issued financial guarantees to banks for borrowings of its subsidiaries (Note 33). These guarantees are subject to the impairment requirement under SFRS(I) 9. The Company has assessed that its subsidiaries have strong financial capacity to meet the contractual cash flow obligation in the near future and hence, does not expect significant credit losses arising from these guarantee.

Credit risk grading guideline

The Group's dedicated risk management team management has established the Group's internal credit risk grading to the different exposures according to their degree of default risk. The internal credit risk grading which are used to report the Group's credit risk exposure to key management personnel for credit risk management purposes are as follows:

Categories	**Description**	**Basis of recognition of expected credit loss (ECL)**
Performing	The counterparty has a low risk of default and does not have any past-due amounts.	12-month ECL
Under-performing	There has been a significant increase in credit risk since initial recognition.	Lifetime ECL (not credit-impaired)
Non-performing	There is evidence indicating that the asset is credit impaired.	Lifetime ECL (credit-impaired)
Write-off	There is evidence indicating that there is no reasonable expectation of recovery as the debtor is in severe financial difficulty.	Asset is written off

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

35 Financial Instruments (cont'd)

(a) Financial Risk Management Objectives and Policies (cont'd)

Credit risk (cont'd)

Credit risk exposure and significant credit risk concentration

The credit quality of the Group and the Company's financial assets, as well as maximum exposure to credit risk by credit risk rating grades is presented as follows:

	Internal rating/ external rating	ECL	Gross amount	Loss allowance	Net carrying amount
Group			**S$'000**	**S$'000**	**S$'000**
31 December 2018					
Service concession receivables	Note 1	Lifetime ECL (simplified)	30,233	-	30,233
Trade receivables	Note 1	Lifetime ECL (simplified)	74,170	(1,160)	73,010
Other receivables*	Performing	12-month ECL	8,250	-	8,250
Other receivables	Under-performing	Lifetime ECL (not credit impaired)	5,638	(571)	4,797
Other receivables^	Non-performing	Lifetime ECL (credit impaired)	1,720	(1,720)^	-
Cash and bank balances#	AA to BAA	12-month ECL	41,877	-	41,877
31 December 2017					
Trade receivables	Note 1	Lifetime ECL (simplified)	691,38	(685)	68,453
Other receivables	Performing	12-month ECL	15,086	-	15,086
Cash and bank balances	AA to BAA	12-month ECL	38,303	-	38,303
1 January 2017					
Trade receivables	Note 1	Lifetime ECL (simplified)	70,150	(719)	69,431
Other receivables	Performing	12-month ECL	13,402	-	13,402
Cash and bank balances	AA to BAA	12-month ECL	38,683	-	38,683

^ Included the amount of approximately S$1.52 million which has been fully recognised as impairment as disclosed in Note 32.

Company					
31 December 2018					
Amounts owing by subsidiaries	Note 2	12-month ECL	46,436	-	46,436
Amounts owing by subsidiaries	Non-performing	Lifetime ECL (credit impaired)	1,500	(1,500)	-
Other receivables	Performing	12-month ECL	83	-	15,086
Cash and bank balances	AA	12-month ECL	3,023	-	3,023

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

35 **Financial Instruments (cont'd)**

(a) Financial Risk Management Objectives and Policies (cont'd)

Credit risk (cont'd)

Credit risk exposure and significant credit risk concentration (cont'd)

	Internal rating/ external rating	ECL	Gross amount	Loss allowance	Net carrying amount
Company			S$'000	S$'000	S$'000
31 December 2017					
Amounts owing by subsidiaries	Note 2	12-month ECL	42,049	-	42,049
Amounts owing by subsidiaries	Non-performing	Lifetime ECL (credit impaired)	1,500	(1,500)	-
Cash and bank balances	AA	12-month	2,692	-	2,692
1 January 2017					
Amounts owing by subsidiaries	Note 2	12-month ECL	26,812	-	26,812
Amounts owing by subsidiaries	Non-performing	Lifetime ECL (credit impaired)	1,500	(1,500)	-
Cash and bank balances	AA	12-month	346	-	346

Note 1: The Group has applied the simplified approach in SFRS(I) 9 to measure the loss allowance at lifetime ECL.

Note 2: The Company measured the impairment loss allowance using 12 month ECL and determined that the ECL is insignificant

* Excluded prepayments and advances to suppliers

Most of the balances are with the banks/financial institutions with international credit rating of AA to A. Accordingly, the Group measured the impairment loss allowance using 12 month ECL and determined that the ECL is insignificant.

