FEDERAL

SEIZING
# OPPORTUNITIES

ANNUAL REPORT 2017

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# CORPORATE PROFILE

Established in 1974 and listed on the mainboard of the Singapore Stock Exchange in 2000, Federal International (2000) Limited ("Federal" or the "Group"), is an integrated service provider and procurement specialist in the oil and gas, and energy industries. The Group's main trading business contributes 98% of total turnover. The Group's strategy for sustainable growth is through forming strategic partnerships. One such partnership is with PT Gunanusa Utama Fabricators ("PTG"). PTG is an established EPCIC contractor and its customers include oil majors such as TOTAL, Petronas, ONGC, Pertamina and PTTEP. The Group provides procurement services to PTG for the projects secured by PTG.

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

## OUR VISION

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

## OUR MISSION

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

## OUR MOTTO

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

We adopt new mindsets and innovative ideas.

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

# LETTER TO SHAREHOLDERS

**"As a result of the Group's resilience in challenging times and prudent cost management, the Group posted a net profit attributable to Shareholders of S$4.2 million in FY2017."**

# LETTER TO SHAREHOLDERS

## DEAR SHAREHOLDERS

On behalf of the Board of Federal International (2000) Ltd ("Federal" or together with its subsidiaries, the "Group"), I take great pride in delivering our Annual Report 2017 for the financial year ended 31 December 2017 ("FY2017") to you.

## MAINTAINING PROFITABILITY IN TURBULENT TIMES

I am heartened to deliver another positive set of financial results in light of the tough operating environment in the offshore marine, oil and gas industry affecting our peers. Our Group achieved a 45.3% increment in revenue from S$89.5 million in FY2016 to S$130 million in FY2017. Concurrently, our gross profit rose 24.7% from S$17.8 million in FY2016 to S$22.2 million in FY2017.

As a result of the Group's resilience in challenging times and prudent cost management, the Group posted a net profit attributable to shareholders of S$4.2 million in FY2017.

## STRIKING KEY PARTNERSHIPS AND LAYING THE FOUNDATIONS FOR GROWTH

In FY2017, we have been laying the foundations for the growth of our business through striking key partnerships with regional partners. Our Group firmly believes that this business model would be the way forward to pursue higher value contracts in the region via harnessing on the strengths of our partners and ours. This model allows us to co-bid and co-share the risks in the process of securing a major contract. Building a chain of partnerships throughout the region also enables the Group to cast our net wide to generate more business leads.

In April 2017, our Group joined hands with China Merchants Industry Holdings ("CMIH"), a wholly owned subsidiary of China Merchants Group, to co-operate exclusively on certain oil and gas projects in Indonesia. CMIH is a well-established engineering, procurement, construction, installation and commissioning ("EPCIC") contractor, and its capabilities include the design and construction of offshore drilling vessels, specialised vessels, and vessel conversions.

In November 2017, our Group entered into a Joint Venture ("JV") with Destini Berhad ("Desitini") to incorporate a 50:50 JV company in Singapore. The JV will specialize in bidding for projects revolving (1) floating production systems in greenfield development, (2) transportation and installation services, (3) well abandonment and field decommissioning services; and (4) downhole and well workover services. Destini, a Bursa Malaysia-listed company, is an integrated engineering solutions provider serving the aviation, marine, land systems as well as oil & gas industries. Destini is one of the leading maintenance, repair and overhaul ("MRO") service provider in the region and it has presence in Asia, Europe, Australia and the Middle-East markets. Our Group will provide expertise and capabilities in procurement and project management on top of contributing valuable experience in mini LNG and LNG terminal projects for the JV.

## GENERATING A PIPELINE OF FUTURE REVENUE

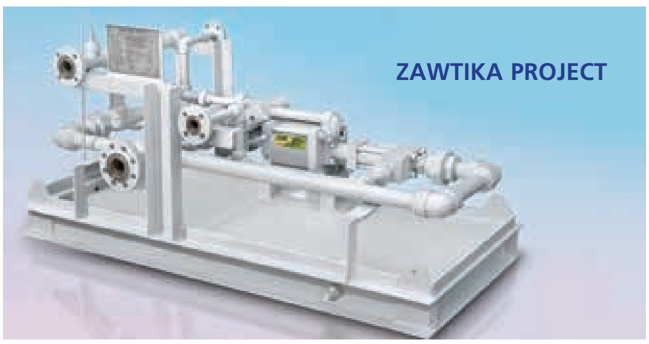
In November 2017, our Group has secured a US$3.3 million contract to lease out our 1,200 HP land drilling rig. The rig will be deployed by the charterer for the drilling of six wells in Gn Parakasak Field, Padarincang District, Serang Regency – Banten Province, Indonesia. The charter period of the rig for each well is 50 days and the charter is expected to commence in 2H 2018. This contract should also generate sustainable revenue for the Group during the lease period.

## OUR INVESTMENT IN PTG

Our Group owns an effective stake of 2.58% in PT Gunanusa Utama Fabricators ("PTG"). Our Group accounted these shares under "Available for Sale" financial asset. Federal holds a master procurement agreement since 2015 with PTG to provide procurement services for projects secured by PTG.

## ZAWTIKA PHASE 1C DEVELOPMENT PROJECT

Initially in September 2016 through PTG, our Group has secured a procurement project from PTTEP International Limited ("PTTEP") relating to the engineering, procurement, construction and installation ("EPCI") of two offshore wellhead platforms, associated pipelines and tie-ins for the Zawtika Development Project Phase 1C. The value of the Project is approximately US$155 million and the Project is expected to take 19 months to complete.



# LETTER TO SHAREHOLDERS

In November 2016, our Group has received confirmation from PTTEP to proceed with Lot 2 of the Project. Lot 2 of the Project comprised another two wellhead platforms, associated pipelines and tie-ins. The value of Lot 2 is about US$150 million. Therefore, the aggregate value of Lot 1 and Lot 2 of the Project is about US$305 million and the work on both Lot 1 and 2 was carried out concurrently. The Project's completion date is estimated to be in the 2nd quarter of 2018.

### FSO CHARTER (*FEDERAL II*)

*Federal II* is a floating, storage and offloading vessel ("FSO") and is owned by PT Eastern Jason ("PTEJ") while our Group has a 30.0% interest in PTEJ. *Federal II* is chartered to China National Offshore Oil Corporation ("CNOOC"). The current charter agreement is till September 2018 with an option to extend for another five years.

### OUTLOOK OF THE INDUSTRY

DBS Group research remained positive on sustainable Brent crude prices staying above US$60 per barrel, which would drive more capex spending and benefit players throughout the value chain especially Oil and Gas service providers.[1] They cited macroeconomic factors such as continued capacity cuts by OPEC and Non-OPEC nations, improving global demand and falling crude oil inventory in the US as key contributors to the uplift in oil prices. They maintained an Overweight rating on the sector especially those companies with a robust balance sheet. Our Group is poised to ride the wave of sector recovery.

### DIVIDENDS

To reward our valued shareholders for their unwavering support, our Group has proposed a final dividend per share of 1.5 Singapore cents and a special dividend per share of 0.5 Singapore cents. The combined proposed dividends per share of 2.0 Singapore cents represent a dividend payout ratio of around 66.7% of earnings. The dividends are expected to be paid out to shareholders on 23 May 2018 subjected to shareholders' approval at the Annual General Meeting ("AGM") on 27 April 2018.

### APPRECIATION

I would like to express my utmost appreciation to my board of directors for their wise counsel and support. I would like to also extend a warm welcome to Mr Tan Chee Keong who joins us as our Group Chief Financial Officer started from 21 August 2017. We believe that his experience and capabilities would prove invaluable to a growing company like Federal. At the same time, I would like to personally thank Mr Loh Chee Meng for his years of service and wish him all the best for his future endeavours.


On behalf of the Board, I would like to thank our management and staff for their dedication, hard work, commitment and teamwork over the years. We firmly believe that all of us together as a team will forge ahead and achieve greater success as the business environment improves gradually.

The support from our bankers, business partners, IE Singapore and Spring Singapore has proven to be crucial in challenging times, thank you all very much for making all our achievements possible in FY2017 and we look forward to working with everyone again in the years ahead.

Last but not least, we would like to thank our loyal shareholders for their faith in the strategic direction of the Group and our management team. We would continue to strive for excellence, manage our risks prudently and maintain our fiscal responsibility to shareholders.

Despite all the challenges in FY2017, our Group has performed admirably well and posted a net profit while maintaining a healthy balance sheet. We remained cautiously optimistic that the Group would continue to steer towards more growth through our key partnerships and maintain our profitability going forward. Thank you.

Yours Sincerely,

**MR KOH KIAN KIONG**
Executive Chairman and CEO
2 April 2018

1 DBS Group Research, Regional Industry Focus – Oil & Gas, Happy new year for oil, 23 January 2018

# BOARD OF DIRECTORS

## MR. KOH KIAN KIONG

**EXECUTIVE CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

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

Present Directorships/Chairmanship (as at March 2018)
Listed companies:
**Federal International (2000) Ltd** (Chairman)
Others (Non-listed companies):
Subsidiaries and associated companies of the Federal Group
Gunanusa Utama Pte. Ltd.

Past Directorships/Chairmanship in listed companies held over the preceding three years (from March 2015 to March 2018)
**Federal International (2000) Ltd**

Other Principal Commitments
**NIL**

## MS. MAGGIE KOH

**EXECUTIVE DIRECTOR**

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

Present Directorships (as at March 2018)
Listed companies:
**Federal International (2000) Ltd**
Others (Non-listed companies):
Subsidiaries and associated companies of the Federal Group

Past Directorships in listed companies held over the preceding three years (from March 2015 to March 2018)
**Federal International (2000) Ltd**

Other Principal Commitments
**NIL**

# BOARD OF DIRECTORS

## MR. KOH BENG GUAN, DON

**EXECUTIVE DIRECTOR**

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

Present Directorships (as at March 2018)
Listed Companies:
**Federal International (2000) Ltd**
Others (Non-listed companies):
Alton International Resources Pte. Ltd.
Alton International (S) Pte Ltd
Federal Energi Pte. Ltd.
Gunanusa Utama Pte. Ltd.
PT Alton International Resources
Federal DNV India Private Limited
Federal Destini (S) Pte Ltd

Past Directorships in listed companies held over the preceding three years (from March 2015 to March 2018)
**Federal International (2000) Ltd**

Other Principal Commitments
**NIL**

## MR. HENG LEE SENG

**LEAD INDEPENDENT DIRECTOR**

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

Present Directorships (as at March 2018)
Listed companies:
**Federal International (2000) Ltd**
**Sinwa Limited**
Others (Non-listed companies):
HLS Tax Advisory Services Pte Ltd
HLS Corporate Services Pte Ltd
HLS Risk Advisory Services Pte Ltd
Corporate Health Advisors Pte Ltd
Safe & Sound Pte Ltd

Past Directorships in listed companies held over the preceding three years (from March 2015 to March 2018)
**Federal International (2000) Ltd**
**Sinwa Limited**

Other Principal Commitments
**Heng Lee Seng LLP, Partner**

# BOARD OF DIRECTORS

## MR. YEE KEE SHIAN, LEON

INDEPENDENT DIRECTOR

**MR. LEON YEE** was first appointed to the Board of Directors on 23 March 2010 and he will be standing for re-election on 27 April 2018.

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

Mr. Yee is consistently recognized as a highly regarded lawyer by the *IFLR1000* and *The Legal 500 Asia Pacific* for Banking & Finance, Corporate and M&A and Projects & Energy. He was included in *AsiaLaw* in various categories such as Banking & Finance, Corporate and M&A and Corporate Governance.

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

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

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

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

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

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

### Present Directorships (as at March 2018)

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

Others (Non-listed companies):
Cambridge Alliance Capital Pte. Ltd.
Cambridge Alliance Fund No. 1 Pte. Ltd.
Selvam LLC
Knightsbridge Fund No. 1 Pte. Ltd.
Knightsbridge Fund No. 2 Pte. Ltd.
Cambridge RE Assets Fund No. 1 Pte. Ltd.
Cambridge RE Assets Fund No. 2 Pte. Ltd.
Cambridge RE Assets Fund No. 3 Pte. Ltd.
Cambridge RE Assets Fund No. 4 Pte. Ltd.
Cambridge RE Assets Fund No. 5 Pte. Ltd.
Cambridge RE Assets Fund No. 6 Pte. Ltd.
Cambridge RE Assets Fund No. 7 Pte. Ltd.
Cambridge RE Assets Fund No. 8 Pte. Ltd.
Cambridge RE Assets Fund No. 9 Pte. Ltd.
Cambridge RE Assets Fund No. 10 Pte. Ltd.
Cambridge RE Assets Fund No. 11 Pte. Ltd.
Ladderman Limited
Ladderman (HK) Limited
Caelius Pte. Ltd.
Caelius Private Limited

### Past Directorships in listed companies held over the preceding three years (from March 2015 to March 2018)

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

### Other Principal Commitments

**Duane Morris & Selvam LLP,**
**Chairman & Managing Director**

# BOARD OF DIRECTORS

## MR. KHOO BOO YEOW, ANDREW

**INDEPENDENT DIRECTOR**

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

Present Directorships (as at March 2018}
Listed companies:
**Federal International (2000) Ltd**
**Malayan United Industries Berhad**
**MUI Properties Berhad**
**Pan Malaysia Corporation Berhad**
**Laura Ashley Holdings PLC**
Others (Non-listed companies):
Subsidiaries of Malayan United Industries Berhad

Past Directorships in listed companies held over the preceding three years (from March 2015 to March 2018)
**Federal International (2000) Ltd**
**Malayan United Industries Berhad**
**MUI Properties Berhad**
**Pan Malaysia Corporation Berhad**
**Laura Ashley Holdings PLC**

Other Principal Commitments
**Chief Executive Officer and Executive Director, the MUI Group**
**Non-Independent Non-Executive Director, Laura Ashley Holdings PLC**
**Vice President, Franchise and Licensing Association (Singapore)**

# KEY EXECUTIVES

## MR. TAN CHEE KEONG

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

**MR. TAN** is a Chartered Accountant with the Institute of Singapore Chartered Accountants and is a member with the Singapore Institute of Directors. He joined the Company as the Group Chief Financial Officer in August 2017 and is responsible for the management of the Group's financial, treasury, taxation and IT matters. He has also been appointed as the Company Secretary. Mr Tan had held various senior finance positions in listed companies in the shipping and logistics, oil and gas and manufacturing industries. His experience includes corporate finance, financial restructuring and external auditing. He is a fellow from the Association of Chartered Certified Accountants and he holds a Master of Business Administration from the University of London.

## MR. DENG GUAN QUN

### CHIEF EXECUTIVE OFFICER, FEDERAL ENVIRONMENTAL & ENERGY PTE LTD

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

## MR. RICHARD DOCHERTY

### MANAGING DIRECTOR, KVC (UK) LTD

**MR. DOCHERTY** joined the Group in 2004 and is the Managing Director of KVC (UK) Ltd.

Mr. Docherty is responsible for the operations and business development of KVC (UK) Ltd, the manufacturing arm of the group for Pipeline Ball Valves.

His career in the Valve Industry spans over 40 years which has seen him being extensively involved in the supply of valves to the UK and Norwegian Sector Offshore Industry.

In more recent times, Mr Docherty and his Scottish Manufacturing Team have projected the KVC (UK) Ltd Pipeline Ball Valve on a global scale with numerous appointed agents and distributors worldwide. The KVC (UK) Ltd Pipeline Ball Valve is now a widely used and specified Product in the global oil and gas industries.

## MS. NG GEOK LAN, TINA

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

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

# KEY EXECUTIVES

## MR. QUEK CHENG HOCK

**MANAGING DIRECTOR,
FEDERAL FIRE ENGINEERING PTE LTD**

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

## MR. TAY HANG HEE, MICHAEL

**PROJECT DIRECTOR,
FEDERAL INTERNATIONAL (2000) LTD**

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

# BUSINESS AND FINANCIAL REVIEW

## OVERVIEW

Brent crude oil price had a more positive start to the year than expected, hovering at US$65-70/bbl, a significant uptrend compared to 2017 average of US$55/bbl.

The Group's core business in Trading accounted for 98% of its revenue. Our Trading business veered to focusing on customers in the fabrication of offshore structures, such as wellhead platforms intended for the development of oil and gas fields, as well as customers in the midstream and downstream sectors which are less affected by oil prices and continue to see investment activities in South East Asia.

We forged strategic partnerships so as to strengthen our competitiveness. We also leveraged on our ability to secure financing to fund the projects secured and manage our credit risks and exposures through payment arrangements with our customers that involved payments from the oil majors to our customers into a joint bank account. Such joint bank accounts would have us as a mandatory payment signatory and have served us well.

The Group's financial prudence and strategy has enabled it to report a net profit attributable to shareholders of S$4.2 million for FY2017 with an earnings per share of 3.01 cents.

## REVIEW OF FY2017 RESULTS

Despite a challenging operating environment, the Group managed to post revenue of S$130 million for the twelve months ended 31 December 2017 ("FY2017"), up 45.3% from S$89.5 million in FY2016.

## SEGMENTAL BUSINESS PERFORMANCE

98% of the Group's turnover was contributed by the Group's Trading business segment, generating S$127.4 million in revenue. The Trading business segment focused on customers involved in the fabrication of offshore structures such as wellhead platforms, for the development of oil and gas fields. This segment also serves customers in the midstream and downstream sectors.

The Manufacturing, Design, Research and Development business segment delivered S$1.7 million in revenue to the Group's top line for FY2017. This segment deals with customizing solutions based on the customer's specific needs and requirements. The Manufacturing facility is based in Scotland due to its high certification and quality standards required in such products.

Under the Group's Corporate and Others business segment, the Group owns a 1,200 HP American built land drilling rig for charter. On 26 November 2017, this segment secured a contract of value US$3.3 million for the charter of the rig. The rig will be deployed for

# BUSINESS AND FINANCIAL REVIEW

drilling of six wells in Gn Parakasak Field, Padarincang District, Serang Regency – Banten Province, Indonesia. The charter period of the rig for each well is 50 days and expected to commence in 2H 2018.

Energy and Utilities business segment contributed S$0.8 million in revenue for FY2017. This segment operates an industrial waterplant located in Xinjin County, near Chengdu in China, under a Build, Operate and Transfer ("BOT") agreement with the local authorities. The BOT is contracted till April 2039 by the local government with a 6-year minimum guarantee as from 2012 on the minimum volume of water sold per year by the waterplant.

## GEOGRAPHIC MARKET PERFORMANCE

Indonesia is the Group's top revenue driver for FY2017, recording S$103.8 million in revenue, representing 79.8% of the Group's total revenue. Revenue from Indonesia rose 119.5% from S$47.3 million in FY2016, mainly attributed to a procurement order in relation to an Indonesian project.

Revenue from Singapore contributed S$8.8 million in revenue for FY2017, mainly deriving from maintenance, repair and overhaul ("MRO") projects.