Previous accounting policy for impairment of trade receivables

As at 31 December 2017, trade receivables disclosed above included amounts which were past due at the end of the reporting period but for which the Group has not recognised an allowance for impairment losses because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right to offset against any amounts owed by the Group to the counterparty.

	Group	
Ageing of past due but not impaired	31 December 2017 S$'000	1 January 2017 S$'000
Trade receivables past due:		
- not more than 3 months	10,158	11,123
- 3 to 6 months	1,820	2,192
- over 6 months	3,448	3,704
	15,426	17,019

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

35 **Financial Instruments (cont'd)**

(a) Financial Risk Management Objectives and Policies (cont'd)

Credit risk (cont'd)

Previous accounting policy for impairment of trade receivables (cont'd)

The movements in the allowance account used to record the impairment are as follows:

	2017
	S$'000
Group	
Balance at 1 January	719
Allowance for the year	67
Write back of allowance for the year	(54)
Amount written off	(45)
Translation adjustment	(2)
Balance at 31 December	685

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated. As at 31 December 2017, included in the loss allowance are individually impaired trade receivables with a balance of S$685,000 relating to debtors that are in significant financial difficulties and have defaulted in payments. These trade receivables are not secured by any collateral.

SFRS 39 - financial assets that are neither past due nor impaired

As at 31 December 2017 and 1 January 2017, trade and other receivables that are neither past due nor impaired are with credit-worthy debtors. Cash and cash equivalents and other financial assets are placed or entered into with reputable financial institutions.

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 financial liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities. In the management of its liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

35 **Financial Instruments (cont'd)**

(a) Financial Risk Management Objectives and Policies (cont'd)

Liquidity risk (cont'd)

As at 31 December 2018, the Group maintains the following lines of credit:

(i) S$0.50 million of overdraft facilities;

(ii) S$6.69 million of foreign exchange contract hedging limit. Limit in excess of S$5.88 million is determined at the discretion of some banks when entering into each contract;

(iii) S$49.2 million of other banking facilities (including letter of credit, trust receipt, banker's acceptance, export credit, bill of exchange, bank guarantee etc); and

(iv) S$19.0 million of term loan facilities.

The bank facilities set out above that are unutilised as at 31 December 2018 amounted to approximately S$45.1 million (2017: S$35.5 million, 1 January 2017: S$31.8 million).

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

		Cash flows		
	Carrying amount S$'000	**Contractual cash flows S$'000**	**Within one year S$'000**	**Within two to five years S$'000**
Group				
31 December 2018				
Bank borrowings	28,265	29,460	15,905	13,555
Finance lease liabilities	305	355	86	269
Trade and other payables*	58,642	58,642	58,642	-
	87,212	88,457	74,633	13,824
31 December 2017				
Bank borrowings	14,461	15,086	14,785	301
Finance lease liabilities	242	273	179	94
Trade and other payables*	59,569	59,569	59,569	-
	74,272	74,928	74,533	395
1 January 2017				
Bank borrowings	13,315	13,654	13,370	284
Finance lease liabilities	336	375	168	207
Trade and other payables*	59,029	59,029	59,029	-
	72,680	73,058	72,567	491

* Exclude advances from customers.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

35 Financial Instruments (cont'd)

(a) Financial Risk Management Objectives and Policies (cont'd)

Liquidity risk (cont'd)

		Cash flows		
	Carrying amount S$'000	Contractual cash flows S$'000	Within one year S$'000	Within two to five years S$'000
Company				
31 December 2018				
Bank borrowings	13,746	15,390	2,970	12,420
Other payables	13,686	13,686	13,686	-
	27,432	29,076	16,656	12,420
31 December 2017				
Bank borrowings	3,000	3,117	3,117	-
Other payables	6,556	6,556	6,556	-
	9,556	9,673	9,673	-
1 January 2017				
Other payables	4,659	4,659	4,659	-

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

	Within one year S$'000	Within two to five years S$'000	Total S$'000
Company			
31 December 2018			
Financial guarantee contracts	14,819	11,841	26,660
31 December 2017			
Financial guarantee contracts	11,302	159	11,461
1 January 2017			
Financial guarantee contracts	13,052	263	13,315

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

35 Financial Instruments (cont'd)

(b) Fair Value

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

(i) quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date (Level 1);

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

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

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.

Fair value of assets and liabilities that are not measured at fair value on recurring basis but fair value disclosures are required as follows:

	Level 1 S$'000	Level 2 S$'000	Level 3 S$'000	Total S$'000	Carrying amount S$'000
31 December 2018					
Assets					
Investment properties					
Commercial property units located in Singapore (Note 13)	-	798	-	798	434
Commercial property unit located in Malaysia (Note 13)	-	105	-	105	63
	-	903	-	903	497

	Level 1 S$'000	Level 2 S$'000	Level 3 S$'000	Total S$'000	Carrying amount S$'000
31 December 2017					
Assets					
Investment properties					
Commercial property units located in Singapore (Note 13)	-	853	-	853	451
Commercial property unit located in Malaysia (Note 13)	-	105	-	105	53
	-	958	-	958	504

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

35 Financial Instruments (cont'd)

(b) Fair Value (cont'd)

	Level 1 S$'000	Level 2 S$'000	Level 3 S$'000	Total S$'000	Carrying amount S$'000
1 January 2017					
Assets					
Investment properties					
Commercial property units located in Singapore (Note 13)	-	630	-	630	467
Commercial property unit located in Malaysia (Note 13)	-	155	-	155	55
	-	785	-	785	522

The following summarises the significant methods and assumptions used in estimating the fair values of the financial instruments of the Group.

Non-current financial assets and financial liabilities-service concession receivables, long-term borrowings and finance leases

The fair values of long-term bank borrowings approximate their carrying amounts as estimated by using discounted cash flow analysis based on current lending rates for similar types of lending and borrowing arrangements.

The fair values of service concession receivables approximate their carrying amounts as the effective interest rates used approximate market interest rates.

The fair value of finance leases approximate the present value of payments as disclosed in Note 25.

Other financial assets and financial liabilities

The fair values of other financial assets and financial liabilities with a maturity of less than one year, which are primarily trade and other receivables, cash and bank balances, trade and other payables, and short-term bank borrowings are assumed to approximate their carrying amounts because of the short term period of maturity.

36 Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholders' value. The Group manages its capital structure, and makes adjustment to it, in the light of changes in economic conditions. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares, obtain new borrowings or sell assets to reduce borrowings. No changes were made in the objectives, policies or processes during the financial years ended 31 December 2018 and 2017.

As disclosed in Note 23, the Group's subsidiaries in the PRC are required to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the relevant subsidiaries for the financial years ended 31 December 2018 and 2017.

Notes to the Financial Statements

For The Financial Year Ended 31 December 2018

36 Capital Management (cont'd)

The Group monitors capital using a net debt-to-equity ratio, which is net debt divided by total equity. The Group includes within net debt, bank borrowings and finance leases liabilities, trade and other payables, less cash and bank balances. Total equity includes equity attributable to the owners of the Company.

	Group		
	31 December 2018 S$'000	31 December 2017 S$'000	1 January 2017 S$'000
Net debt	56,073	45,316	40,446
Total equity	143,751	136,620	121,217
Net debt-to-equity ratio	39%	33%	33%

37 Subsequent Events

On 27 February 2019, the Company entered into the Subscription Agreement with the Subscriber ("Novo Tellus"). Pursuant to which the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, 26,987,295 subscription shares at the subscription price of S$0.20 (equivalent to approximately HK$1.16) per subscription share.

In March 2019, SGX-ST has approved in-principle for the listing and quotation of the subscription shares to be allotted and issued to the Subscriber. The accounting for this subscription is still incomplete at of the date of these financial statements have been authorised for issue.

38 Authorisation of Financial Statements

The financial statements for the financial year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on the date of the Directors' Statement.

Shareholders' Information

As at 28 February 2019

Issued and fully paid-up capital	:	70,984,000
Number of shares issued	:	394,689,186
Stock categories	:	Ordinary Shares
Voting rights	:	One vote per ordinary share

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of substantial shareholders)

Name of Substantial Shareholders	Direct Interest	%	Deemed Interest	%
Assetraise Holdings Limited [1]	132,155,150	33.48%	-	-
Teo Cher Koon	-	-	132,155,150[1]	33.48%
Karl Walter Braun	20,000,000	5.07%	-	-

Note:

(1) Assetraise Holdings Limited is beneficially owned by Mr Teo Cher Koon and Ms Thang Yee Chin. As such, Mr Teo Cher Koon and Ms Thang Yee Chin are deemed to have an interest in 132,155,150 shares held by Assetraise Holdings Limited.