Revenue from China recorded S$8.6 million in FY2017 due mainly to revenue from customers in the ship building industry.

Revenue contribution from Thailand has increased by 25% from S$2.8 million in FY2016 to S$3.5 million in FY2017 due to increased orders.

## FINANCIAL HIGHLIGHTS

Gross profit of S$22.2 million was 24.7% higher in FY2017 as compared to FY2016 of S$17.8 million. The increase was due to higher revenue recorded in FY2017. However, gross profit margin declined to 17.1% in FY2017 due to lower margins on sales for certain projects under the Trading business segment.

Other income of S$3 million was 71.2% lower than that for FY2016 of $10.4 million due mainly to the following: a) Absence of foreign exchange gain in FY2017 whereas for FY2016 there was a foreign exchange gain of S$1.2 million; b) For FY2016 the Group recorded a "gain on disposal of available-for-sale financial asset" amounting to S$1.3m; and c) In FY2016 the Group also recorded a service fees of S$5.9m million charged to a former associate for services rendered in relation to a project.

Selling and distribution costs of S$5.2 million in FY2017 were 27.8% lower than the costs incurred in FY2016 of S$7.2 million. The decrease was due mainly to lower sales to customers in China and lower marketing related expenses.

The Group recorded a reversal of accruals and provisions for vessel disposed amounting to S$3.8 million which is no longer required; higher foreign exchange loss of S$1.9m due to a weaker USD; and higher impairment loss on doubtful debts amounting to S$1.7m for FY2017.

Finance costs of S$1.1 million were higher than the costs incurred in FY2016 of S$0.7 million. The increase was due mainly to higher trade-related banking facilities utilised for the Trading business.

The Group's share of results of its associates of S$0.5 million were 68.8% lower than FY2016 mainly due to a share of loss recorded by an associate company in Japan.

Income tax expense of S$1.4 million related to provisions made for the current year tax expense.

## BUSINESS AND FINANCIAL REVIEW


As a result of the Group's positive financial performance and cost management measures, the Group posted a net profit attributable to shareholders of S$4.2 million. This is translated into earnings per share of 3.01 Singapore cents[1].

### BALANCE SHEET HIGHLIGHTS

Net assets attributable to owners of the Group amounted to S$87.5 million, which translates to a net asset value per ordinary share of 62.13 Singapore cents[2].

Non-current assets decreased by S$2.7 million to S$64 million. The decrease was due mainly to: a) Decrease in property, plant and equipment of S$1 million due mainly to recognition of depreciation charges for the year; b) Decrease in amount due from a related party of S$0.5 million and an amount due from an associate of S$0.4 million; c) Decrease in non-current financial receivable of S$0.8 million as the minimum guarantee fees pursuant to a service concession agreement to be received by a subsidiary is expected to expire in FY2018 and accordingly it is now accounted for under current assets.

Current assets increased by S$4 million to S$81.8 million due mainly to increase in trade and other receivables of S$12.6 million from Trading business. This was partially offset by a decrease in cash and bank balances of S$4.9 million, inventories were down S$2.2 million and also an advance payment to suppliers of S$1.3 million.

Current liabilities decreased by S$9.6 million to S$58.8 million. The decrease was due mainly to: a) Decrease in trade and other payables of S$4.3 million; b) Decrease in provision of S$4.9 million; and c) Decrease in advance payment from customers of S$1.3 million.

Non-current liabilities increased by S$10.1 million to S$12.3 million, mainly due to an increase in term loans of S$9.7 million.

1 Based on the weighted average for the number of ordinary shares for FY2017 of 140,767,484 (FY2016: 140,767,484)
2 Based on the number of ordinary shares in issue of 140,767,484 as of 31 December 2017 (31 December 2016: 140,767,484)

# BUSINESS AND FINANCIAL REVIEW

### CASH FLOW POSITION HIGHLIGHTS

As at 31 December 2017, the Group's cash and cash equivalents, excluding pledged deposits, amounted to S$10.8 million.

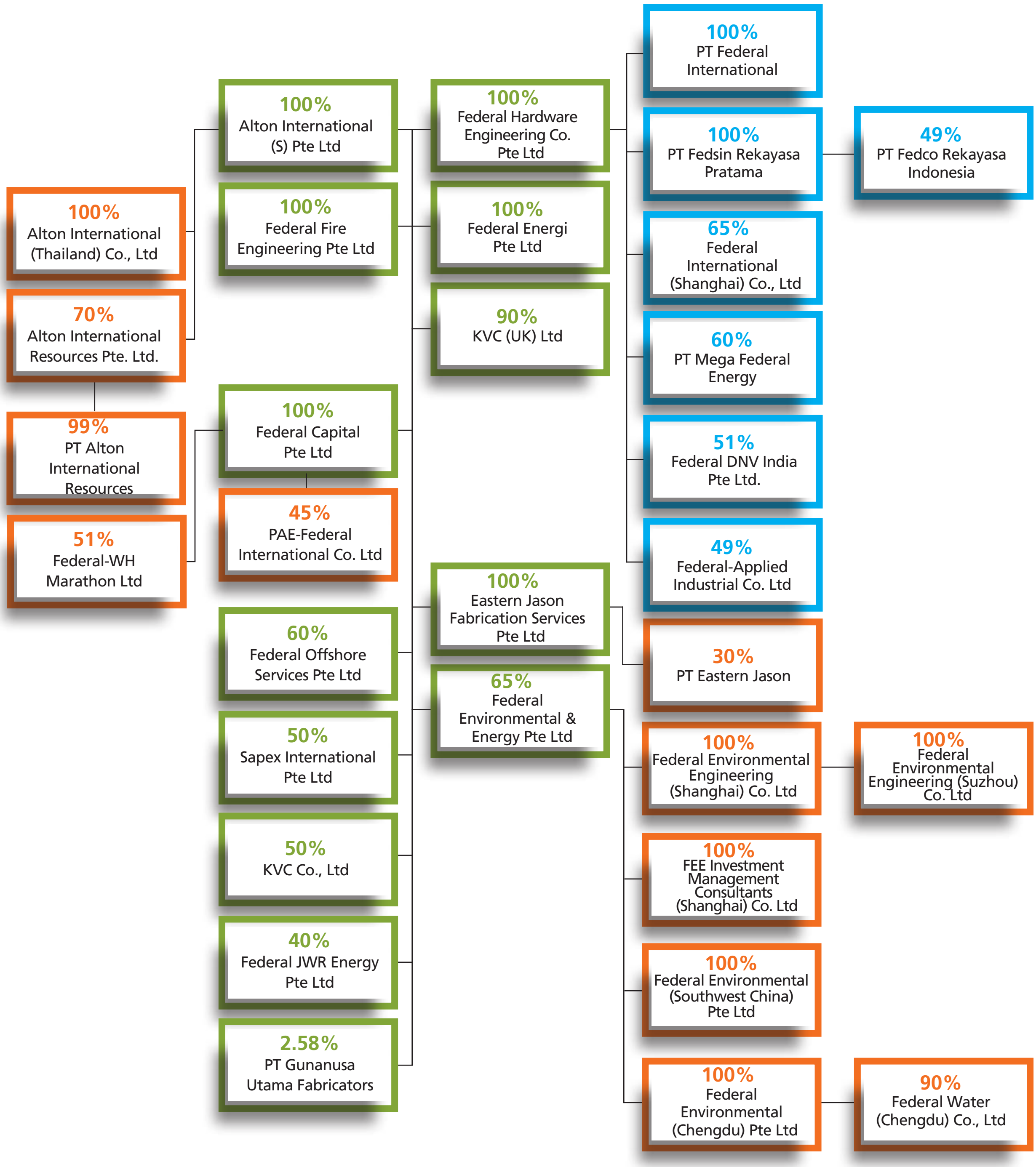
For the FY2017, operating activities and investing activities utilised cash of S$11.4 million and S$66,000 respectively, whereas financing activities generated net cash of S$7.6 million. The net cash utilised by operating activities was due mainly to the net increase in trade and other receivables, decrease in trade and other payables as well as provisions. The net cash provided by financing activities was due mainly to the net increase in trust receipts used to finance the trading business and drawdown of term loans. The increase was partially offset by dividend paid to shareholders during the year and repayment of term loans.

### DIVIDENDS

For FY2017, the Group maintained a final dividend per share of 1.5 Singapore cents and a special dividend per share of 0.5 Singapore cents. The combined proposed dividends per share of 2.0 Singapore cents represent a dividend payout ratio of around 66.7% of earnings. The dividends are expected to be paid out to shareholders on 23 May 2018 subject to shareholders' approval at the AGM to be held on 27 April 2018.

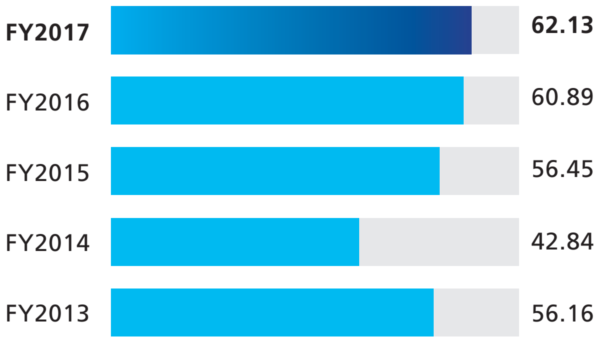
# CORPORATE STRUCTURE

Federal International (2000) Ltd



# FINANCIAL HIGHLIGHTS

## NET ASSETS VALUE PER SHARE (CENTS)

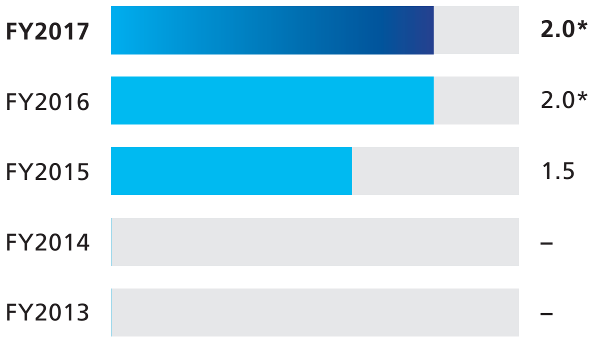



## TURNOVER ($MIL)

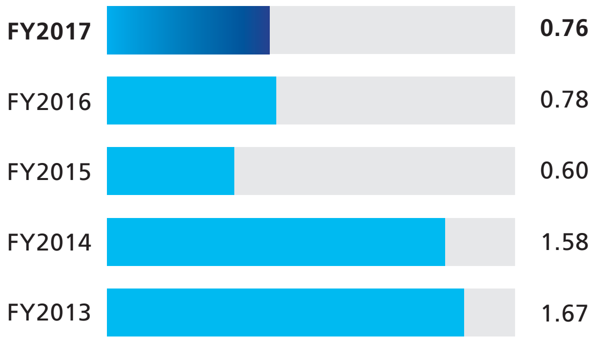

## EARNINGS/(LOSS) PER SHARE (CENTS)


## PROFIT/(LOSS) BEFORE TAX ($MIL)


## PROPOSED DIVIDEND PER SHARE (CENTS)




## DEBT/EQUITY RATIO




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

# CORPORATE INFORMATION

## DIRECTORS

Executive

**MR. KOH KIAN KIONG** Chairman & Chief Executive Officer
**MS. MAGGIE KOH** Executive Director
**MR. KOH BENG GUAN, DON** Executive Director (appointed on 1 January 2017)

Non-Executive & Independent

**MR. HENG LEE SENG** Lead Independent Director
**MR. YEE KEE SHIAN, LEON** Independent Director
**MR. KHOO BOO YEOW, ANDREW** Independent Director

### AUDIT COMMITTEE

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

### NOMINATING COMMITTEE

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

### REMUNERATION COMMITTEE

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

### COMPANY SECRETARIES

Mr. Tan Chee Keong
Ms. Noraini Binte Noor Mohamed Abdul Latiff
Ms. Yvette Lim Pei Yung

### REGISTERED OFFICE

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

### SHARE REGISTRAR

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

### AUDITOR

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

### PARTNER-IN-CHARGE

Ms. Tay Guat Peng
(Appointed since financial year ended 31 December 2013)

### PRINCIPAL BANKERS

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

# CORPORATE GOVERNANCE STATEMENT

The Board of Directors (the "**Board**") of Federal International (2000) Ltd (the "**Company**" together with its subsidiaries the "**Group**") is committed to maintain a high standard of corporate governance. The Board and Management have taken steps to align its corporate governance framework with the principles and guidelines of the Code of Corporate Governance 2012 issued on 2 May 2012 by the Monetary Authority of Singapore (the "**Code**"). Unless otherwise stated, the Group has generally adhered to the principles and guidelines as set out in the Code during the financial year ended 31 December 2017 ("**FY2017**").

**PRINCIPLE 1: THE BOARD'S CONDUCT OF AFFAIRS**

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

***Guidelines*** ***Federal Corporate Governance Practices***

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

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

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

1.3 The Board comprises the following members in FY2017:

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

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

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

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

The EC comprises the following Directors:

Mr Koh Kian Kiong
Ms Maggie Koh
Mr Koh Beng Guan, Don

The EC meets and performs the following key duties:

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

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

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

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

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

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

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

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

The number of Board and Board Committee meetings held during FY2017 and the attendance of each Director, where relevant, are set out as follows:

| Directors | Board Meetings | Audit Committee Meetings | Remuneration Committee Meetings | Nominating Committee Meetings |
|---|---|---|---|---|
| Mr Koh Kian Kiong | 4 | Not Applicable | Not Applicable | 1 |
| Ms Maggie Koh | 4 | Not Applicable | Not Applicable | Not Applicable |
| Mr Koh Beng Guan, Don | 4 | Not Applicable | Not Applicable | Not Applicable |
| Mr Heng Lee Seng | 4 | 4 | 1 | 1 |
| Mr Yee Kee Shian, Leon | 4 | 4 | 1 | 1 |
| Mr Khoo Boo Yeow, Andrew | 4 | 4 | 1 | Not Applicable |
| **No. of Meetings held in FY2017** | **4** | **4** | **1** | **1** |

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

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

(2) Monitoring the performance of Management;

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

# CORPORATE GOVERNANCE STATEMENT

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

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

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

(7) Convening of general meetings;

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

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

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

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

Please also refer to Guideline 4.6

1.7 The newly appointed Executive Director, Mr Koh Beng Guan, Don, has entered into a service agreement with the Company along with supporting documents outlining his executive duties and responsibilities as an Executive Director of the Company effective from 1 January 2017.

Save for the above, there are no directors appointed to the Board of the Company in FY2017.

**PRINCIPLE 2: BOARD COMPOSITION AND GUIDANCE**

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

***Guidelines*** ***Federal Corporate Governance Practices***

2.1 The Board comprises three (3) Independent Directors and three (3) Executive Directors in FY2017.

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

## CORPORATE GOVERNANCE STATEMENT

2.2 The Board complies with the recommendation of the Code by having Independent Directors comprising half of the Board where the Chairman of the Board and the CEO is the same person.

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

The NC and the Board have formed a view that none of the Non-Executive Directors has any relationship with the Company, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement with a view to the best interests of the Company.

The Board and the NC also reviewed the individual Directors' judgement and conduct in carrying out their duties for FY2017. Together with the NC, the Board affirmed that Mr Heng Lee Seng, Mr Yee Kee Shian, Leon and Mr Khoo Boo Yeow, Andrew continue to be independent pursuant to the definition of Independence under the Code.

2.4 In FY2017, the Board and the NC has assessed the independence of each Director, including Director whose tenure exceeds nine years from the date of their first appointment.

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

2.5
2.6 The composition of the Board is reviewed annually by the NC and the Board to ensure that there is an appropriate mix of expertise and experience to enable the Management to benefit from a diverse perspective of issues that are brought before the Board.

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

Key information regarding the Directors is set out on pages 5 to 8 of the Annual Report.

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

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

# CORPORATE GOVERNANCE STATEMENT

**PRINCIPLE 3: CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

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

***Guidelines*** ***Federal Corporate Governance Practices***

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

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

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

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

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

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

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

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

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

**PRINCIPLE 4: BOARD MEMBERSHIP**

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

| ***Guidelines*** | ***Federal Corporate Governance Practices*** |
|---|---|

4.1 The members of the NC of the Company are:

Mr Yee Kee Shian, Leon (Chairman)
Mr Heng Lee Seng
Mr Koh Kian Kiong

The majority of the NC members, including the Chairman of the NC, are Non-Executive and Independent Directors. The Lead Independent Director, Mr Heng Lee Seng, is a member of the NC.

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

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

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

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

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

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

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

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

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

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

The NC has reviewed and recommended the nomination of Mr Koh Kian Kiong and Mr Yee Kee Shian, Leon, who will be retiring by rotation in accordance with Regulation 91 of the Constitution of the Company for re-election as Directors of the Company at the forthcoming Annual General Meeting of the Company scheduled for 27 April 2018.

# CORPORATE GOVERNANCE STATEMENT

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

| Name | Position | Date of Appointment | Date of Last Re-election |
|---|---|---|---|
| Mr Koh Kian Kiong | Chairman & CEO | 13 November 1999 | 29 April 2016 |
| Ms Maggie Koh | Executive Director | 19 June 2000 | 28 April 2017 |
| Mr Koh Beng Guan, Don | Executive Director | 1 January 2017 | 28 April 2017 |
| Mr Heng Lee Seng | Lead Independent Director | 22 August 2000 | 28 April 2017 |
| Mr Yee Kee Shian, Leon | Independent Director | 23 March 2010 | 30 April 2015 |
| Mr Khoo Boo Yeow, Andrew | Independent Director | 10 August 2012 | 29 April 2016 |

4.3 Please refer to Guideline 2.3

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

The NC received assurance from the Directors who are holding multiple board representations, in particular the Directors holding listed company board representations, that their time and effort in carrying out their duties as Directors of the Company will not be compromised. The NC also considered the number of listed company board representations held by each Director. In FY2017, all Non-Executive Directors hold up to not more than five (5) listed company board representations. Notwithstanding the foregoing, each of them contributes their time, resources and commitment to the Group. The Board believes that putting a maximum limit on the number of directorships a director can hold is arbitrary, given that time requirements for each vary, and thus it should not be prescriptive.

The NC is satisfied that sufficient time and attention are being given by the Directors to the affairs of the Group, notwithstanding multiple listed company board representations and principal commitments of each Director of the Company, as the Board and the Board Committees experienced minimal competing time commitments among its Board and Board Committees meetings in FY2017, which are planned and scheduled in advance.

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

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

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

In FY2016, the NC recommended the appointment of Mr Koh Beng Guan, Don as a Director of the Company effective from 1 January 2017 to the Board. The recommendation was based on the Management's proposal following the extensive search for a suitable candidate as part of succession planning started in 2014. The extensive search was intensified during second half of FY2016. The overall selection was based on inter alia candidate's qualification, knowledge and experience in the relevant business fields involved by the Group. The Board, having reviewed the NC's recommendation, and the qualifications, experiences and suitability of Mr Koh Beng Guan, Don, approved the appointment of Mr Koh Beng Guan, Don, as a Director of the Company effective from 1 January 2017.

In view that Mr Koh Beng Guan, Don is an existing Key Management Personnel of the Group, the orientation programme relating to the Group's industry and business operations has been skipped. The essential disclosure obligations as a director of a public listed company has been briefed by one of the Company Secretaries to Mr Koh Beng Guan, Don, during his appointment. Mr Koh Beng Guan, Don, has completed Listed Company Directors Programme organised by Singapore Institute of Directors in March 2017.

Save for the above, there is no any other new appointment of director to the Board of the Company in FY2017.

4.7 Please refer to Guideline 2.3, Guideline 4.2 and the pages 5 to 8 of the Annual Report.

**PRINCIPLE 5: BOARD PERFORMANCE**

*There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.*

***Guidelines Federal Corporate Governance Practices***

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

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

The collective assessment was conducted by means of a confidential questionnaire completed by each Director, which is collated, analysed and reported to the NC for their deliberation prior to the report to the Board.

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

The NC had conducted a performance evaluation of the Board and the Board Committees as whole for FY2017 and is satisfied that all Directors individually and severally contributed effectively and demonstrated full commitment to their roles, accordingly, the performance of the Board and the Board Committees were satisfactory. No external facilitator had been engaged for this purpose.

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

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

# CORPORATE GOVERNANCE STATEMENT

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

**PRINCIPLE 6: ACCESS TO INFORMATION**

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

***Guidelines Federal Corporate Governance Practices***

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

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

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

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

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

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

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

**PRINCIPLE 7: PROCEDURES FOR DEVELOPING REMUNERATION POLICIES**

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

***Guidelines Federal Corporate Governance Practices***

7.1 The members of the RC of the Company are:

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

The RC comprises entirely of Non-Executive and Independent Directors.

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

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

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

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

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

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

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

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

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

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

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

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

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

# CORPORATE GOVERNANCE STATEMENT

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

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

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

Please also refer to Guideline 8.4

**PRINCIPLE 8: LEVEL AND MIX OF REMUNERATION**

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

***Guidelines*** ***Federal Corporate Governance Practices***

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

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

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

The Board after the recommendation of the RC has recommended the aggregate Directors' fees of S$190,000 to Non-Executive Directors of the Company for financial year ending 31 December 2018, to be paid quarterly in arrears, for shareholders' approval at the forthcoming Annual General Meeting of the Company scheduled for 27 April 2018.

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

**PRINCIPLE 9: DISCLOSURE ON REMUNERATION**

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

***Guidelines*** ***Federal Corporate Governance Practices***

9.1
9.2 The following information relates to the remuneration received by the Directors from the Company and its subsidiaries for FY2017:

| Directors of the Company | Fees | Salary | Bonus | Other Benefits | Total |
|---|---|---|---|---|---|
| **S$750,000 to S$1,000,000** | | | | | |
| Mr Koh Kian Kiong | – | 70% | 25% | 5% | 100% |
| **S$250,000 to S$499,999** | | | | | |
| Ms Maggie Koh | – | 65% | 27% | 8% | 100% |
| Mr Koh Beng Guan, Don | – | 63% | 29% | 8% | 100% |
| **Less than S$250,000** | | | | | |
| Mr Heng Lee Seng | 100% | – | – | – | 100% |
| Mr Yee Kee Shian, Leon | 100% | – | – | – | 100% |
| Mr Khoo Boo Yeow, Andrew | 100% | – | – | – | 100% |

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

9.3 In view of the confidentiality and sensitivity attached to remuneration matters, the Board is of the opinion that it is in the best interests of the Group not to disclose exact names and exact remuneration and the breakdown of remuneration in the forms of salary, bonus or other benefits received by the top five Key Management Personnel of the Group during FY2017. Accordingly, the aggregate remuneration paid to the top five Key Management Personnel for FY2017 will also not be provided in the Annual Report.

The following information relates to the remuneration received by the top five Key Management Personnel of the Group from the Company and its subsidiaries for FY2017 in the bands of S$250,000 without the disclosure of exact names:

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

9.4 Mr Koh Kian Kiong, Ms Maggie Koh and Mr Koh Beng Guan, Don, being the Directors of the Company, are immediate family members defined under the Listing Manual of SGX-ST. Save as disclosed, there are no employees who are immediate family members of a director or CEO, and whose remuneration exceeds S$50,000 during FY2017.

# CORPORATE GOVERNANCE STATEMENT

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

9.6 The RC is satisfied that the Group has achieved its core performance objective ie. net profits for three consecutive financial years, FY2015, FY2016 and FY2017. Accordingly, the variable remuneration component in the form of profit-sharing linked to the performance of the Group are also payable/paid to the Executive Directors and Key Management Personnel of the Group in accordance their respective service agreements.

In this respect, the Board has recommended a first and final one-tier tax-exempt cash dividend of 1.5 Singapore cents per ordinary share of the Company and a special one-tier tax-exempt cash dividend of 0.5 Singapore cents per ordinary share of the Company for FY2017 for shareholders' approval at the forthcoming Annual General Meeting of the Company scheduled for 27 April 2018.

**PRINCIPLE 10: ACCOUNTABILITY**

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

***Guidelines Federal Corporate Governance Practices***

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

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

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

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

**PRINCIPLE 11: RISK MANAGEMENT AND INTERNAL CONTROLS**

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

***Guidelines Federal Corporate Governance Practices***

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

The Board after the recommendation of the AC approves the key risk management policies and ensures a sound system of risk management and internal controls and monitors performance against them. In addition to determining the approach to risk governance, the Board sets and instills the right risk focused culture throughout the Group for effective risk governance.
The Board recognises that the Group's risk management system and internal control system are designed to ensure the reliability and integrity of financial information and to safeguard the assets of the Group. Notwithstanding the foregoing, the Board notes that internal controls system and risk management established by the Group provides reasonable, but not absolute assurance that the Group will not be adversely affected by any event that can be reasonably foreseen as it strives to achieve its business objectives.

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

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

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

On annual basis, the Board together with the AC review the Group's risk management policies and internal controls. Accordingly, based on the external and internal audit reports, the AC is satisfied that there are adequate and effective internal controls within the Group as at 31 December 2017.

11.3 The Board received annual assurance from the CEO and the Group Chief Financial Officer in respect of FY2017 that (a) the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and (b) the Group's risk management and internal control systems have been effectively put in place.

In reference to Guideline 11.3 and pursuant to Rule 1207(10) of Listing Manual of the SGX-ST, the Board, with the concurrence of the AC, having considered (i) the internal controls established and maintained by the Group; (ii) the reports received from the internal auditor and the external auditor; and (iii) the regular reviews performed by Management, Board Committees and the Board; is of the opinion that, the Group's risk management system and the Group's internal controls including financial, operational, compliance and information technology controls are effective and adequate as at 31 December 2017.

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

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

# CORPORATE GOVERNANCE STATEMENT

**PRINCIPLE 12: AUDIT COMMITTEE**

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

***Guidelines*** ***Federal Corporate Governance Practices***

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

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

The AC comprises entirely Non-Executive and Independent Directors.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The AC has also considered the performance of Baker Tilly TFW LLP based on factors such as performance, adequacy of resources and experience of the audit engagement partner and audit team assigned to the Company's and the Group's audit as well as the size and complexity of the Company and of the Group. Accordingly, the AC has recommended the re-appointment of Baker Tilly TFW LLP as external auditor of the Company for the ensuing year. The aggregate amount of fees paid to external auditor, as well as its fees for non-audit services is disclosed in page 106 of the Annual Report.

The Group has complied with Rules 712 and 715 of the Listing Manual of SGX-ST as the Group's Singapore-incorporated subsidiaries and significant associated companies are audited by Baker Tilly TFW LLP and significant foreign-incorporated subsidiaries are audited by independent overseas member firms of Baker Tilly International during FY2017.

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

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

12.8 During FY2017, the key activities carried out by AC included but not limited to:–

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

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

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

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

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

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

(7) Reviewed the Group's audited financial statements with Management and external auditor of the Company. Accordingly, the AC is of the view that the Group's financial statements for FY2017 are fairly presented in conformity with relevant Financial Reporting Standards in Singapore in all material aspects.

# CORPORATE GOVERNANCE STATEMENT

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

**PRINCIPLE 13: INTERNAL AUDIT**

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

***Guidelines*** ***Federal Corporate Governance Practices***

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

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

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

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

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

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

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

During FY2017, the AC continually reviewed and approved the internal audit scope and internal audit plan to ensure that there is sufficient internal audit coverage on the Group's significant subsidiaries and significant associated companies on rotation basis. The in-house internal auditor performed internal audits on significant subsidiaries and significant associated companies in accordance with the internal audit scope and internal audit plan endorsed by the AC.

## CORPORATE GOVERNANCE STATEMENT

**PRINCIPLE 14: SHAREHOLDER RIGHTS**

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

***Guidelines Federal Corporate Governance Practices***

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

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

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

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

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

**PRINCIPLE 15: COMMUNICATION WITH SHAREHOLDERS**

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

***Guidelines Federal Corporate Governance Practices***

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

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

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

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

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

# CORPORATE GOVERNANCE STATEMENT

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

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

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

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

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

(b) the financial condition of the Group;

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

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

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

The Company paid a first and final one-tier tax-exempt cash dividend of 1.5 Singapore cents per ordinary share of the Company for FY2016 and a special one-tier tax-exempt cash dividend of 0.5 Singapore cents per ordinary share of the Company for FY2016 to the shareholders of the Company on 25 May 2017 after shareholders' approval obtained at the Annual General Meeting held on 28 April 2017.

At the forthcoming Annual General Meeting of the Company scheduled for 27 April 2018, the Board has also recommended a first and final one-tier tax-exempt cash dividend of 1.5 Singapore cents per ordinary share of the Company and a special one-tier tax-exempt cash dividend of 0.5 Singapore cents per ordinary share of the Company for FY2017 for shareholders' approval. If approved, such dividends will be paid on 23 May 2018.

**PRINCIPLE 16: CONDUCT OF SHAREHOLDER MEETINGS**

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

***Guidelines*** ***Federal Corporate Governance Practices***

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

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

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

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

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

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

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

**Dealings in Securities**

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

**Interested Person Transactions**

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

The Company does not have a shareholders' mandate for interested person transactions. The Company confirms that the aggregate value of all interested person transactions during FY2017 is less than S$100,000/-.

**Material Contracts**

No other material contracts were entered into between the Company and any of the subsidiaries of the Group with any CEO, Director or controlling shareholder of the Company either subsisting or during FY2017, except as disclosed in the notes to the Financial Statements (Note 45).

# DIRECTORS' STATEMENT

The directors present their statement to the members together with the audited consolidated financial statements of Federal International (2000) Ltd (the "Company") and its subsidiary corporations (collectively, the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2017.

In the opinion of the directors:

(i) the accompanying balance sheets, consolidated income statement, consolidated statement of comprehensive income, statements of changes in equity and consolidated statement of cash flows together with the notes thereto are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and of the financial performance, changes in equity and cash flows of the Group and the changes in equity of the Company for the financial year ended on that date in accordance with the provisions of the Companies Act, Chapter 50 and Financial Reporting Standards in Singapore; and

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

**DIRECTORS**

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

Koh Kian Kiong
Maggie Koh
Heng Lee Seng
Yee Kee Shian, Leon
Khoo Boo Yeow, Andrew
Koh Beng Guan, Don (Appointed on 1 January 2017)

**ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES**

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

**DIRECTORS' INTERESTS IN SHARES AND DEBENTURES**

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

| | Direct interest | | | Deemed interest | | |
|---|---|---|---|---|---|---|
| Name of directors | At 1.1.2017 | At 31.12.2017 | At 21.1.2018 | At 1.1.2017 | At 31.12.2017 | At 21.1.2018 |
| ***Ordinary shares of the Company*** | | | | | | |
| Koh Kian Kiong | 12,240,000 | 8,803,000 | 9,312,000 | 11,750,000 | 18,150,000 | 18,150,000 |
| Maggie Koh | 400,000 | 400,000 | 400,000 | – | – | – |
| Heng Lee Seng | 12,999 | 12,999 | 12,999 | – | – | – |
| Koh Beng Guan, Don | – | 100,000 | 100,000 | – | – | – |

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

# DIRECTORS' STATEMENT

**OPTIONS**

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

**AUDIT COMMITTEE**

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

**INDEPENDENT AUDITOR**

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

On behalf of the board of directors:

| | |
|---|---|
| Koh Kian Kiong<br>Director | Maggie Koh<br>Director |

Singapore
2 April 2018

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FEDERAL INTERNATIONAL (2000) LTD

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### *Opinion*

We have audited the accompanying financial statements Federal International (2000) Ltd (the "Company") and its subsidiaries as set out on pages 44 to 129 (collectively, the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the year ended on that date.

### *Basis for Opinion*

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

### *Key Audit Matters*

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

***Impairment review of other receivables (non-current) of $13,022,000***
(Refer to Note 9 to the financial statements)

*Description of key audit matter*

Included in the other receivables (non-current) of the Group and Company as at 31 December 2017 is an amount of $13,022,000 (2016: $13,022,000) due from a shareholder of an investee company. The amount is secured by the shareholder's shares in the investee company.

There is a risk that the receivable may not be recoverable and allowance for doubtful receivable may be required. Management assessed the recoverability of the receivable by taking into consideration the fair value of the pledged shares. The fair value of the pledged shares is by reference to the equity value of the investee company based on valuation performed by an independent external valuer.

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

***Impairment review of other receivables (non-current) of $13,022,000*** (Continued)
(Refer to Note 9 to the financial statements)

*Description of key audit matter* (Continued)

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

*Our audit procedures to address the key audit matter*

We have evaluated and challenged management's assessment of the recoverability of the receivable.

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

***Other Information***

Management is responsible for the other information. The other information comprises the information included in the 2017 Annual Report but does not include the financial statements and our auditor's report thereon.

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

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

***Responsibilities of Management and Directors for the Financial Statements***

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

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

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

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FEDERAL INTERNATIONAL (2000) LTD

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

***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

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

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

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

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FEDERAL INTERNATIONAL (2000) LTD

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

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

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

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

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

The engagement partner on the audit resulting in this independent auditor's report is Tay Guat Peng.

**Baker Tilly TFW LLP**
Public Accountants and
Chartered Accountants
Singapore

2 April 2018

# BALANCE SHEETS

AS AT 31 DECEMBER 2017

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 4 | **32,434** | 33,426 | – | 2 |
| Investment in subsidiaries | 5 | – | – | **75,345** | 76,558 |
| Investment in associates | 6 | **4,748** | 4,611 | **732** | 732 |
| Intangible assets | 7 | **1,786** | 1,923 | – | – |
| Other investments | 8 | **558** | 558 | **538** | 538 |
| Other receivables | 9 | **13,094** | 13,092 | **13,022** | 13,022 |
| Financial receivable | 10 | – | 816 | – | – |
| Amounts due from subsidiaries | 15 | – | – | **4,588** | 4,966 |
| Amount due from an associate | 16 | **4,588** | 4,966 | – | – |
| Amount due from a related party | 17 | **6,203** | 6,714 | – | – |
| Deferred tax assets | 11 | **665** | 626 | – | – |
| | | **64,076** | 66,732 | **94,225** | 95,818 |
| **Current assets** | | | | | |
| Inventories | 12 | **12,796** | 15,012 | – | – |
| Trade receivables | 13 | **46,370** | 35,948 | – | – |
| Other receivables | 14 | **4,336** | 2,129 | **18** | 58 |
| Gross amount due from customer for construction work-in-progress | 18 | **104** | 1 | – | – |
| Advance payment to suppliers | 19 | **1,740** | 2,997 | – | – |
| Prepayments | | **317** | 338 | **15** | 16 |
| Deposits | | **62** | 80 | **10** | 8 |
| Financial receivable | 10 | **707** | 552 | – | – |
| Amounts due from subsidiaries | 15 | – | – | **7,026** | 7,161 |
| Amounts due from associates | 16 | **3,263** | 3,695 | **49** | 50 |
| Fixed and bank deposits | 37 | **1,422** | 1,517 | **1,389** | 1,484 |
| Cash and bank balances | 37 | **10,704** | 15,502 | **599** | 197 |
| | | **81,821** | 77,771 | **9,106** | 8,974 |
| **Current liabilities** | | | | | |
| Provisions | 20 | – | 4,911 | – | – |
| Trade payables | 21 | **12,319** | 15,267 | – | – |
| Other payables | 21 | **11,097** | 12,452 | **1,081** | 944 |
| Advance payment from customers | | **1,841** | 3,115 | – | – |
| Amounts due to subsidiaries | 22 | – | – | **1,217** | 1,276 |
| Amounts due to associates | 23 | **1,216** | 202 | **243** | 192 |
| Amount due to a related party | 24 | **2,009** | 2,034 | – | – |
| Amounts due to bankers | 25 | **19,311** | 22,170 | – | – |
| Term loans | 26 | **7,438** | 5,001 | – | – |
| Provision for taxation | | **3,570** | 3,206 | **1** | 11 |
| | | **58,801** | 68,358 | **2,542** | 2,423 |
| **Net current assets** | | **23,020** | 9,413 | **6,564** | 6,551 |

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

# BALANCE SHEETS
AS AT 31 DECEMBER 2017

| | Note | Group 2017 $'000 | Group 2016 $'000 | Company 2017 $'000 | Company 2016 $'000 |
|---|---|---|---|---|---|
| **Non-current liabilities** | | | | | |
| Term loans | 26 | **9,742** | – | **–** | – |
| Amounts due to subsidiaries | 22 | **–** | – | **21,335** | 23,093 |
| Provision for post employment benefits | | **192** | 115 | **–** | – |
| Deferred tax liabilities | 11 | **2,367** | 2,041 | **–** | – |
| | | **12,301** | 2,156 | **21,335** | 23,093 |
| **Net assets** | | **74,795** | 73,989 | **79,454** | 79,276 |
| **Equity attributable to owners of the Company** | | | | | |
| Share capital | 27 | **144,099** | 144,099 | **144,099** | 144,099 |
| Foreign currency translation reserve | 28 | **(4,860)** | (4,575) | **–** | – |
| Capital reserve | 29 | **5** | 5 | **–** | – |
| Revaluation reserve | 30 | **17,073** | 16,460 | **–** | – |
| Other reserves | 31 | **(976)** | (976) | **–** | – |
| Accumulated losses | | **(67,889)** | (69,306) | **(64,645)** | (64,823) |
| | | **87,452** | 85,707 | **79,454** | 79,276 |
| **Non-controlling interests** | | **(12,657)** | (11,718) | **–** | – |
| **Total equity** | | **74,795** | 73,989 | **79,454** | 79,276 |