PERCENTAGE OF SHAREHOLDING HELD IN THE HANDS OF PUBLIC

As at 28 February 2019, approximately 61.45% of the shareholding in the Company was held in the hands of the public (on the basis of information available to the Company).

Accordingly, the Company has complied with Rule 723 of the SGX-ST Listing Manual and Rule 8.08 of the SEHK Listing Rules.

Statistics of Shareholdings

As at 28 February 2019

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 99	277	14.75	1,836	0.00
100 - 1,000	70	3.73	51,854	0.01
1,001 - 10,000	422	22.47	2,960,670	0.75
10,001 - 1,000,000	1,079	57.45	90,938,742	23.04
1,000,001 AND ABOVE	30	1.60	300,736,084	76.20
TOTAL	**1,878**	**100.00**	**394,689,186**	**100.00**

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	HKSCC NOMINEES LIMITED	148,070,050	37.52
2	CITIBANK NOMINEES SINGAPORE PTE LTD	21,454,500	5.44
3	DBS NOMINEES (PRIVATE) LIMITED	20,586,379	5.22
4	MAYBANK KIM ENG SECURITIES PTE. LTD.	14,372,082	3.64
5	PHILLIP SECURITIES PTE LTD	10,880,039	2.76
6	OCBC SECURITIES PRIVATE LIMITED	9,164,716	2.32
7	RAFFLES NOMINEES (PTE.) LIMITED	8,610,100	2.18
8	WONG KOON CHUE @ WONG KOON CHUA	8,093,800	2.05
9	UOB KAY HIAN PRIVATE LIMITED	6,362,368	1.61
10	TAN THIAM CHYE	4,914,900	1.25
11	ASSETRAISE HOLDINGS LIMITED	4,264,900	1.08
12	LEE YAN GWAN	4,251,000	1.08
13	LEE ENG TEIK	4,206,800	1.07
14	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	4,176,400	1.06
15	CGS-CIMB SECURITIES (SINGAPORE) PTE. LTD.	3,831,408	0.97
16	PEK CHOON HENG	3,506,500	0.89
17	TEO CHIN YEE (ZHANG JINYI)	3,000,000	0.76
18	KHOO WOOI CHEE	2,684,000	0.68
19	KONG DEYANG	2,050,000	0.52
20	KGI SECURITIES (SINGAPORE) PTE. LTD.	2,040,000	0.52
	TOTAL	**286,519,942**	**72.62**

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that an Annual General Meeting of ISDN Holdings Limited (the "Company") shall be held at 1 Robinson Road, #18-00 AIA Tower, Singapore 048542 on Tuesday, 30 April 2019 at 9:30 a.m. to transact the following business:

AS ROUTINE BUSINESS

1. To receive and adopt the Directors' statement and the audited consolidated financial statements of the Company and its subsidiaries for the financial year ended 31 December 2018, together with the external auditor's report thereon.

[Ordinary Resolution 1]

2. To declare a first and final tax-exempt (one-tier) dividend of 0.7 Singapore cents per ordinary share for the financial year ended 31 December 2018.

[Ordinary Resolution 2]

*Note: The scrip dividend scheme of the Company will be applicable to the first and final tax-exempt (one-tier) dividend (the "**Final Dividend**"), giving shareholders of the Company the option to receive the Final Dividend in the form of shares in the capital of the Company instead of cash.*

3. To approve the payment of Directors' fees of S$136,500 for the financial year ending 31 December 2019 (2018: S$136,500).

[Ordinary Resolution 3]

4. To re-elect the following Directors of the Company, each of whom will retire by rotation pursuant to Regulation 89 of the constitution of the Company and who, being eligible, offer themselves for re-election:

(a) Mr. Lim Siang Kai **[Ordinary Resolution 4(a)]**

Note: Mr. Lim Siang Kai will, upon re-election as a Director of the Company, remain as an Independent Non-Executive Director, the Chairman of the Audit Committee and the Risk Management Committee, and a member of each of the Nominating Committee and the Remuneration Committee. Mr. Lim Siang Kai is considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

(b) Mr. Teo Cher Koon **[Ordinary Resolution 4(b)]**

5. To re-appoint Messrs Moore Stephens LLP as external auditor of the Company for the financial year ending 31 December 2019 and to authorise Directors of the Company to fix their remuneration.

[Ordinary Resolution 5]

Notice of Annual General Meeting

AS SPECIAL BUSINESS

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

6. GENERAL MANDATE TO ISSUE NEW SHARES

"That pursuant to Section 161 of the Companies Act, Cap. 50, of Singapore (the "**Act**"), the listing manual (the "**SGX-ST Listing Manual**") of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"), the Rules Governing the Listing of Securities (the "**Hong Kong Listing Rules**") on The Stock Exchange of Hong Kong Limited ("**SEHK**") and the constitution of the Company, authority be and is hereby given to the Directors of the Company to:

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

(ii) make or grant offers, agreements or options (collectively "**Instruments**" and each, an "**Instrument**") that might or would require Shares to be allotted and issued, during the continuance of such authority or thereafter, including but not limited to the creation, allotment and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may, in their absolute discretion, deem fit; and

(b) allot and issue new Shares in pursuance of any Instrument made or granted by the Directors of the Company while this Resolution was in force (notwithstanding that such allotment and issue of Shares in pursuance of any Instrument may occur after the authority conferred by this Resolution may have ceased to be in force),

PROVIDED ALWAYS THAT subject to any applicable regulation as may be prescribed by the SGX-ST and the SEHK:

(A) the aggregate number of Shares to be allotted and issued pursuant to this Resolution (including Shares to be allotted and issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 50% of the total number of issued Shares excluding treasury shares and subsidiary holdings in the capital of the Company (as calculated in accordance with sub-paragraph (B) below), of which the aggregate number of Shares to be allotted and issued other than on a *pro rata* basis to shareholders of the Company (including Shares to be allotted and issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 20% of the total number of issued Shares excluding treasury shares and subsidiary holdings in the capital of the Company (as calculated in accordance with sub-paragraph (B) below);

(B) (subject to such manner of calculation as may be prescribed by the SGX-ST and the SEHK) for the purpose of determining the aggregate number of Shares that may be allotted and issued under sub-paragraph (A) above, the percentage of the total number of issued Shares excluding treasury shares and subsidiary holdings shall be based on the total number of issued Shares excluding treasury shares and subsidiary holdings in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

Notice of Annual General Meeting

(I) new Shares arising from the conversion or exercise of any convertible securities, share options or vesting of share awards which are outstanding or subsisting at the time this Resolution is passed; and

(II) any subsequent bonus issue, consolidation or subdivision of Shares;

(C) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Act, the SGX-ST Listing Manual (unless such compliance has been waived by the SGX-ST), the Hong Kong Listing Rules (unless such compliance has been waived by the SEHK) and the constitution of the Company; and

(D) the authority conferred by this Resolution shall continue in force until the earlier of:

(I) the conclusion of the next annual general meeting of the Company;

(II) the date by which the next annual general meeting of the Company is required by law to be held; and

(III) the revocation or variation of the authority conferred by this Resolution by ordinary resolution passed by shareholders of the Company in general meeting."

[Ordinary Resolution 6]

7. ANNUAL MANDATE TO ISSUE NEW SHARES UNDER THE ISDN PSP

"That subject to and conditional upon the passing of Ordinary Resolution 6 contained in this Notice of Annual General Meeting (the "General Share Issue Mandate") and the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") and The Stock Exchange of Hong Kong Limited ("**SEHK**") granting the listing of, and permission to deal in, such number of new shares in the capital of the Company ("**Shares**") which may be allotted and issued under the performance share plan of the Company (the "**ISDN PSP**"):

(a) the aggregate number of new Shares underlying all PSP Awards granted by the Directors of the Company pursuant to this Resolution (excluding PSP Awards that have lapsed or been cancelled in accordance with the rules of the ISDN PSP) shall not exceed 3% of the total number of issued Shares excluding treasury shares and subsidiary holdings in the capital of the Company as at the date of the passing of this Resolution;

(b) authority be and is hereby given to the Directors of the Company to grant PSP Awards, allot and issue new Shares, procure the transfer of and otherwise deal with Shares under the ISDN PSP during the Relevant Period (as defined under sub-paragraph (c) below); and

(c) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until the earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the date by which the next annual general meeting of the Company is required by law to be held; and

(iii) the revocation or variation of the authority conferred by this Resolution by ordinary resolution passed by shareholders of the Company in general meeting.