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

# CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

| | Note | 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| **Revenue** | 32 | **129,958** | 89,481 |
| Cost of sales | | **(107,785)** | (71,692) |
| Gross profit | | **22,173** | 17,789 |
| Other income | | **3,011** | 10,398 |
| Selling and distribution costs | | **(5,156)** | (7,159) |
| Administrative and general costs | | **(13,541)** | (13,959) |
| Other operating expenses | | **(475)** | (924) |
| Finance costs | | **(1,118)** | (660) |
| Share of results of associates | | **474** | 1,598 |
| **Profit before tax** | 33 | **5,368** | 7,083 |
| Income tax (expense)/credit | 35 | **(1,447)** | 182 |
| **Profit net of tax** | | **3,921** | 7,265 |
| **Attributable to:** | | | |
| Owners of the Company | | **4,232** | 7,257 |
| Non-controlling interests | | **(311)** | 8 |
| | | **3,921** | 7,265 |
| **Earnings per share attributable to owners of the Company (cents per share)** | 36 | | |
| Basic | | **3.01** | 5.16 |
| Diluted | | **3.01** | 5.16 |

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

| | Note | 2017<br>$'000 | 2016<br>$'000 |
|---|---|---|---|
| **Profit net of tax** | | **3,921** | 7,265 |
| **Other comprehensive income:** | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | |
| Net surplus/(deficit) on revaluation of freehold/leasehold land and buildings | | **613** | (137) |
| **Items that are or may be reclassified subsequently to profit or loss** | | | |
| Foreign currency translation | | **(587)** | 53 |
| Share of other comprehensive (loss)/income of associates | | **(308)** | 187 |
| Foreign currency translation on loss of control/significant influence reclassified to profit or loss | 5/8 | **408** | 1,130 |
| **Other comprehensive income for the financial year, net of tax** | | **126** | 1,233 |
| **Total comprehensive income for the financial year** | | **4,047** | 8,498 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | **4,560** | 8,351 |
| Non-controlling interests | | **(513)** | 147 |
| | | **4,047** | 8,498 |

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

# STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

| Group | Share capital (Note 27) $'000 | Accumulated losses $'000 | Foreign currency translation reserve (Note 28) $'000 | Capital reserve (Note 29) $'000 | Revaluation reserve (Note 30) $'000 | Other reserves (Note 31) $'000 | Total reserves $'000 | Non-controlling interests $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|---|
| | Attributable to the owners of the Company | | | | | | | | |
| At 1 January 2017 | 144,099 | (69,306) | (4,575) | 5 | 16,460 | (976) | (58,392) | (11,718) | 73,989 |
| Profit net of tax | – | 4,232 | – | – | – | – | 4,232 | (311) | 3,921 |
| Other comprehensive income for the financial year: | | | | | | | | | |
| *Items that will not be reclassified subsequently to profit or loss* | | | | | | | | | |
| Net surplus on revaluation of freehold/leasehold land and buildings | – | – | – | – | 613 | – | 613 | – | 613 |
| *Items that are or may be reclassified subsequently to profit or loss* | | | | | | | | | |
| Foreign currency translation | – | – | (222) | – | – | – | (222) | (365) | (587) |
| Share of other comprehensive loss of associates | – | – | (308) | – | – | – | (308) | – | (308) |
| Foreign currency translation on loss of control reclassified to profit or loss (Note 5) | – | – | 245 | – | – | – | 245 | 163 | 408 |
| **Total comprehensive income/(loss) for the financial year** | – | 4,232 | (285) | – | 613 | – | 4,560 | (513) | 4,047 |
| Dividend paid (Note 38) | – | (2,815) | – | – | – | – | (2,815) | – | (2,815) |
| Disposal of a subsidiary company | – | – | – | – | – | – | – | (195) | (195) |
| Dividend paid to non-controlling interest | – | – | – | – | – | – | – | (237) | (237) |
| Capital contribution by non-controlling interest in a subsidiary company | – | – | – | – | – | – | – | 6 | 6 |
| **At 31 December 2017** | 144,099 | (67,889) | (4,860) | 5 | 17,073 | (976) | (56,647) | (12,657) | 74,795 |

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

# STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

| Group | Share capital (Note 27) $'000 | Accumulated losses $'000 | Foreign currency translation reserve (Note 28) $'000 | Capital reserve (Note 29) $'000 | Revaluation reserve (Note 30) $'000 | Other reserves (Note 31) $'000 | Total reserves $'000 | Non-controlling interests $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|---|
| | Attributable to the owners of the Company | | | | | | | | |
| At 1 January 2016 | 144,099 | (85,650) | (5,806) | 2,778 | 25,023 | (977) | (64,632) | (11,865) | 67,602 |
| Profit net of tax | – | 7,257 | – | – | – | – | 7,257 | 8 | 7,265 |
| Other comprehensive income for the financial year: | | | | | | | | | |
| *Items that will not be reclassified subsequently to profit or loss* | | | | | | | | | |
| Net deficit on revaluation of freehold/leasehold land and buildings | – | – | – | – | (137) | – | (137) | – | (137) |
| *Items that are or may be reclassified subsequently to profit or loss* | | | | | | | | | |
| Foreign currency translation | – | – | (86) | – | – | – | (86) | 139 | 53 |
| Share of other comprehensive income of associates | – | – | 187 | – | – | – | 187 | – | 187 |
| Foreign currency translation on loss of significant influence reclassified to profit or loss (Note 8) | – | – | 1,130 | – | – | – | 1,130 | – | 1,130 |
| **Total comprehensive income/ (loss) for the financial year** | – | 7,257 | 1,231 | – | (137) | – | 8,351 | 147 | 8,498 |
| Dividend paid (Note 38) | – | (2,111) | – | – | – | – | (2,111) | – | (2,111) |
| Transfer from accumulated losses to statutory reserve fund | – | (1) | – | – | – | 1 | – | – | – |
| Transfer from revaluation reserve and capital reserve to accumulated losses | – | 11,199 | – | (2,773) | (8,426) | – | – | – | – |
| At 31 December 2016 | 144,099 | (69,306) | (4,575) | 5 | 16,460 | (976) | (58,392) | (11,718) | 73,989 |

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

# STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

| **Company** | **Share capital (Note 27) $'000** | **Accumulated losses $'000** | **Total equity $'000** |
|---|---|---|---|
| At 1 January 2017 | **144,099** | **(64,823)** | **79,276** |
| Profit net of tax and total comprehensive income for the financial year | **–** | **2,993** | **2,993** |
| Dividend paid (Note 38) | **–** | **(2,815)** | **(2,815)** |
| **At 31 December 2017** | **144,099** | **(64,645)** | **79,454** |
| At 1 January 2016 | 144,099 | (66,412) | 77,687 |
| Profit net of tax and total comprehensive income for the financial year | – | 3,700 | 3,700 |
| Dividend paid (Note 38) | – | (2,111) | (2,111) |
| At 31 December 2016 | 144,099 | (64,823) | 79,276 |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before tax | **5,368** | 7,083 |
| Adjustments for: | | |
| Amortisation of intangible assets | **136** | 136 |
| Depreciation of property, plant and equipment | **1,954** | 2,130 |
| Loss/(gain) on disposal of property, plant and equipment | **27** | (32) |
| Gain on disposal of available-for-sale financial asset (Note 14) | **–** | (1,259) |
| Impairment loss on amounts due from associates (Note 16) | **17** | 59 |
| Impairment loss on property, plant and equipment | **–** | 1,000 |
| Implicit interest income | **(3)** | (5) |
| Interest expense | **1,118** | 660 |
| Interest income | **(1,887)** | (611) |
| Loss on lost of significant influence in an associate | **–** | 592 |
| Loss on disposal of a subsidiary (Note 5(c)) | **292** | – |
| Write back of impairment loss on doubtful other receivables | **–** | (1,400) |
| Forfeiture of partial proceeds for disposal of an associate (Note 6) | **–** | (713) |
| Share of results of associates | **(474)** | (1,598) |
| Exchange gain | **(1,170)** | (283) |
| **Operating cash flows before changes in working capital** | **5,378** | 5,759 |
| Decrease in inventories | **2,238** | 2,390 |
| Increase in trade and other receivables | **(13,369)** | (22,664) |
| Decrease in financial receivable | **638** | 662 |
| Decrease/(increase) in advance payment to suppliers | **1,222** | (1,584) |
| Decrease/(increase) in prepayments | **16** | (66) |
| Decrease in deposits | **16** | 70 |
| Decrease in amounts due from associates | **257** | 3,791 |
| (Increase)/decrease in gross amount due from customer for construction work-in-progress | **(103)** | 9 |
| (Decrease)/increase in trade and other payables | **(3,771)** | 4,905 |
| Decrease in provision | **(3,641)** | – |
| Decrease in gross amount due to customer for construction work-in-progress | **–** | (4) |
| Increase in advance payment from customers | **569** | 232 |
| Decrease in advance payment from associates | **–** | (1,198) |
| Increase in provision for post-employment benefits | **77** | 47 |
| Increase in amounts due to associates | **51** | 184 |
| Increase/(decrease) in amount due to a related party | **3** | (36) |
| **Cash flows used in operations** | **(10,419)** | (7,503) |
| Income taxes paid | **(1,008)** | (3,681) |
| **Net cash flows used in operating activities** | **(11,427)** | (11,184) |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Cash flows from investing activities:** | | |
| Additions to intangible assets | – | (695) |
| Interest income received | **825** | 134 |
| Dividend received from an associate | **29** | 31 |
| Payments made to suppliers for conversion of a vessel | – | (655) |
| Purchase of property, plant and equipment | **(811)** | (314) |
| Proceeds from disposal of property, plant and equipment | **9** | 46 |
| Proceeds from disposal of other investment | – | 2,659 |
| Shareholder's loans to an associate (net) | **(118)** | (5,425) |
| **Net cash flows used in investing activities** | **(66)** | (4,219) |
| **Cash flows from financing activities:** | | |
| Dividend paid | **(2,815)** | (2,111) |
| Interest expense paid | **(1,057)** | (626) |
| (Repayment of)/proceeds from secured bank overdrafts | **(2,902)** | 2,799 |
| Drawdown of term loans | **14,671** | 7,770 |
| Repayment of term loans | **(2,510)** | (9,397) |
| Increase in trust receipts | **2,190** | 13,207 |
| Capital contribution from non-controlling interest of a subsidiary company | **6** | – |
| Decrease in pledged deposits | **3** | 3,195 |
| **Net cash flows generated from financing activities** | **7,586** | 14,837 |
| Net decrease in cash and cash equivalents | **(3,907)** | (566) |
| Effect of exchange rate changes on cash and cash equivalents | **(873)** | 284 |
| Cash and cash equivalents at 1 January | **15,569** | 15,851 |
| **Cash and cash equivalents at 31 December (Note 37)** | **10,789** | 15,569 |

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

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 1. CORPORATE INFORMATION

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with the provisions of the Companies Act, Chapter 50 and Financial Reporting Standards in Singapore ("FRS").

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

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

***New and revised standards***

In the current financial year, the Group has adopted all the new and revised FRS and Interpretations of FRS ("INT FRS") that are relevant to its operations and effective for the current financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

From 1 January 2017, as a result of the amendments to FRS 7 Statement of Cash Flows (Disclosure Initiative), the Group has provided additional disclosure in relation to changes in liabilities from financing activities for the current financial year (Note 25 and Note 26).

The adoption of these new and revised FRSs and INT FRSs did not have any material effect on the financial performance or financial position of the Group and the Company.

New standards, amendments to standards and interpretations that have been issued at the end of the reporting period but are not yet effective for the financial year ended 31 December 2017 have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company except as disclosed below:

**Convergence with International Financial Reporting Standards (IFRS)**

The Accounting Standards Council ("ASC") announced that Singapore incorporated companies listed on the Singapore Exchange ("SGX") or are in the process of issuing equity or debt instruments for trading on SGX, will apply a new financial reporting framework identical to the International Financial Reporting Standards (IFRS Convergence), known as Singapore Financial Reporting Standards (International) ("SFRS(I)"), with effect from annual periods beginning on or after 1 January 2018.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

**2.1 Basis of preparation** (Continued)

***New and revised standards*** (Continued)

**Convergence with International Financial Reporting Standards (IFRS)** (Continued)

The Group's financial statements for the financial year ending 31 December 2018 will be prepared in accordance with SFRS(I) issued by ASC. These financial statements will be the last set of financial statements prepared under the current FRS in Singapore.

In adopting the new framework, the Group will be required to apply the specific transition requirements in SFRS(I) 1 First-time Adoption of Singapore Financial Reporting Standards (International). In addition to the adoption of the new framework, the Group will be adopting other new SFRS(I), amendments to standards and interpretations of SFRS(I) which are effective from the same date.

The Group does not expect the application of the new standards, amendments to standards and interpretations, and the IFRS Convergence to have significant impact on the financial statements except as set out below:

***Application of SFRS(I) 1 and IFRS Convergence***

When the Group adopts SFRS(I) in its 2018 financial statements, the Group will apply SFRS(I) 1 with 1 January 2017 as the date of transition for the Group and the Company.

SFRS(I) 1 generally requires that the Group applies SFRS(I) on a retrospective basis, subject to certain mandatory exceptions and optional exemptions under SFRS(I) 1. The Group does not expect the application of the mandatory exceptions and the optional exemptions in SFRS(I) 1 to have any significant impact on the financial statements.

**SFRS(I) 15 Revenue from Contracts with Customers**

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

Under SFRS(I) 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. SFRS(I) 15 includes disclosure requirements that will result in disclosure of comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The Group plans to adopt the new standard when it becomes effective in financial year ending 31 December 2018 using the full retrospective approach. As a result, the Group will apply the changes in the accounting policies retrospectively to each reporting year presented.

Based on the existing sources of revenue as at 31 December 2017, management does not anticipate that the application of SFRS(I) 15 will have a material impact on the Group's financial statements. Further evaluation will be undertaken should the source of revenue change in the year when SFRS(I) 15 becomes effective.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (Continued)

***New and revised standards*** (Continued)

**SFRS(I) 9 Financial Instruments**

SFRS(I) 9 which replaces FRS 39, includes guidance on (i) the classification and measurement of financial assets and financial liabilities; (ii) impairment requirements for financial assets; and (iii) general hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in SFRS(I) 9 are based on an expected credit loss model and replace FRS 39 incurred loss model.

*(a) Classification and measurement*

The Group does not expect a significant change to the measurement basis arising from adopting the new classification and measurement model under SFRS(I) 9:

- Loans and receivables that are currently accounted for at amortised cost are expected to continue to be measured at amortised cost.
- The Group elects to present changes in fair value in other comprehensive income (OCI) for equity instruments currently classified as available-for-sale financial assets because these investments are not held for trading.

*(b) Impairment*

SFRS(I) 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade and other receivables. The Group and Company expect an increase in impairment for trade and other receivables but the impact is not expected to be material as at 1 January 2018.

The Group will adopt SFRS(I) 9 when it becomes effective in financial year ending 31 December 2018. The Group is currently finalising the computation of the impact and the quantum of the final transition adjustments, which may be different upon finalisation.

**SFRS(I) 16 Leases**

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

The standard is effective for annual periods beginning on or after 1 January 2019. The Group will assess the potential impact of SFRS (I)16 and plans to adopt the standard on the required effective date.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Foreign currency

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

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

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

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the financial year are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

***(b) Consolidated financial statements***

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

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

### 2.3 Basis of consolidation and business combinations

(A) Basis of consolidation

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

**2.3 Basis of consolidation and business combinations** (Continued)

(A) Basis of consolidation (Continued)

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

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

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

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

– De-recognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;

– De-recognises the carrying amount of any non-controlling interest;

– De-recognises the cumulative translation differences recorded in equity;

– Recognises the fair value of the consideration received;

– Recognises the fair value of any investment retained;

– Recognises any surplus or deficit in profit or loss;

– Re-classifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

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

(B) Business combinations and goodwill

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS
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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Basis of consolidation and business combinations (Continued)

(B) Business combinations and goodwill (Continued)

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

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

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

The cash-generating units to which goodwill have been allocated is tested for impairment annually and whenever there is an indication that the cash generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates.

### 2.4 Transactions with non-controlling interests

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

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

### 2.5 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment other than freehold land, leasehold land and buildings are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The accounting policy for borrowing costs is set out in Note 2.20. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

**2.5 Property, plant and equipment** (Continued)

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

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

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

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

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

| | | |
|---|---|---|
| Leasehold land and buildings | – | Remaining leasehold period of 17 to 26 years |
| Freehold buildings | – | 50 years |
| Other plant and equipment | – | 3 to 10 years |

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

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

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

**2.6 Intangible assets**

***Research and development costs***

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.7 Impairment of non-financial assets

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

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

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

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

### 2.8 Subsidiaries

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.9 Associates

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

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

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

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

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

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

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

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

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

### 2.10 Investments in partnerships

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

# NOTES TO THE FINANCIAL STATEMENTS

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.11 Financial assets

***Initial recognition and measurement***

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

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

***Subsequent measurement***

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

***(a) Loans and receivables***

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process. Loans and receivables are presented as trade receivables, other receivables (excluding prepayments), amount due from a related party, subsidiaries and associates, fixed and bank deposits and cash and bank balances on the balance sheet.

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

Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

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

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

**De-recognition**

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

**Offset**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

**2.12 Impairment of financial assets**

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

***(a) Financial assets carried at amortised cost***

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

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

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

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

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

***(b) Financial assets carried at cost***

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.12 Impairment of financial assets (Continued)

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

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

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed in profit or loss.

### 2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

### 2.14 Construction contracts

The Group principally operates fixed price contracts. Contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period (the percentage of completion method), when the outcome of a construction contract can be estimated reliably.

The outcome of a construction contract can be estimated reliably when: (i) total contract revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the contract will flow to the entity; (iii) the costs to complete the contract and the stage of completion can be measured reliably; and (iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

When the outcome of a construction contract cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable and contract costs are recognised as expense in the period in which they are incurred.

An expected loss on the construction contract is recognised as an expense immediately when it is probable that total contract costs will exceed total contract revenue.

In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue (as defined below) multiplied by the actual completion rate based on the proportion of total contract costs (as defined below) incurred to date and the estimated costs to complete.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

**2.14 Construction contracts** (Continued)

Contract revenue corresponds to the initial amount of revenue agreed in the contract and any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue; and they are capable of being reliably measured.

Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that relate directly to a specific contract comprise: site labour costs (including site supervision); costs of materials used in construction; depreciation of equipment used on the contract; costs of design, and technical assistance that is directly related to the contract.