Notice of Annual General Meeting

For the avoidance of doubt, the aggregate number of new Shares issued under the General Share Issue Mandate and this Resolution shall not exceed 50% of the total number of issued Shares as at the date of the passing of the resolutions relating to the General Share Issue Mandate and this Resolution, of which the aggregate number of Shares to be allotted and issued other than on a *pro rata* basis to shareholders of the Company shall not exceed 20% of the total number of issued Shares as at the date of the passing of the resolutions relating to the General Share Issue Mandate and this Resolution."

[Ordinary Resolution 7]

8. To transact any other business which may be properly transacted at the Annual General Meeting.

By Order of the Board
ISDN HOLDINGS LIMITED
Ms. Gn Jong Yuh Gwendolyn
Ms. Cheng Lucy
Joint Company Secretaries

Singapore, 25 March 2019

Notice of Annual General Meeting

Notes:

(1) (a) A member of the Company who is not a Relevant Intermediary or a clearing house and entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two (2) proxies to attend and vote on his behalf. Where such member's form of proxy appoints more than one (1) proxy, the appointments shall be invalid unless he specifies the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

(b) A member of the Company who is a Relevant Intermediary or a clearing house and entitled to attend and vote at the Annual General Meeting is entitled to appoint more than two (2) proxies to attend and vote, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's form of proxy appoints more than one (1) proxy, the appointments shall be invalid unless he specifies the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

(c) "Relevant Intermediary" shall have the same meaning ascribed to it in Section 181 of the Companies Act, Cap. 50, of Singapore.

(2) A proxy need not be a member of the Company.

(3) The form of proxy must be completed and signed in accordance with the instructions printed thereon and returned to the registered office of the Company at No. 10 Kaki Bukit Road 1, #01-30 KB Industrial Building, Singapore 416175, (for Singapore Shareholders) or the Company's Hong Kong Branch Share Registrar and Transfer Office, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong (for Hong Kong Shareholders) as soon as possible but in any event not less than 72 hours before the time appointed for the holding of the Annual General Meeting or any adjournment thereof.

(4) Where the form of proxy is executed by an individual, it must be executed under the hand of the individual or his attorney duly authorised. Where the form of proxy is executed by a corporation, it must be executed either under its common seal or under the hand of any officer or attorney duly authorised.

(5) Where the form of proxy is executed under the hand of an attorney duly authorised, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the form of proxy, failing which the form of proxy may be treated as invalid.

Personal Data Privacy

By attending the Annual General Meeting and/or any adjournment thereof and/or submitting the form of proxy appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (a) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing and administration by the Company (or its agents or service providers) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), and (b) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (c) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

ISDN HOLDINGS LIMITED
(Incorporated In the Republic of Singapore
(Company Registration No. 200416788Z)
(Singapore Stock Code: I07.SI)
(Hong Kong Stock Code: 1656)

IMPORTANT:
1. A member of the Company who is a Relevant Intermediary or a clearing house and entitled to attend and vote at the Annual General Meeting of the Company is entitled to appoint more than two (2) proxies to attend and vote, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's form of proxy appoints more than one (1) proxy, the appointments shall be invalid unless he specifies the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.
2. "Relevant Intermediary" shall have the same meaning ascribed to it in Section 181 of the Companies Act, Cap. 50, of Singapore.
3. By submitting an instrument appointing a proxy(ies) and/or representative(s), a member accepts and agrees to the personal data privacy terms set out in the form of proxy.

PROXY FORM

I/We*, ...(name) of ....

....

(address) being a member/members* of ISDN Holdings Limited (the "**Company**"), hereby appoint:

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

and/or*

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

or failing him/her*, the Chairman of the meeting as my/our* proxy/proxies* to vote for me/us* on my/our* behalf at the Annual General Meeting of the Company ("**AGM**") to be held at 1 Robinson Road, #18-00, AIA Tower, Singapore 048542 on Tuesday, 30 April 2019 at 9.30 a.m. and at any adjournment thereof.

I/We* direct my/our* proxy/proxies* to vote for or against the Resolutions proposed at the AGM as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the AGM and at any adjournment thereof, the proxy/proxies* may vote or abstain from voting at his/her* discretion. The Resolutions will be put to vote at the AGM by way of poll.