The Group's contracts are typically negotiated for the construction of a single asset or a group of assets which are closely interrelated or interdependent in terms of their design, technology and function. In certain circumstances, the percentage of completion method is applied to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

Assets covered by a single contract are treated separately when:

– Separate proposals have been submitted for each asset

– Each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset

– The costs and revenues of each asset can be identified

A group of contracts are treated as a single construction contract when:

– The group of contracts are negotiated as a single package; the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin

– The contracts are performed concurrently or in a continuous sequence

**2.15 Service concession arrangement**

The Group has entered into service concession arrangement with the local government of the People's Republic of China (the "PRC") (the grantor) to supply raw water and treated industrial tap water, and operate waste water treatment plant. Under the concession arrangement, the Group will construct and/or operate the plant for concession period of 30 years. The grantor has control through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service arrangement. Such concession arrangement falls within the scope of INT FRS 112.

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

The Group recognises revenue from the construction of the infrastructure in accordance with its accounting policy for construction contracts set out in Note 2.14.

Operation or service revenue is recognised in the period in which the services are provided by the Group (see Note 2.23(f)). When the Group provides more than one service in a service concession arrangement, the consideration received is allocated by reference to the relative fair values of the services delivered.

# NOTES TO THE FINANCIAL STATEMENTS

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.16 Inventories

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

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

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

– Raw materials: purchase costs on a weighted average basis.

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

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

### 2.17 Provisions

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

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

### 2.18 Financial liabilities

***Initial recognition and measurement***

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

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

***Subsequent measurement***

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

***De-recognition***

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

**2.19 Financial guarantee**

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

Financial guarantees are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Financial guarantees are classified as financial liabilities.

Subsequent to initial recognition, financial guarantees are stated at the higher of the initial fair values less cumulative amortisation and the expected amount payable to the holder. Financial guarantees contracts are amortised in the profit or loss over the period of the guarantee.

**2.20 Borrowing costs**

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**2.21 Employee benefits**

***Employee leave entitlement***

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

***Defined contribution plans***

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

***Defined benefit plans***

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

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

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.21 Employee benefits (Continued)

***Defined benefit plans*** (Continued)

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

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

### 2.22 Leases

***(a) As lessee***

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

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

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

***(b) As lessor***

Leases where the Group does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as charter hire income. The accounting policy for charter hire income is set out in Note 2.23(d).

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.23 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

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

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, usually on delivery of goods. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

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

Revenue from the provision of management services rendered by the Company and installation services are recognised upon the performance of the services.

***(c) Dividend income***

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

***(d) Charter hire income***

Charter hire income from rental of vessel is recognised on a time apportionment basis.

***(e) Construction contract***

Revenue from construction contract is recognised by reference to the stage of completion at the end of the financial year. Stage of completion is determined by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Where the contract outcome cannot be measured reliably, revenue is recognised to the extent of the expenses recognised that are recoverable.

***(f) Revenue from service concession arrangement***

In respect of revenue from the service concession arrangement for water treatment plant, revenue from construction is recognised in accordance with Note 2.15. When the Group receives a payment during the operation phase of the concession period, it will apportion such payment between:

(i) a repayment of the financial receivable, which will be used to reduce the carrying amount of the financial receivable on its balance sheet;

(ii) interest income, which will be recognised as finance income in its statement of comprehensive income; and

(iii) revenue from operating and maintaining the plants in its statement of comprehensive income.

***(g) Interest income***

Interest income is recognised using the effective interest method.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.24 Taxes

#### *(a) Current income tax*

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

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

#### *(b) Deferred tax*

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

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

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

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

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

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

– In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.24 Taxes (Continued)

***(b) Deferred tax*** (Continued)

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

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

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

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

***(c) Sales tax***

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

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

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

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

### 2.25 Segment reporting

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

### 2.26 Share capital and share issuance expenses

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

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.27 Dividend

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

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

### 2.28 Contingencies

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but is not recognised because:

- (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- (ii) The amount of the obligation cannot be measured with sufficient reliability.

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

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

## 3. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

### 3.1 Judgement made in applying accounting policies

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

***Deferred tax assets***

The Group recognises deferred income tax assets on carried forward tax losses to the extent there are sufficient estimated future taxable profits and/or taxable temporary differences against which the tax losses can be utilised and that the Group is able to satisfy the continuing ownership test.

Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits. The carrying value of deferred tax asset recognised and the unrecognised tax losses of the Group at 31 December 2017 are disclosed in Note 11 to the financial statements.

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

### 3.2 Key sources of estimation uncertainty

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

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

The cost of property, plant and equipment is depreciated on a straight-line basis over the asset's estimated economic useful lives. Management estimates the useful lives of these property, plant and equipment to be within the years stated in Note 2.5. These are common life expectancies applied in the industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore, future depreciation charges could be revised. The carrying amount of the Group's property, plant and equipment at the end of each financial year is disclosed in Note 4 to the financial statements. A 5% difference in the expected useful lives of these assets from management's estimates would result in approximately 1.8% (2016: 1.5%) variance in the Group's profit before tax.

***(b) Impairment of non-financial assets***

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

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

***(c) Impairment of loans and receivables and investments***

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

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amounts of the Group's loans and receivables and other investments, at the end of the financial year are disclosed in Note 43 and Note 8 respectively to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

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

### 3.2 Key sources of estimation uncertainty (Continued)

***(d) Income taxes***

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the Group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amounts of the Group's and the Company's tax payables as at 31 December 2017 were $3,570,000 (2016: $3,206,000) and $1,000 (2016: $11,000) respectively. The carrying amount of the Group's deferred tax liabilities at 31 December 2017 was $2,367,000 (2016: $2,041,000).

***(e) Allowance for slow moving inventories***

Inventories are stated at the lower of cost and net realisable value. Where necessary, allowance is provided to adjust the carrying value of inventories to the lower of cost or net realisable value. Significant management judgement is required to determine the amount of allowance to be recognised. The carrying amount of inventories is disclosed in Note 12 to the financial statements.

***(f) Revaluation of property, plant and equipment***

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

The fair values of the freehold land, leasehold land and buildings at 31 December 2017 are determined by independent professional valuer by reference to recent transactions of similar properties in the vicinity after adjusting for any differences in the nature, location and condition of the specific property.

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

## 4. PROPERTY, PLANT AND EQUIPMENT

| Group | At valuation | | | At cost | | | |
|---|---|---|---|---|---|---|---|
| | Freehold land $'000 | Freehold buildings $'000 | Leasehold land and buildings $'000 | Plant and machinery $'000 | Furniture and fittings and office equipment $'000 | Motor vehicles $'000 | Total $'000 |
| **Cost or valuation:** | | | | | | | |
| At 1 January 2016 | 9,200 | 2,300 | 15,500 | 12,885 | 4,974 | 737 | 45,596 |
| Additions | – | – | – | 290 | 23 | 1 | 314 |
| Disposals/write off | – | – | – | – | – | (163) | (163) |
| Revaluation (Note 30) | (200) | (300) | (1,200) | – | – | – | (1,700) |
| Exchange differences | – | – | – | 439 | (58) | 2 | 383 |
| At 31 December 2016 and 1 January 2017 | 9,000 | 2,000 | 14,300 | 13,614 | 4,939 | 577 | 44,430 |
| Additions | – | – | – | 278 | 495 | 38 | 811 |
| Disposals/write off | – | – | – | (47) | (103) | (67) | (217) |
| Exchange differences | – | – | – | (944) | (21) | (2) | (967) |
| At 31 December 2017 | **9,000** | **2,000** | **14,300** | **12,901** | **5,310** | **546** | **44,057** |
| **Accumulated depreciation and impairment loss:** | | | | | | | |
| At 1 January 2016 | – | 118 | 707 | 3,620 | 4,502 | 579 | 9,526 |
| Depreciation charge for the financial year | – | 125 | 625 | 1,216 | 134 | 30 | 2,130 |
| Disposals/write off | – | – | – | – | – | (149) | (149) |
| Elimination of accumulated depreciation on revaluation (Note 30) | – | (243) | (1,332) | – | – | – | (1,575) |
| Impairment loss | – | – | – | 1,000 | – | – | 1,000 |
| Exchange differences | – | – | – | 113 | (42) | 1 | 72 |
| At 31 December 2016 and 1 January 2017 | – | – | – | 5,949 | 4,594 | 461 | 11,004 |
| Depreciation charge for the financial year | – | 115 | 624 | 1,060 | 125 | 30 | 1,954 |
| Disposals/write off | – | – | – | (47) | (67) | (67) | (181) |
| Elimination of accumulated depreciation on revaluation (Note 30) | – | (115) | (624) | – | – | – | (739) |
| Exchange differences | – | – | – | (397) | (16) | (2) | (415) |
| At 31 December 2017 | **–** | **–** | **–** | **6,565** | **4,636** | **422** | **11,623** |
| **Net carrying amount:** | | | | | | | |
| At 31 December 2016 | 9,000 | 2,000 | 14,300 | 7,665 | 345 | 116 | 33,426 |
| At 31 December 2017 | **9,000** | **2,000** | **14,300** | **6,336** | **674** | **124** | **32,434** |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

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

| **Company** | **Furniture and fittings and office equipment $'000** |
|---|---|
| **Cost:** | |
| At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017 | **66** |
| **Accumulated depreciation:** | |
| At 1 January 2016 | 62 |
| Depreciation charge for the financial year | 2 |
| At 31 December 2016 and 1 January 2017 | **64** |
| Depreciation charge for the financial year | **2** |
| **At 31 December 2017** | **66** |
| **Net carrying amount:** | |
| At 31 December 2016 | 2 |
| **At 31 December 2017** | **–** |

*Revaluation of leasehold land and buildings*

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

The Group had engaged TEHO Property Consultants Pte Ltd, an independent professional valuer, to determine the fair value of its leasehold land and buildings. Fair value is determined by reference to recent transactions of similar properties in the vicinity after adjusting for any differences in the nature, location and condition of the specific property. The date of revaluation was 31 December 2017.

*Revaluation of freehold land and buildings*

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

The Group had engaged TEHO Property Consultants Pte Ltd, an independent professional valuer, to determine the fair value of its freehold land and buildings. Fair value is determined by reference to recent transactions of similar properties in the vicinity after adjusting for any differences in the nature, location and condition of the specific property. The date of revaluation was 31 December 2017.

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

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

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Freehold land at 31 December: | | |
| Cost and net carrying amount | **2,562** | 2,562 |
| Freehold buildings at 31 December: | | |
| Cost | **2,150** | 2,150 |
| Accumulated depreciation | **(1,483)** | (1,440) |
| Net carrying amount | **667** | 710 |
| Leasehold land and buildings at 31 December: | | |
| Cost | **6,139** | 6,139 |
| Accumulated depreciation | **(3,366)** | (3,259) |
| Net carrying amount | **2,773** | 2,880 |

*Assets pledged as security*

The Group's freehold land, freehold buildings and leasehold land and buildings with carrying amounts of approximately $9,000,000 (2016: $9,000,000), $2,000,000 (2016: $2,000,000) and $14,300,000 (2016: $14,300,000) respectively, are mortgaged to secure banking facilities and bank loans of certain subsidiaries (Note 25 and Note 26).

*Impairment of property, plant and equipment*

In 2016, a subsidiary, in the corporate and others segment, carried out a review of the recoverable amount of its land drilling rig because the land drilling rig has not been deployed since it was purchased in the financial year ended 31 December 2013. The estimated recoverable amount, which is higher of fair value less costs to sell and value in use of the land drilling rig is $7.5 million. The Group had engaged an independent professional valuer to determine the fair value of the land drilling rig as at 31 December 2016. Market value is determined by reference to pattern regarding market values of selling price of land drilling rigs offered for sale and recorded sale based on land drilling rig capacity. As a result of the review, based on fair value less costs to sell, an impairment loss of $1 million was recognised in profit or loss under "other operating expenses" line item for the financial year ended 31 December 2016.

Fair value less costs to sell was based on management estimates having regard to market value provided by an independent professional valuer. Fair value less costs to sell was a level 3 fair value measurement.

As at 31 December 2017, included under plant and machinery is a land drilling rig with carrying amount of $6.2 million (2016: $7.5 million). The land drilling rig has been deployed subsequent to year end.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 5. INVESTMENT IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2017** | 2016 |
| | **$'000** | $'000 |
| Unquoted shares, at cost: | | |
| At 1 January | **90,464** | 90,464 |
| Disposal of a subsidiary | **(5)** | – |
| At 31 December | **90,459** | 90,464 |
| Impairment losses | **(29,289)** | (28,389) |
| | **61,170** | 62,075 |
| Loans to subsidiaries: | | |
| Gross amount | **88,936** | 91,625 |
| Less: Allowance for impairment | **(74,761)** | (77,142) |
| | **14,175** | 14,483 |
| Net carrying amount | **75,345** | 76,558 |
| Analysis of cost of investment impairment losses: | | |
| At 1 January | **28,389** | 28,389 |
| Charge for the financial year | **900** | – |
| At 31 December | **29,289** | 28,389 |
| Analysis of loans to subsidiaries allowance for impairment: | | |
| At 1 January | **77,142** | 76,762 |
| Exchange differences | **(2,381)** | 380 |
| At 31 December | **74,761** | 77,142 |

Except for loans to subsidiaries of $3,937,000 (2016: $4,051,000) which bear interest at rate of 5.0% (2016: 5.0%) per annum, all other amounts are interest-free and unsecured.

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

At the end of the financial year, the Company has provided an allowance of $74,761,000 (2016: $77,142,000) for impairment of loans to subsidiaries with a nominal amount of $74,761,000 (2016: $77,142,000).

Loans to subsidiaries are denominated in the following currencies:

| | Company | |
|---|---|---|
| | **2017** | 2016 |
| | **$'000** | $'000 |
| Singapore Dollar | **10,432** | 10,432 |
| United States Dollar | **3,743** | 4,051 |
| At 31 December | **14,175** | 14,483 |

## 5. INVESTMENT IN SUBSIDIARIES (CONTINUED)

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

| Name of company (Country of incorporation) | Principal activities (Place of business) | Cost | | Proportion of ownership interest | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | | $'000 | $'000 | % | % |
| ***Held by the Company*** | | | | | |
| Federal Hardware Engineering Co Pte Ltd[(1)] (Singapore) | Dealer in flowline control materials and services and investment holding (Singapore) | **59,808** | 59,808 | **100** | 100 |
| Alton International (S) Pte Ltd[(1)] (Singapore) | Engineering, procurement, construction and management and trading and marketing of commodities (Singapore) | **18,417** | 18,417 | **100** | 100 |
| KVC (UK) Ltd[(2)] (United Kingdom) | Design, manufacture and assembly of valves (United Kingdom) | **664** | 664 | **90** | 90 |
| Federal Fire Engineering Pte Ltd[(1)] (Singapore) | Supply and installation supervision of fire detection and protection systems and related products (Singapore) | **500** | 500 | **100** | 100 |
| GV Oilfield Engineering Pvt. Ltd. (India) | Dormant (India) | **–** | 5[(a)] | **–** | 60 |
| Federal Offshore Services Pte. Ltd.[(1)] (Singapore) | Offshore marine projects and chartering of vessels (Indonesia) | **6,863** | 6,863 | **60** | 60 |
| Federal Environmental & Energy Pte. Ltd.[(1)] (Singapore) | Supply of flowline control products and investment holding (Singapore) | **1,751** | 1,751 | **65** | 65 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 5. INVESTMENT IN SUBSIDIARIES (CONTINUED)

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

| Name of company (Country of incorporation) | Principal activities (Place of business) | Cost 2017 $'000 | Cost 2016 $'000 | Proportion of ownership interest 2017 % | Proportion of ownership interest 2016 % |
|---|---|---|---|---|---|
| ***Held by the Company*** *(Continued)* | | | | | |
| Federal Energi Pte. Ltd.(1) (Singapore) | Dormant (Singapore) | **#–** | #– | **100** | 100 |
| Eastern Jason Fabrication Services Pte Ltd(1) (Singapore) | Investment holding and offshore marine projects (Singapore) | **2,454** | 2,454 | **100(5)** | 100(5) |
| Federal Capital Pte. Ltd.(1) (Singapore) | Investment holding (Singapore) | **#–** | #– | **100** | 100 |
| PT Federal International(2) (Indonesia) | Provision of management and business consultation services, and operating and maintenance of oil and gas facility services (Indonesia) | **2** | 2 | **100(3)** | 100(3) |
| * FI (2000) UK Limited (United Kingdom) | Manufacture of valves for the oil and petrochemical industries (United Kingdom) | **–(b)** | –(b) | **100** | 100 |
| | | **90,459** | 90,464 | | |

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

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

| Name of company (Country of incorporation) | Principal activities (Place of business) | Proportion of ownership interest 2017 % | 2016 % |
|---|---|---|---|
| ***Held by subsidiaries*** | | | |
| PT Fedsin Rekayasa Pratama (Indonesia)[(2)] | Hardware merchant and investment holding (Indonesia) | **100** | 100 |
| PT Federal International (Indonesia)[(2)] | Provision of management and business consultation services and operating and maintenance of oil and gas facility services (Indonesia) | **99[(3)]** | 99[(3)] |
| Federal International (Shanghai) Co., Ltd.[(2)] (PRC) | Trader and agent of flowline control products (PRC) | **65** | 65 |
| Alton International (Thailand) Co., Ltd[(4)] (Thailand) | Dealer in hardware and oilfield engineering materials (Thailand) | **100** | 100 |
| Alton International Resources Pte. Ltd.[(1)] (Singapore) | Dormant (Singapore) | **70** | 70 |
| *PT Alton International Resources (Indonesia) | Dormant (Indonesia) | **69.3** | 69.3 |
| *PT Mega Federal Energy (Indonesia) | Dormant (Indonesia) | **60** | 60 |

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## 5. INVESTMENT IN SUBSIDIARIES (CONTINUED)

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

| Name of company (Country of incorporation) | Principal activities (Place of business) | Proportion of ownership interest 2017 % | 2016 % |
|---|---|---|---|
| ***Held by subsidiaries** (Continued)* | | | |
| Federal Environmental Engineering (Shanghai) Co Ltd(2) (PRC) | Water and wastewater treatment projects (PRC) | **65** | 65 |
| FEE Investment Management Consultants (Shanghai) Co Ltd(2) (PRC) | Provision of management and consultancy services for environmental-related projects (PRC) | **65** | 65 |
| Federal Environmental Engineering (Suzhou) Co. Ltd(2) (PRC) | Provision of management and consultancy services for environmental-related projects (PRC) | **65** | 65 |
| Federal Environmental (Southwest China) Pte. Ltd.(1) (Singapore) | Investment holding (Singapore) | **65** | 65 |
| Federal Environmental (Chengdu) Pte. Ltd.(1) (Singapore) | Investment holding (Singapore) | **65** | 65 |
| Federal Water (Chengdu) Co., Ltd.(2) (PRC) | Supply of raw water, treated industrial tap water and project consultancy services (PRC) | **58.5** | 58.5 |
| *Federal-WH Marathon Ltd (British Virgin Islands) | Engineering, procurement and construction related projects (British Virgin Islands) | **51** | 51 |
| **Federal DNV India Private Ltd (India) | Dormant (India) | **51** | – |

\# Amount less than $1,000
* Not required to be audited under the laws of the respective countries of incorporation
** In the process of appointing auditor

(1) Audited by Baker Tilly TFW LLP
(2) Audited by independent overseas member firms of Baker Tilly International
(3) This comprised 1% direct equity interest held by the Company and indirect equity interest of 99% held by a wholly-owned subsidiary
(4) Audited by PT Accounting & Auditing Limited, Thailand
(5) This comprised 92.5% direct equity interest held by the Company and indirect equity interest of 7.5%

(a) The members' voluntary winding up of the Company has been completed during the financial year (Note 5(c)).
(b) No share capital is contributed into the subsidiary as at 31 December 2017 and 31 December 2016.

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

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

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

| Name of subsidiary | Principal place of business/ Country of incorporation | Ownership interests held by NCI | |
|---|---|---|---|
| | | **2017** | **2016** |
| | | **%** | **%** |
| FEE subgroup | Singapore and PRC | **35** | 35 |
| AIR subgroup | Singapore and Indonesia | **30** | 30 |

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

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

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

*Summarised Balance Sheets*

| | FEE subgroup | | AIR subgroup | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Non-current assets | **82** | 902 | **22** | 23 |
| Non-current liabilities | **(5,001)** | (1) | **(11)** | (12) |
| Current assets | **10,625** | 6,674 | **–** | 1 |
| Current liabilities | **(27,853)** | (28,263) | **(33,382)** | (33,927) |
| **Net liabilities** | **(22,147)** | (20,688) | **(33,371)** | (33,915) |
| **Net liabilities attributable to NCI** | **(7,751)** | (7,241) | **(10,011)** | (10,175) |

# NOTES TO THE FINANCIAL STATEMENTS

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## 5. INVESTMENT IN SUBSIDIARIES (CONTINUED)

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

*Summarised Statements of Comprehensive Income*

| | FEE subgroup | | AIR subgroup | |
|---|---|---|---|---|
| | **2017 $'000** | **2016 $'000** | **2017 $'000** | **2016 $'000** |
| Revenue | **6,853** | 14,365 | **–** | – |
| (Loss)/profit before tax | **(939)** | 430 | **418** | (42) |
| Income tax expense | **(1)** | (256) | **–** | (51) |
| (Loss)/profit after tax from continuing operations | **(940)** | 174 | **418** | (42) |
| Other comprehensive income/(loss) | **161** | 232 | **125** | (51) |
| Total comprehensive (loss)/income | **(779)** | 406 | **543** | (93) |
| **(Loss)/profit allocated to NCI** | **(329)** | 61 | **125** | (13) |

*Summarised Statement of Cash Flows*

| | FEE subgroup | | AIR subgroup | |
|---|---|---|---|---|
| | **2017 $'000** | **2016 $'000** | **2017 $'000** | **2016 $'000** |
| Cash flows used in operating activities | **(1,054)** | (87) | **(16)** | (35) |
| Cash flows generated from investing activities | **–** | 11 | **–** | – |
| Cash flows generated from/(used in) financing activities | **119** | (3,899) | **15** | 22 |
| **Net decrease in cash and cash equivalents** | **(935)** | (3,975) | **(1)** | (13) |

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

(c) *Disposal of a subsidiary*

The Members' Voluntary Liquidation of a subsidiary, GV Oilfield Engineering Private Limited, has been completed during the year. The effect of the disposal on the financial position of the Group is as follows:

**Effect of disposal on the financial position of the Group**

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

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

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

(e) *Significant restriction*

Cash and cash equivalents of $407,000 (2016: $257,000) are held in the People's Republic of China and are subject to local exchange control regulations. These regulations place restrictions on the amount of currency being exported from the country, other than through dividends.

# NOTES TO THE FINANCIAL STATEMENTS

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## 6. INVESTMENT IN ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 |
| Unquoted shares, at cost | **4,512** | 4,512 | **1,088** | 1,088 |
| Share of post-acquisition reserves | **1,525** | 1,081 | **–** | – |
| Impairment loss | **(575)** | (575) | **(356)** | (356) |
| Currency realignment | **(714)** | (407) | **–** | – |
| Net carrying amount | **4,748** | 4,611 | **732** | 732 |

Analysis of impairment losses:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 |
| At 1 January | **575** | 2,574 | **356** | 4,979 |
| Written back | **–** | (538) | **–** | (538) |
| Written off | **–** | (1,461) | **–** | (4,085) |
| At 31 December | **575** | 575 | **356** | 356 |

| Name of company (Country of incorporation) | Principal activities (Place of business) | Cost | | Proportion of ownership interest | |
|---|---|---|---|---|---|
| | | 2017 $'000 | 2016 $'000 | 2017 % | 2016 % |
| ***Associates*** | | | | | |
| ***Held by the Company*** | | | | | |
| *KVC Co., Ltd (Japan) | Manufacture and export of valves (Japan) | **868** | 868 | **50** | 50 |
| Federal JWR Energy Pte. Ltd.[(a)] (Singapore) | Dormant (Indonesia) | **203** | 203 | **40** | 40 |
| Sapex International Pte. Ltd.[(1)] (Singapore) | Dormant (Singapore) | **17** | 17 | **50** | 50 |
| | | **1,088** | 1,088 | | |

## 6. INVESTMENT IN ASSOCIATES (CONTINUED)

| Name of company (Country of incorporation) | Principal activities (Place of business) | Proportion of ownership interest | |
|---|---|---|---|
| | | 2017 % | 2016 % |
| ***Held by subsidiaries*** | | | |
| *Federal-Applied Industrial Services Co Ltd (Thailand) | Dormant (Thailand) | **49** | 49 |
| PT Eastern Jason[(2)] (Indonesia) | Chartering of vessels (Indonesia) | **30** | 30 |
| *PT Fedco Rekayasa Indonesia (Indonesia) | Procurement services for the flowline control procedures and services, and other oilfield related equipment (Indonesia) | **49** | 49 |
| PAE-Federal International Co. Ltd.[(3)] (Thailand) | Dormant (Thailand) | **45** | 45 |

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

(1) Audited by Baker Tilly TFW LLP
(2) Audited by Kosasih, Nurdiyaman, Tjahjo & Rekan, Indonesia
(3) Audited by SP Audit Co Ltd

(a) The Company entered into a sale and purchase agreement (“Agreement”) with PT Petroflexx Prima Daya (“PT PPD”) for the disposal of the Company’s 40% shares in Federal JWR Energy Pte. Ltd..

The sale was conditional upon the Company receiving consideration of US$2,940,588 from PT PPD over a period of 34 months. The payment period ended in March 2016.

In 2016, the Agreement was deemed to be terminated due to the failure by PT PPD to pay the balance consideration to the Company during the payment period. In 2016, the Group recognised interest income receivable of $158,000 and forfeiture of the remaining partial proceeds of $713,000 as “other income”.

# NOTES TO THE FINANCIAL STATEMENTS

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## 6. INVESTMENT IN ASSOCIATES (CONTINUED)

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

*Summarised Statements of Comprehensive Income*

| | PT Eastern Jason | | KVC Co., Ltd | |
|---|---|---|---|---|
| | **2017 $'000** | **2016 $'000** | **2017 $'000** | **2016 $'000** |
| Revenue | **13,000** | 17,577 | **11,845** | 30,333 |
| Profit/(loss) after tax from continuing operations | **1,963** | 2,482 | **(229)** | 1,870 |
| Other comprehensive (loss)/income | **(829)** | 491 | **(119)** | 84 |
| Total comprehensive income/(loss) | **1,134** | 2,973 | **(348)** | 1,954 |
| Dividend received from associate | **–** | – | **29** | 31 |

*Summarised Balance Sheets*

| | PT Eastern Jason | | KVC Co., Ltd | |
|---|---|---|---|---|
| | **2017 $'000** | **2016 $'000** | **2017 $'000** | **2016 $'000** |
| Non-current assets | **53,483** | 63,266 | **1,466** | 1,960 |
| Current assets | **9,826** | 11,582 | **7,000** | 10,261 |
| Non-current liabilities | **(25,196)** | (50,199) | **(1,469)** | (1,282) |
| Current liabilities | **(27,193)** | (14,863) | **(4,052)** | (7,589) |
| **Net assets** | **10,920** | 9,786 | **2,945** | 3,350 |
| Proportion of the Group's ownership | **30%** | 30% | **50%** | 50% |
| Group's share of net assets based on proportion of ownership interest | **3,276** | 2,936 | **1,472** | 1,675 |
| **Carrying amount of investment** | **3,276** | 2,936 | **1,472** | 1,675 |

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

| | **2017 $'000** | **2016 $'000** |
|---|---|---|
| Loss after tax | – | (204) |
| Other comprehensive loss | – | (6) |
| **Total comprehensive loss** | – | (210) |

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

The Group's share of unrecognised losses during the financial year and cumulatively were $4,000 (2016: $60,000) and $20,000 (2016: $16,000) respectively. The movement of the Group's cumulative share of unrecognised losses arose from current year loss incurred by Sapex International Pte. Ltd.. The Group has no obligation in respect of these losses.

## 7. INTANGIBLE ASSETS

| Group | Goodwill $'000 | Development costs $'000 | Total $'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2016 | 1,044 | 1,368 | 2,412 |
| Additions | – | 695 | 695 |
| Exchange differences | – | (2) | (2) |
| At 31 December 2016, 1 January 2017 and 31 December 2017 | **1,044** | **2,061** | **3,105** |
| **Accumulated amortisation and impairment loss** | | | |
| At 1 January 2016 | 1,044 | 4 | 1,048 |
| Amortisation charge | – | 136 | 136 |
| Exchange differences | – | (2) | (2) |
| At 31 December 2016 and 1 January 2017 | 1,044 | 138 | 1,182 |
| Amortisation charge | – | 136 | 136 |
| Exchange differences | – | 1 | 1 |
| At 31 December 2017 | **1,044** | **275** | **1,319** |
| **Net carrying amount:** | | | |
| At 31 December 2016 | – | 1,923 | 1,923 |
| At 31 December 2017 | **–** | **1,786** | **1,786** |

*Development costs*

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

*Impairment testing of goodwill*

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

# NOTES TO THE FINANCIAL STATEMENTS
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## 8. OTHER INVESTMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 |
| *Available-for-sale financial assets* | | | | |
| Investment in partnership, at cost (unquoted)* | **20** | 20 | **–** | – |
| Unquoted equity shares, at fair value** | **538** | 538 | **538** | 538 |
| | **558** | 558 | **538** | 538 |
| Unquoted equity shares, at cost*** | **29** | 29 | **–** | – |
| Impairment loss | **(29)** | (29) | **–** | – |
| | **–** | – | **–** | – |

* The Group has a 20% (2016: 20%) equity interest in a partnership entity that is held through a subsidiary. This partnership is set-up in Brunei Darussalam and is principally engaged in the supply of valves, fitting and instruments.

** Unquoted equity shares represent 2.58% (2016: 2.58%) interest in PT Gunanusa Utama Fabricators. The investment is categorised under Level 3 fair value hierarchy.

In December 2016, the Company lost its significant influence in PT Gunanusa Utama Fabricators ("PTG") due to dilution of interest from 20.66% to 2.58%. Upon loss of significant influence over PTG, the Group and Company measured the retained investment in PTG as at 31 December 2016 at its fair value amounting to $538,000, wrote back impairment loss of the same amount and classified the retained investment as "other investments" on the balance sheet.

The Group discontinued equity accounting for PTG upon loss of significant influence. Accordingly, the Group accounted the previously recorded share of revaluation gain on land and buildings of PTG and capital reserve amounting to $8,426,000 and $2,773,000 respectively directly to accumulated losses and the cumulative foreign currency translation amounting to $1,130,000 (Note 28) from foreign currency translation reserve to profit or loss. The Group recorded loss of $592,000 from its dilution of interest in PTG.

*** Unquoted equity shares represent interest in a company in Indonesia.

## 9. OTHER RECEIVABLES (NON-CURRENT)

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 |
| Deposits | **72** | 70 | **–** | – |
| Loan to a shareholder of an investee company | **13,022** | 13,022 | **13,022** | 13,022 |
| | **13,094** | 13,092 | **13,022** | 13,022 |

The loan to a shareholder of an investee company is secured by the shareholder's shares of the investee company, bears interest at 7% (2016: 7%) per annum and is repayable at the fifth anniversary of the loan in financial year ending 2021.

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

**9. OTHER RECEIVABLES (NON-CURRENT)** (CONTINUED)

The valuation using income approach has been determined based on discounted cash flow analysis from forecast approved by management covering a five-year period. The discount rate applied to the cash flow projection and forecasted growth rate used to extrapolate cash flow projection beyond five-year period are 11.37% and 5.5% respectively.

**10. FINANCIAL RECEIVABLE**

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| **Non-current** | | |
| Financial receivable | **–** | 816 |
| **Current** | | |
| Financial receivable | **707** | 552 |
| | **707** | 1,368 |

Financial receivable is stated after impairment of allowance of $3,507,000 (2016: $3,557,000).

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Movement of allowance account: | | |
| At 1 January | **3,557** | 3,721 |
| Exchange differences | **(50)** | (164) |
| At 31 December | **3,507** | 3,557 |

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

The Group entered into a service concession arrangement with the local government of Xinjin for the construction of water treatment facility and provision of raw water and industrial tap water services over a concession period of 30 years (from year 2009 till year 2039) via its 58.5% owned subsidiary Federal Water (Chengdu) Co., Ltd., incorporated in the PRC. Based on the concession agreement, the Group is entitled to receive fixed minimum guaranteed fees during the concession period. Such concession arrangement falls within the scope of INT FRS 112 and the Group has accordingly recognised a financial receivable as the Group has a right to receive a fixed and determinable amount of payments during the concession period irrespective of the utilisation of the water treatment facility. The financial receivable is carried at $707,000 (2016: $1,368,000) on the balance sheet as at 31 December 2017.

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

- A discount rate ranging from 8% (2016: 8%) has been applied to the cash flow projections. The discount rate was pre-tax and reflected specific risks relating to the industry.
- The projected water volume for the concession arrangement was based on historical production trend, over the concession period.
- The projected fee for sales of water was based on the higher of minimum guaranteed sum or actual treatment volume multiplied by the unit rate, according to the signed service concession arrangement.

# NOTES TO THE FINANCIAL STATEMENTS

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## 11. DEFERRED TAX

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| At 1 January | **(1,415)** | (2,293) | – | 22 |
| Movement in temporary differences: | | | | |
| Recognised directly in profit or loss | **(112)** | 868 | – | (22) |
| Recognised directly in other comprehensive income (Note 30) | **(126)** | (12) | – | – |
| Exchange differences | **(49)** | 22 | – | – |
| At 31 December | **(1,702)** | (1,415) | – | – |

Deferred tax as at 31 December relates to the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| ***Deferred tax liabilities*** | | | | |
| Differences in depreciation for tax purposes | **42** | 16 | – | – |
| Revaluations to fair value of leasehold land, freehold and leasehold buildings | **2,186** | 1,977 | – | – |
| Other items | **142** | 69 | – | – |
| | **2,370** | 2,062 | – | – |
| ***Deferred tax assets*** | | | | |
| Provisions | **51** | 40 | – | – |
| Difference in depreciation for tax purpose | **593** | 578 | – | – |
| Other items | **24** | 29 | – | – |
| | **668** | 647 | – | – |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Deferred tax liabilities | **(2,367)** | (2,041) | – | – |
| Deferred tax assets | **665** | 626 | – | – |

**11. DEFERRED TAX** (CONTINUED)

*Unrecognised tax losses*

At the end of the financial year, the Group has unabsorbed tax losses of approximately $23,808,000 (2016: $24,494,000) that are available for offset against future taxable profits of the subsidiaries in which the losses arose for which no deferred tax assets is recognised due to uncertainty of their recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate.

The income tax benefits from the unabsorbed tax losses carried forward is available for an unlimited period subject to the conditions imposed by law, except for unabsorbed tax losses of $2,756,000 (2016: $3,624,000) which will expire progressively over the next 5 years up till 2022, subject to the conditions imposed by the Indonesian tax authorities.

At the end of the financial year, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is $462,000 (2016: $1,136,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

**12. INVENTORIES**

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| **Balance Sheet:** | | |
| Trading stocks | **11,661** | 14,139 |
| Goods-in-transit | **461** | 197 |
| Work-in-progress | **479** | 470 |
| Raw materials | **195** | 206 |
| | **12,796** | 15,012 |
| **Income statement:** | | |
| Inventories recognised as an expense in cost of sales | **105,756** | 70,208 |
| Allowance for slow moving inventories | **733** | 905 |

The Group has subjected trading stocks amounting to $10,822,000 (2016: $11,546,000) to a floating charge as security for trust receipts and bank overdrafts (Note 25).

# NOTES TO THE FINANCIAL STATEMENTS

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## 13. TRADE RECEIVABLES (CURRENT)

| | Group 2017 $'000 | Group 2016 $'000 |
|---|---|---|
| Trade receivables | | |
| – Third parties | **48,701** | 36,661 |
| Less: Allowance for impairment | **(2,331)** | (713) |
| **Trade receivables, net** | **46,370** | 35,948 |

Trade receivables are non-interest bearing and are generally on 30 to 120 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

*Receivables that are past due but not impaired*

The Group has trade receivables amounting to $27,635,000 (2016: $18,058,000) that are past due at the end of the financial year but not impaired. These receivables are unsecured and the analysis of their ageing at the end of the financial year is as follows:

| | Group 2017 $'000 | Group 2016 $'000 |
|---|---|---|
| Trade receivables past due: | | |
| Less than 30 days | **7,900** | 3,925 |
| 30 to 60 days | **11,406** | 3,645 |
| 61 to 90 days | **2,869** | 4,238 |
| More than 90 days | **5,460** | 6,250 |
| | **27,635** | 18,058 |

*Receivables that are impaired*

The Group's trade receivables that are impaired at the end of the financial year and the movement of the allowance accounts used to record the impairment are as follows:

| | Group Individually impaired 2017 $'000 | Group Individually impaired 2016 $'000 |
|---|---|---|
| Trade receivables – nominal amounts | **2,401** | 851 |
| Less: Allowance for impairment | **(2,331)** | (713) |
| | **70** | 138 |
| Movements in allowance account: | | |
| At 1 January | **713** | 20,139 |
| Charge for the financial year | **1,721** | 213 |
| Written off | **–** | (19,685) |
| Written back | **(54)** | (50) |
| Exchange differences | **(49)** | 96 |
| At 31 December | **2,331** | 713 |

**13. TRADE RECEIVABLES (CURRENT)** (CONTINUED)

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Bad debts directly written off to profit or loss | **–** | 7 |

Trade receivables that are individually determined to be impaired at the end of financial year relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements except for an amount of $1,644,000 which is secured either by corporate guarantee or personal guarantee.