(If you wish to exercise all your votes, please indicate your vote "For" or "Against" with a tick [√] within the box provided. Alternatively, if you wish to exercise your votes both "For" and "Against" the relevant Resolution, please insert the relevant number of Shares in the boxes provided.)

No.	Resolutions relating to:	For	Against
1.	To receive and adopt the Directors' statement and the audited consolidated financial statements of the Company and its subsidiaries for the financial year ended 31 December 2018, together with the external auditor's report thereon.		
2.	To declare a first and final tax-exempt (one-tier) dividend of 0.70 Singapore cents per ordinary share for the financial year ended 31 December 2018.		
3.	To approve the payment of Directors' fees of S$136,500 for the financial year ending 31 December 2019 (2018: S$136,500).		
4a.	To re-elect Mr. Lim Siang Kai who will retire by rotation pursuant to Regulation 89 of the constitution of the Company		
4b.	To re-elect Mr. Teo Cher Koon who will retire by rotation pursuant to Regulation 89 of the constitution of the Company		
5.	To re-appoint Messrs Moore Stephens LLP as external auditor of the Company for the financial year ending 31 December 2019 and to authorise Directors of the Company to fix their remuneration.		
6.	To approve the general mandate to issue Shares		
7.	To approve the annual mandate to issue Shares under the ISDN PSP		

*Delete as appropriate.

Dated this .... day of 2019

Total Number of Shares Held

....
Signature of Member(s)
or, Common Seal of Corporate Member

IMPORTANT: PLEASE READ NOTES OVERLEAF

NOTES:

1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Cap. 289 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the form of proxy shall be deemed to relate to all the shares held by you.

2. (a) A member of the Company who is not a Relevant Intermediary or a clearing house and entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two (2) proxies to attend and vote on his behalf. Where such member's form of proxy appoints more than one (1) proxy, the appointments shall be invalid unless he specifies the number and class of shares in relation to which each proxy has been appointed in the form of proxy.

   (b) A member of the Company who is a Relevant Intermediary or a clearing house and entitled to attend and vote at the Annual General Meeting is entitled to appoint more than two (2) proxies to attend and vote, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's form of proxy appoints more than one (1) proxy, the appointments shall be invalid unless he specifies the number and class of shares in relation to which each proxy has been appointed in the form of proxy.

   (c) "Relevant Intermediary" shall have the same meaning ascribed to it in Section 181 of the Companies Act, Cap. 50, of Singapore.

3. A proxy need not be a member of the Company.

4. The form of proxy must be completed and signed in accordance with the instructions printed thereon and returned to the registered office of the Company at No. 10 Kaki Bukit Road 1, #01-30 KB Industrial Building, Singapore 416175, (for Singapore Shareholders) or the Company's Hong Kong Branch Share Registrar and Transfer Office, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong (for Hong Kong Shareholders) as soon as possible but in any event not less than 72 hours before the time appointed for the holding of the Annual General Meeting or any adjournment thereof.

5. Where the form of proxy is executed by an individual, it must be executed under the hand of the individual or his attorney duly authorised. Where the form of proxy is executed by a corporation, it must be executed either under its common seal or under the hand of any officer or attorney duly authorised.

6. Where the form of proxy is executed under the hand of an attorney duly authorised, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the form of proxy, failing which the form of proxy may be treated as invalid.

GENERAL:

The Company shall be entitled to reject the form of proxy which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the form of proxy. In addition, in the case of shares entered in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Cap. 289 of Singapore), the Company may reject a form of proxy if the member of the Company, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 72 hours before the time fixed for holding the Annual General Meeting, as certified by the Central Depository (Pte) Limited to the Company.

A Depositor (as defined in Section 81SF of the Securities and Futures Act, Cap. 289 of Singapore) shall not be regarded as a member of the Company entitled to attend the Annual General Meeting and to speak and vote thereat unless his name appears on the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Cap. 289 of Singapore) 72 hours before the time fixed for holding the Annual General Meeting.

PERSONAL DATA PRIVACY:

By attending the Annual General Meeting and/or any adjournment thereof and/or submitting the form of proxy appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (a) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing and administration by the Company (or its agents or service providers) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting of the Company (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), and (b) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (c) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

ISDN Holdings Limited

Annual Report 2018

ISDN Holdings
LIMITED

No.10 Kaki Bukit Road 1 #01-30
KB Industrial Building Singapore 416175

Company registration No. 200416788Z