**14. OTHER RECEIVABLES (CURRENT)**

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Amount due from an investee company | **3,382** | 194 | **6** | 31 |
| Recoverable | **269** | 1,856 | **8** | 23 |
| Sundry debtors | **685** | 79 | **4** | 4 |
| | **4,336** | 2,129 | **18** | 58 |

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

Sundry debtors are unsecured and non-interest bearing.

*Other receivables that are impaired*

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Other receivables – nominal amounts | **2,197** | 2,382 |
| Less: Allowance for impairment | **(2,197)** | (2,382) |
| | **–** | – |
| Movements in allowance account: | | |
| At 1 January | **2,382** | 8,213 |
| Charge for the financial year | **6** | 2 |
| Written off | **(6)** | (4,385) |
| Written back | **–** | (1,400) |
| Exchange differences | **(185)** | (48) |
| At 31 December | **2,197** | 2,382 |
| Bad debts directly written off to profit or loss | **–** | 17 |

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

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## 14. OTHER RECEIVABLES (CURRENT) (CONTINUED)

In April 2016, the Group exercised its options to purchase 12% equity interest in a long outstanding other receivable and wrote back previously impaired other receivable amounting to $1,400,000. The investment was classified as available-for-sale financial asset. In December 2016, the Group disposed the available-for-sale financial asset and recorded a gain of $1,259,000 in profit or loss under "other income" line item for the financial year ended 31 December 2016.

## 15. AMOUNTS DUE FROM SUBSIDIARIES

| | Company | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| *Non-current* | | |
| Non-trade | **10,490** | 11,087 |
| Allowance for impairment | **(5,902)** | (6,121) |
| | **4,588** | 4,966 |
| *Current* | | |
| Trade | **1,195** | 422 |
| Non-trade | **5,598** | 6,995 |
| | **6,793** | 7,417 |
| Allowance for impairment | **(2,201)** | (2,256) |
| | **4,592** | 5,161 |
| Dividend receivable | **2,434** | 2,000 |
| | **7,026** | 7,161 |

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

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

At the end of the financial year, the Company has provided an allowance of $8,103,000 (2016: $8,377,000) for impairment of unsecured loans to subsidiaries with a nominal amount of $16,220,000 (2016: $17,530,000).

| | Company | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| Movements in allowance account: | | |
| At 1 January | **8,377** | 8,201 |
| Charge for the financial year | **86** | 108 |
| Exchange differences | **(360)** | 68 |
| At 31 December | **8,103** | 8,377 |

## 15. AMOUNTS DUE FROM SUBSIDIARIES (CONTINUED)

Amounts due from subsidiaries are denominated in the following currencies:

| | Company | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Singapore Dollar | **6,128** | 5,944 |
| United States Dollar | **5,486** | 6,183 |
| At 31 December | **11,614** | 12,127 |

## 16. AMOUNT DUE FROM AN ASSOCIATE AMOUNTS DUE FROM ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| *Non-current* | | | | |
| Non-trade | **4,588** | 4,966 | **–** | – |
| *Current* | | | | |
| Non-trade | **3,263** | 3,695 | **49** | 50 |

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

*Amounts due from associates that are impaired*

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Amounts due from associates | | | | |
| – nominal amounts | **524** | 538 | **41** | 44 |
| Less: Allowance for impairment | **(521)** | (535) | **(41)** | (44) |
| | **3** | 3 | **–** | – |
| Movements in allowance account: | | | | |
| At 1 January | **535** | 482 | **44** | 58 |
| Charge for the financial year | **17** | 59 | **–** | – |
| Written off | **–** | (14) | **–** | (14) |
| Exchange differences | **(31)** | 8 | **(3)** | – |
| At 31 December | **521** | 535 | **41** | 44 |

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## 17. AMOUNT DUE FROM A RELATED PARTY

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

Amount due from a related party is secured by corporate guarantee provided by the holding company of the related party, interest-free and is not expected to be repaid within the next twelve months.

## 18. GROSS AMOUNT DUE FROM CUSTOMER FOR CONSTRUCTION WORK-IN-PROGRESS

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Aggregate amount of costs incurred and recognised profits (less recognised losses) to date | **664** | 1 |
| Less: Progress billings | **560** | – |
| At 31 December | **104** | 1 |
| Gross amount due from customer for contract work | **104** | 1 |
| Gross amount due to customer for contract work | **–** | – |
| | **104** | 1 |

## 19. ADVANCE PAYMENT TO SUPPLIERS

Amounts that are impaired:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Movement in allowance account: | | |
| At 1 January | **–** | 2,709 |
| Written off | **–** | (2,709) |
| At 31 December | **–** | – |

## 20. PROVISIONS

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Provision for probable penalty for late delivery of a vessel | **–** | 4,312 |
| Provision for commissioning work of a vessel | **–** | 599 |
| | **–** | 4,911 |

## 20. PROVISIONS (CONTINUED)

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

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| At 1 January | **4,312** | 4,469 |
| Unused amounts reversed during the year | **(2,297)** | – |
| Utilised during the financial year | **(1,749)** | (247) |
| Exchange differences | **(266)** | 90 |
| At 31 December | **–** | 4,312 |

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

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| At 1 January | **599** | 585 |
| Unused amounts reversed during the year | **(558)** | – |
| Exchange differences | **(41)** | 14 |
| At 31 December | **–** | 599 |

## 21. TRADE AND OTHER PAYABLES

*Trade payables*

Trade payables are non-interest bearing and normally settled on 30-90 days' terms.

*Other payables*

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Accruals | **9,267** | 11,014 | **958** | 853 |
| Sundry creditors | **1,234** | 1,005 | **123** | 91 |
| Accrual for foreign tax liabilities | **362** | 433 | **–** | – |
| Amount payable to minority shareholder | **234** | – | **–** | – |
| | **11,097** | 12,452 | **1,081** | 944 |

Other payables are non-interest bearing and normally settled on 30 – 90 days' terms.

# NOTES TO THE FINANCIAL STATEMENTS

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## 22. AMOUNTS DUE TO SUBSIDIARIES

*Non-current*

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

*Current*

Amounts due to subsidiaries are unsecured and interest-free.

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

Amounts due to subsidiaries are denominated in the following currencies:

| | Company | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Singapore Dollar | **504** | 504 |
| United States Dollar | **22,048** | 23,865 |
| At 31 December | **22,552** | 24,369 |

## 23. AMOUNTS DUE TO ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Trade | **10** | 10 | **–** | – |
| Non-trade | **1,206** | 192 | **243** | 192 |
| | **1,216** | 202 | **243** | 192 |

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

## 24. AMOUNT DUE TO A RELATED PARTY

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Loan from a director of certain subsidiaries | **2,009** | 2,034 | **–** | – |

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

## 25. AMOUNTS DUE TO BANKERS

| | Group | |
|---|---|---|
| | 2017<br>$'000 | 2016<br>$'000 |
| Bank overdrafts, secured | **738** | 3,633 |
| Trust receipts, secured | **18,573** | 18,537 |
| | **19,311** | 22,170 |

Bank overdrafts bear interest at 2.00% – 6.00% (2016: 2.00% – 6.00%) per annum ("p.a.") and are repayable on demand. Trust receipts bear interest at 2.93% – 3.81% (2016: 2.00% – 3.37%) p.a..

Amounts due to bankers are denominated in the following currencies:

| | Group | |
|---|---|---|
| | 2017<br>$'000 | 2016<br>$'000 |
| Singapore Dollar | **723** | 3,461 |
| United States Dollar | **17,846** | 15,662 |
| Indonesia Rupiah | **–** | 1,948 |
| Euro | **–** | 145 |
| Great Britain Pound | **742** | 954 |
| At 31 December | **19,311** | 22,170 |

*Securities*

Bank overdrafts and trust receipts of certain subsidiaries are secured by legal mortgages on the Group's freehold land, leasehold land and buildings and inventories (Note 4 and Note 12).

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

| | Bank overdrafts<br>$'000 | Trust receipts<br>$'000 | Sub-total<br>$'000 | Trust receipts – Accrued interest*<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|---|
| Balance at 1 January 2017 | 3,633 | 18,537 | 22,170 | 41 | 22,211 |
| Changes from financing cash flows: | | | | | |
| – Proceeds | – | 96,426 | 96,426 | – | 96,426 |
| – Repayments | – | (94,236) | (94,236) | – | (94,236) |
| – Changes in bank overdrafts | (2,902) | – | (2,902) | – | (2,902) |
| – Interest paid | – | – | – | (655) | (655) |
| Non-cash changes: | | | | | |
| – Interest expense | – | – | – | 716 | 716 |
| Effect of changes in foreign exchange rates | 7 | (2,154) | (2,147) | – | (2,147) |
| Balance at 31 December 2017 | **738** | **18,573** | **19,311** | **102** | **19,413** |

* Included as accruals (Note 21)

# NOTES TO THE FINANCIAL STATEMENTS

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## 26. TERM LOANS

| | Group | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Amounts repayable within one year | | |
| – secured | **7,438** | 5,001 |
| Amounts repayable after one year | | |
| – secured | **9,742** | – |

The Group obtained term loans and other credit facilities from various financial institutions. Among others, one of the financial institutions, in its financial covenants requirements, sets a threshold of $60,000,000 (2016: $60,000,000) of minimum consolidated total net worth (defined as paid-up capital and capital reserves/revaluation reserves/accumulated losses/retained earnings) for the Group.

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

| | Term loans $'000 |
|---|---|
| Balance at 1 January 2017 | 5,001 |
| Changes from financing cash flows: | |
| – Proceeds | 14,671 |
| – Repayments | (2,510) |
| – Interest paid | (402) |
| Non-cash changes: | |
| – Interest expense | 402 |
| Effect of changes in foreign exchange rates | 18 |
| Balance at 31 December 2017 | **17,180** |

In addition to the basic loan terms and specific clauses defining default events, certain term loans with amount $1,254,000 (2016: $779,000) also include an overriding repayment on demand clause which gives the lender the right to demand repayment at any time at their sole discretion irrespective of whether a default event has occurred. These loans are scheduled for repayment within twelve months have been classified as current based on the guidance on classification of callable term loan issued by the Institute of Singapore Chartered Accountants.

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

Loan of $3,000,000 (2016: $3,000,000) is secured by a legal mortgage on the Group's freehold land and buildings (Note 4), on one of the Group's leasehold land and building (Note 4) and a corporate guarantee provided by the Company (Note 39) and is repayable within one month to four months. This loan bears interest at 3.03% (2016: 2.74%) p.a..

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

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

**26. TERM LOANS** (CONTINUED)

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

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

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

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

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

Loan of $585,000 (RMB2,849,000) (2016: $779,000 (RMB3,738,000)) is secured by a Standby Letter of Credit issued by a financial institution, guaranteed by the Company and a related company and is repayable from January through June 2018 (2016: January through June 2017). This loan bears interest at 5.66% (2016: 5.66%) p.a..

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

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

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

Loan of $697,000 (£387,000) (2016: $812,000 (£455,000)) is secured by a Standby Letter of Credit issued by a financial institution, guaranteed by the Company and a related company and is repayable in monthly installments commencing from June 2008 through May 2023.

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

Loan of $313,000 (£173,000) (2016: $410,000 (£229,000)) is secured by a Standby Letter of Credit issued by a financial institution, guaranteed by the Company and a related company and is repayable in monthly installments commencing from October 2010 through September 2020.

**27. SHARE CAPITAL**

| | Group and Company | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | No. of shares '000 | $'000 | No. of shares '000 | $'000 |
| **Issued and fully paid ordinary shares** | | | | |
| At 1 January and 31 December | **140,767** | **144,099** | 140,767 | 144,099 |

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

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## 28. FOREIGN CURRENCY TRANSLATION RESERVE

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

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| At 1 January | **(4,575)** | (5,806) |
| Net effect of exchange differences arising from translation of financial statements of foreign operations | **(222)** | (86) |
| Share of other comprehensive (loss)/income of associates | **(308)** | 187 |
| Foreign currency translation on loss of control reclassified to profit and loss | **245** | – |
| Foreign currency translation on loss of significant influence reclassified to profit or loss (Note 8) | **–** | 1,130 |
| At 31 December | **(4,860)** | (4,575) |

## 29. CAPITAL RESERVE

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

In 2016, the Group transferred $2,773,000 to accumulated losses due to loss of significant influence in an associate (Note 8).

## 30. REVALUATION RESERVE

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

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| At 1 January | **16,460** | 25,023 |
| Surplus/(deficit) on revaluation of freehold/leasehold land and buildings | **739** | (125) |
| Deferred tax liabilities on revaluation surplus of leasehold land, freehold and leasehold buildings (Note 11) | **(126)** | (12) |
| Gain on revaluation of land and buildings on loss of significant influence transferred to accumulated losses (Note 8) | **–** | (8,426) |
| At 31 December | **17,073** | 16,460 |

## 31. OTHER RESERVES

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Statutory reserve fund | **248** | 248 |
| Premium paid on acquisition of non-controlling interests | **(1,223)** | (1,223) |
| Share of other reserve of an associate | **(1)** | (1) |
| | **(976)** | (976) |

***Statutory reserve fund***

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

***Premium paid on acquisition of non-controlling interests***

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

## 32. REVENUE

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Sale of products and installation services | **129,625** | 89,089 |
| Management fee income | **333** | 392 |
| | **129,958** | 89,481 |

## 33. PROFIT BEFORE TAX

| | Group | |
|---|---|---|
| | **2017** | 2016 |
| | **$'000** | $'000 |
| **Other income** | | |
| Foreign exchange gain | **–** | 1,203 |
| Gain on disposal of property, plant and equipment | **8** | 32 |
| Gain on disposal of available-for-sale financial asset (Note 14) | **–** | 1,259 |
| Implicit interest income | **3** | 5 |
| Interest on income from banks and fixed deposits | **45** | 132 |
| Interest on trade overdues | **1,842** | 321 |
| Interest income from a related party (Note 6) | **–** | 158 |
| Share of profits from partnership | **143** | 184 |
| Forfeiture of partial proceeds for disposal of an associate (Note 6) | **–** | 713 |
| Service fees | **–** | 5,920 |
| Sundry income | **970** | 471 |
| | **3,011** | 10,398 |
| **Selling and distribution costs** | | |
| Depreciation of property, plant and equipment | **22** | 52 |
| Staff costs (including directors) | | |
| – salaries and other emoluments | **3,527** | 3,930 |
| – defined pension contributions | **449** | 513 |
| **Administrative and general costs** | | |
| Amortisation of intangible assets | **136** | 136 |
| Depreciation of property, plant and equipment | **1,932** | 2,078 |
| Staff costs (including directors) | | |
| – salaries and other emoluments | **4,895** | 4,737 |
| – defined pension contributions | **492** | 448 |
| Audit fees | | |
| – auditor of the Company | **292** | 278 |
| – other auditors | **78** | 76 |
| Non-audit fees | | |
| – auditor of the Company | **110** | 72 |
| – other auditors | **8** | 6 |
| Rental expense | **591** | 688 |

## 33. PROFIT BEFORE TAX (CONTINUED)

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| **Other operating expenses** | | |
| Allowance for slow moving inventories | **733** | 905 |
| Bad debts (recovered)/written off | **(44)** | 24 |
| Foreign exchange loss | **1,913** | – |
| Impairment loss on doubtful receivables | **1,727** | 215 |
| Impairment loss on amount due from associates | **17** | 59 |
| Impairment loss on property, plant and equipment | **–** | 1,000 |
| Inventories written off | **23** | 74 |
| Loss on lost of significant influence in an associate (Note 8) | **–** | 592 |
| Loss on disposal of property, plant and equipment | **35** | – |
| Loss on disposal of a subsidiary | **292** | – |
| Other expenses/(income) | **36** | (62) |
| Reversal of accruals and provisions for vessel disposed | **(3,780)** | (433) |
| Write back of provision for legal claim | **(423)** | – |
| Write back of impairment loss on doubtful receivables | **(54)** | (1,450) |
| | **475** | 924 |
| **Finance costs** | | |
| Bank overdrafts | **105** | 116 |
| Term loans | **402** | 342 |
| Trust receipts | **611** | 202 |
| | **1,118** | 660 |

## 34. EMPLOYEE BENEFITS

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

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| Salaries and bonuses | **8,422** | 8,667 |
| Employer's contribution to defined contribution plans including Central Provident Fund | **941** | 961 |
| | **9,363** | 9,628 |

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## 35. INCOME TAX EXPENSE/(CREDIT)

The major components of income tax expense/(credit) for the years ended 31 December 2017 and 2016 are:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| **Statement of comprehensive income** | | |
| Current income tax | | |
| – Current income taxation | **1,355** | 679 |
| – (Over)/under provision in respect of previous years | **(20)** | 7 |
| | **1,335** | 686 |
| Deferred income tax | | |
| – Origination and reversal of temporary differences | **(97)** | (336) |
| – Under/(over) provision in respect of previous years | **209** | (532) |
| | **112** | (868) |
| Income tax expense/(credit) recognised in profit or loss | **1,447** | (182) |

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

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Before tax** | **Tax charge** | **After tax** | **Before tax** | **Tax charge** | **After tax** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Group** | | | | | | |
| Revaluation adjustment on leasehold land, freehold and leasehold buildings | **739** | **(126)** | **613** | (125) | (12) | (137) |

*Relationship between tax expense and accounting profit*

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2017 and 2016 is as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **%** | **%** |
| Tax at the domestic rates applicable to profits in the countries where the Group operates | **8.0** | 14.7 |
| Adjustments: | | |
| Non-deductible expenses | **19.5** | 12.4 |
| Income not subject to taxation | **(15.1)** | (18.4) |
| Deferred tax assets not recognised | **16.6** | 4.8 |
| Effect of partial tax exemption | **(4.1)** | (4.6) |
| Under/(over) provision in respect of previous years | **3.5** | (7.4) |
| Share of result of associates | **(1.5)** | (3.8) |
| Others | **0.1** | (0.3) |
| | **27.0** | (2.6) |

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

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

The corporate tax rates applicable to companies incorporated in Singapore and foreign subsidiaries of the Group are 17% (2016: 17%) and from 19% to 25% (2016: 20% to 25%) respectively for the year of assessment 2018 onwards.

**36. EARNINGS PER SHARE**

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

As at 31 December 2017 and 2016, diluted earnings per share is similar to basic earnings per share as there were no potential dilutive ordinary shares.

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

| | Group | |
|---|---|---|
| | **2017 $'000** | **2016 $'000** |
| Profit net of tax attributable to owners of the Company used in the computation of earnings per share | **4,232** | 7,257 |

| | **2017 No. of shares '000** | **2016 No. of shares '000** |
|---|---|---|
| Weighted average number of ordinary shares for earnings per share computation | **140,767** | 140,767 |

**37. CASH AND CASH EQUIVALENTS**

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

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

| | Group | |
|---|---|---|
| | **2017 $'000** | **2016 $'000** |
| Cash and bank balances and fixed and bank deposits | **12,126** | 17,019 |
| Less: Bank deposits pledged | **(1,337)** | (1,450) |
| Cash and cash equivalents | **10,789** | 15,569 |

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

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## 38. DIVIDENDS

| | Group and Company | |
|---|---|---|
| | **2017** **$'000** | **2016** **$'000** |
| **Dividends paid** | | |
| Final tax exempt dividend of 1.5 cents (2016: 1.5 cents) per share and special tax exempt dividend of 0.5 cents (2016: Nil) per share paid in respect of the previous financial year ended 31 December 2016 and 2015 | **2,815** | 2,111 |

The directors have proposed a final tax exempt dividend for the financial year ended 31 December 2017 of 1.5 cents (2016: 1.5 cents) and special tax exempt dividend of 0.5 cents (2016: 0.5 cents) per share of approximately $2,815,000 (2016: $2,815,000). These financial statements do not reflect these dividends payable, which if approved at the Annual General Meeting of the Company, will be accounted for in the shareholders' equity as an appropriation of accumulated profits in the financial year ending 31 December 2018.

## 39. COMMITMENTS AND CONTINGENCIES

***Operating lease commitments – lessee***

The Group leases certain plant and equipment under lease agreements that are non-cancellable within a year. These leases have an average life of between 1 to 26 years with no escalation clauses included in the contracts. Certain leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

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

Operating lease expenses incurred for the current financial year amounted to approximately $719,000 (2016: $821,000).

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

| | Group | |
|---|---|---|
| | **2017** **$'000** | **2016** **$'000** |
| Not later than one year | **506** | 611 |
| Later than one year but not later than five years | **1,198** | 1,534 |
| Later than five years | **4,523** | 6,354 |
| | **6,227** | 8,499 |

***Contingent liability***

*Guarantees*

The Company has provided corporate guarantees of $33.5 million (2016: $24.4 million) to financial institutions in relation to certain subsidiaries' bank facilities. Based on the expectations at the end of the financial year, the Company considers that it is not likely that any amount will be payable. The directors have assessed the fair value of these financial guarantees to have no material financial impact on the results of the Company for the years ended 31 December 2017 and 31 December 2016.

## 40. FAIR VALUE OF ASSETS AND LIABILITIES

### A) *Fair value hierarchy*

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

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

### B) *Assets and liabilities measured at fair value*

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

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

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## 40. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

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

| | Group 2016 Fair value measurements at the balance sheet date | | | |
|---|---|---|---|---|
| | Quoted prices in active markets for identical instruments (Level 1) $'000 | Significant observable inputs other than quoted prices (Level 2) $'000 | Significant unobservable inputs (Level 3) $'000 | Total $'000 |
| **Recurring fair value measurements** | | | | |
| **Non-financial assets** | | | | |
| Property, plant and equipment | | | | |
| Freehold land | – | – | 9,000 | 9,000 |
| Freehold buildings | – | – | 2,000 | 2,000 |
| Leasehold land and buildings | – | – | 14,300 | 14,300 |
| Total property, plant and equipment | – | – | 25,300 | 25,300 |
| Available-for-sale financial assets | | | | |
| Unquoted equity shares | – | 538 | – | 538 |

*Level 2 fair value measurements*

Available-for-sale financial assets – Unquoted equity shares

In 2016, the fair value of unquoted equity shares that are not traded in an active market is determined by reference to recent transacted price.

*Level 3 fair value measurements*

Freehold/leasehold land and buildings

The fair values of the Group's freehold/leasehold land and buildings were determined based on the properties' highest and best use by external and independent valuer using direct comparison with recent transactions of comparable properties within the vicinity at 31 December 2017.

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

Available-for-sale financial assets – Unquoted equity shares

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

## 40. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

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

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

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

| Description | Fair value as at 31 December 2016 $'000 | Valuation technique | Significant unobservable input | Range |
|---|---|---|---|---|
| Freehold land | 9,000 | Direct comparison method | Price per [1] square foot | $847 – $1,479 |
| Freehold buildings | 2,000 | Direct comparison method | Price per[1] square foot | $847 – $1,479 |
| Leasehold land and buildings | 14,300 | Direct comparison method | Price per[1] square foot | $55 – $233 |

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

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

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

| | 2017 Freehold/ leasehold land and buildings $'000 | 2016 Freehold/ leasehold land and buildings $'000 |
|---|---|---|
| Balance at beginning of financial year | **25,300** | 26,175 |
| Surplus/(deficit) recognised in other comprehensive income | **739** | (125) |
| Depreciation charge | **(739)** | (750) |
| | **25,300** | 25,300 |
| Total gains for the financial year included: | | |
| *Other comprehensive income/(loss) for the year, net of tax:* | | |
| Revaluation adjustment on property, plant and equipment | **613** | (137) |

# NOTES TO THE FINANCIAL STATEMENTS

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## 40. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

### *D) Valuation process applied by the Group*

For all significant financial reporting valuations using valuation models and significant unobservable input, it is the Group's policy to engage external valuation experts to perform the valuation. The management is responsible for selecting and engaging valuation experts that possess the relevant credentials and knowledge on the subject of valuation, valuation methodologies and FRS 113 fair value measurement guidance.

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

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

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

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

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

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

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Carrying amount $'000 | Fair Value $'000 | Carrying amount $'000 | Fair Value $'000 |
| **Group** | | | | |
| **Financial assets:** | | | | |
| Investment in partnership, at cost | **20** | (a) | 20 | (a) |
| Amount due from a related party | **6,203** | (b) | 6,714 | (b) |
| Amount due from an associate | **4,588** | (c) | 4,966 | (c) |
| **Company** | | | | |
| **Financial assets:** | | | | |
| Loans to subsidiaries | **10,432** | (d) | 10,432 | (d) |
| Amounts due from subsidiaries | **4,588** | (c) | 4,966 | (c) |
| **Financial liability:** | | | | |
| Amounts due to subsidiaries | **21,335** | (e) | 23,093 | (e) |

**40. FAIR VALUE OF ASSETS AND LIABILITIES** (CONTINUED)

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

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

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

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

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

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

*Intra-group financial guarantees*

The value of financial guarantees provided by the Company to its subsidiaries is determined by reference to 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 these guarantees not been available. The directors have assessed the fair value of these financial guarantees to have no material financial impact on the results and the accumulated losses of the Company for the financial years ended 31 December 2017 and 2016.

# NOTES TO THE FINANCIAL STATEMENTS

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## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

### *(a) Credit risk*

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables, amounts due from subsidiaries, associates and a related party and financial receivable. For other financial assets (including other investments, fixed and bank deposits and cash and bank balances), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

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

*Exposure to credit risk*

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

– the carrying amount of each class of financial assets recognised in the balance sheets; and

– a nominal amount of $33.5 million (2016: $24.4 million) relating to corporate guarantees provided by the Company to financial institutions in relation to certain subsidiaries' bank facilities.

**41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (CONTINUED)

***(a) Credit risk*** (Continued)

*Credit risk concentration profile*

The Group determines concentrations of credit risk by monitoring the country and industry sector profile of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's trade receivables at the end of the financial year is as follows:

| | Group | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | $'000 | % of total | $'000 | % of total |
| **By country:** | | | | |
| Singapore | **2,723** | **5.9** | 2,171 | 6.0 |
| Indonesia | **39,613** | **85.4** | 30,382 | 84.5 |
| Malaysia | **164** | **0.4** | 921 | 2.6 |
| People's Republic of China | **1,713** | **3.7** | 1,343 | 3.7 |
| United Arab Emirates | **136** | **0.3** | 173 | 0.5 |
| Canada | **224** | **0.5** | – | – |
| Vietnam | **301** | **0.6** | 516 | 1.4 |
| Thailand | **1,065** | **2.3** | 170 | 0.5 |
| Others | **431** | **0.9** | 272 | 0.8 |
| | **46,370** | **100.0** | 35,948 | 100.0 |
| **By industry sectors:** | | | | |
| Oil and Gas | **39,973** | **86.2** | 32,769 | 91.2 |
| Marine | **1,020** | **2.2** | 440 | 1.2 |
| Others | **5,377** | **11.6** | 2,739 | 7.6 |
| | **46,370** | **100.0** | 35,948 | 100.0 |

At the end of the financial year, approximately:

– 85.4% (2016: 83.6%) of the Group's trade receivables were due from 5 major customers who are from the oil and gas and others industries located in the Asia Pacific region, of which 72.4% (2016: 77.7%) were due from the Group's largest customer;

– 18.1% (2016: 23.1%) of the Group's trade and other receivables were due from related parties while none of the Company's other receivables were balances with related parties; and

– 41% (2016: 43%) of the Group's other receivables and 53% (2016: 52%) of the Company's other receivables were due from one external debtor.

# NOTES TO THE FINANCIAL STATEMENTS

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## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### (a) *Credit risk* (Continued)

*Financial assets that are neither past due nor impaired*

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

*Financial assets that are either past due or impaired*

Information regarding financial assets that are either past due or impaired is disclosed in Note 13 and Note 14 (Current trade and other receivables) and Notes 15 to 17 (Amounts due from subsidiaries, associates and a related party).

### (b) *Liquidity risk*

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group's and the Company's liquidity risk management policy is that the maturity of loans and borrowings would match that of the estimated future cash flows of the projects and trading activities. The Group maintains sufficient liquid financial assets and stand-by credit facilities with 8 different financial institutions. At the end of the financial year, approximately 73% (2016: 100%) of the Group's loans and borrowings (Note 25 and Note 26) will mature in less than one year based on the carrying amount reflected in the financial statements.

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

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### (b) *Liquidity risk* (Continued)

| | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | 1 year or less $'000 | 1 to 5 years $'000 | Over 5 years $'000 | Total $'000 | 1 year or less $'000 | 1 to 5 years $'000 | Over 5 years $'000 | Total $'000 |
| **Group** | | | | | | | | |
| **Financial assets:** | | | | | | | | |
| Other investments | – | – | 558 | 558 | – | – | 558 | 558 |
| Trade and other receivables | 50,706 | – | 13,227 | 63,933 | 38,077 | – | 13,230 | 51,307 |
| Deposits | 62 | – | – | 62 | 80 | – | – | 80 |
| Financial receivable | 762 | 1,407 | – | 2,169 | 1,502 | 1,501 | – | 3,003 |
| Fixed and bank deposits, cash and bank balances | 12,141 | – | – | 12,141 | 17,034 | – | – | 17,034 |
| Amounts due from associates | 3,263 | 4,588 | – | 7,851 | 3,695 | 4,966 | – | 8,661 |
| Amount due from a related party | – | – | 6,203 | 6,203 | – | – | 6,714 | 6,714 |
| Total undiscounted financial assets | 66,934 | 5,995 | 19,988 | 92,917 | 60,388 | 6,467 | 20,502 | 87,357 |
| **Financial liabilities:** | | | | | | | | |
| Provisions | – | – | – | – | 4,911 | – | – | 4,911 |
| Trade and other payables | 23,122 | – | – | 23,122 | 27,380 | – | – | 27,380 |
| Amounts due to associates | 1,216 | – | – | 1,216 | 202 | – | – | 202 |
| Amount due to a related party | 2,009 | – | – | 2,009 | 2,034 | – | – | 2,034 |
| Loans and borrowings | 27,450 | 9,631 | 1,273 | 38,354 | 27,327 | – | – | 27,327 |
| Total undiscounted financial liabilities | 53,797 | 9,631 | 1,273 | 64,701 | 61,854 | – | – | 61,854 |
| Total net undiscounted financial assets/(liabilities) | 13,137 | (3,636) | 18,715 | 28,216 | (1,466) | 6,467 | 20,502 | 25,503 |
| **Company** | | | | | | | | |
| **Financial assets:** | | | | | | | | |
| Other investments | – | – | 538 | 538 | – | – | 538 | 538 |
| Trade and other receivables | 18 | – | 13,022 | 13,040 | 58 | – | 13,022 | 13,080 |
| Deposits | 10 | – | – | 10 | 8 | – | – | 8 |
| Amounts due from subsidiaries | 7,026 | 4,588 | – | 11,614 | 7,161 | 4,966 | – | 12,127 |
| Loans to subsidiaries | – | – | 15,263 | 15,263 | – | – | 15,602 | 15,602 |
| Amounts due from associates | 49 | – | – | 49 | 50 | – | – | 50 |
| Cash and fixed deposits | 2,003 | – | – | 2,003 | 1,696 | – | – | 1,696 |
| Total undiscounted financial assets | 9,106 | 4,588 | 28,823 | 42,517 | 8,973 | 4,966 | 29,162 | 43,101 |
| **Financial liabilities:** | | | | | | | | |
| Trade and other payables | 947 | – | – | 947 | 803 | – | – | 803 |
| Amounts due to associates | 243 | – | – | 243 | 192 | – | – | 192 |
| Amounts due to subsidiaries | 1,217 | – | 21,335 | 22,552 | 1,276 | – | 23,093 | 24,369 |
| Total undiscounted financial liabilities | 2,407 | – | 21,335 | 23,742 | 2,271 | – | 23,093 | 25,364 |
| Total net undiscounted financial assets | 6,699 | 4,588 | 7,488 | 18,775 | 6,702 | 4,966 | 6,069 | 17,737 |

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**41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (CONTINUED)

***(b) Liquidity risk*** (Continued)

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

| | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | 1 year or less $'000 | 1 to 5 years $'000 | Over 5 years $'000 | Total $'000 | 1 year or less $'000 | 1 to 5 years $'000 | Over 5 years $'000 | Total $'000 |
| **Company** | | | | | | | | |
| Financial guarantees | **33,500** | – | – | **33,500** | 24,414 | – | – | 24,414 |

***(c) Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's and the Company's exposure to interest rate risk arises primarily from their loans and borrowings and interest-bearing loans given to related parties.

The Group's policy is to manage interest cost by using a mix of fixed and floating rate debts. At the end of the financial year, 33% (2016: Nil) of the Group's borrowings are at fixed rates of interest.

*Sensitivity analysis for interest rate risk*

The sensitivity analysis for interest rate is not disclosed as the effect on the profit or loss is considered not significant.

***(d) Foreign currency risk***

The Group has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currencies of Group entities, primarily SGD, USD and GBP. The foreign currencies in which these transactions are denominated are mainly USD and SGD.

The Group and the Company also hold cash and cash equivalents denominated in foreign currencies for working capital purposes. At the end of the financial year, such foreign currency balances are mainly in USD for the Group and the Company.

The Group does not use derivative financial instruments to protect against the volatility associated with its foreign currency investments. The Group is also exposed to currency translation risk arising from its net investments in foreign operations, including United Kingdom, Indonesia, the PRC and Thailand. The Group's investment in its Singapore incorporated subsidiaries are hedged by USD denominated bank loans, which mitigates structural currency in exposures arising from the subsidiaries' net assets. The Group's net investments in subsidiaries in USD, GBP, IDR, RMB and THB functional currency are not hedged as these currencies positions are considered to be long-term in nature.

**41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** (CONTINUED)

***(d) Foreign currency risk*** (Continued)

The Group's and the Company's major foreign currency exposure against the respective functional currencies of the Group and the Company entities based on the information provided by key management is as follows:

**Group**

| | **Denominated in USD $'000** |
|---|---|
| 2017 | |
| Financial assets | |
| – Trade receivables | **33,300** |
| – Other receivables | **3,540** |
| – Amounts due from associates | **13** |
| – Amounts due from subsidiaries | **5,486** |
| – Fixed deposits | **1,389** |
| – Cash and bank balances | **6,515** |
| | **50,243** |
| Financial liabilities | |
| – Trade payables | **4,310** |
| – Other payables | **220** |
| – Amounts due to bankers | **17,760** |
| – Amounts due to subsidiaries | **22,047** |
| | **44,337** |
| Currency exposure on net financial assets | **5,906** |
| | |
| 2016 | |
| Financial assets | |
| – Trade receivables | 16,943 |
| – Other receivables | 13,041 |
| – Amounts due from associates | 384 |
| – Amounts due from subsidiaries | 6,183 |
| – Fixed deposits | 1,484 |
| – Cash and bank balances | 8,233 |
| | 46,268 |
| Financial liabilities | |
| – Trade payables | 3,137 |
| – Other payables | 228 |
| – Amounts due to bankers | 15,662 |
| – Amounts due to subsidiaries | 23,864 |
| | 42,891 |
| Currency exposure on net financial assets | 3,377 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### *(d)* ***Foreign currency risk*** (Continued)

**Company**

| 2017 | **Denominated in USD $'000** |
|---|---|
| Financial assets | |
| – Other receivables | **4** |
| – Amount due from associates | **11** |
| – Amounts due from subsidiaries | **5,486** |
| – Loans to subsidiaries | **3,743** |
| – Fixed deposits | **1,389** |
| – Cash and bank balances | **26** |
| | **10,659** |
| Financial liabilities | |
| – Other payables | **191** |
| – Amounts due to subsidiaries | **22,047** |
| | **22,238** |
| Currency exposure on net financial liabilities | **(11,579)** |
| | |
| 2016 | |
| Financial assets | |
| – Other receivables | 13,026 |
| – Amount due from associates | 12 |
| – Amounts due from subsidiaries | 6,183 |
| – Loans to subsidiaries | 4,051 |
| – Fixed deposits | 1,484 |
| – Cash and bank balances | 14 |
| | 24,770 |
| Financial liabilities | |
| – Other payables | 206 |
| – Amounts due to subsidiaries | 23,864 |
| | 24,070 |
| Currency exposure on net financial assets | 700 |

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### *(d)* ***Foreign currency risk*** (Continued)

*Sensitivity analysis for foreign currency risk*

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

| | Increase/(decrease) Profit net of tax | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| **Group** | | |
| USD – strengthened 5.0% (2016: 5.0%) | **245** | 140 |
| – weakened 5.0% (2016: 5.0%) | **(245)** | (140) |
| **Company** | | |
| USD – strengthened 5.0% (2016: 5.0%) | **(481)** | 29 |
| – weakened 5.0% (2016: 5.0%) | **481** | (29) |

## 42. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratio in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 2016.

As disclosed in Note 31, subsidiaries in the PRC are required by the Foreign Enterprise Law of the PRC to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the above-mentioned subsidiaries for the financial years ended 31 December 2017 and 2016.

The Group monitors capital using a gearing ratio, which is total debt divided by equity. The Group's policy is to ensure that the gearing ratio does not exceed 2.0. The Group's total debt includes amounts due to bankers, term loans and hire purchase creditors. Equity includes the amount attributable to the owners of the Company less other reserves (Note 31).

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 42. CAPITAL MANAGEMENT (CONTINUED)

| | Group | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| Amounts due to bankers (Note 25) | **19,311** | 22,170 |
| Term loans (Note 26) | **17,180** | 5,001 |
| | **36,491** | 27,171 |
| Equity attributable to the owners of the Company | **87,452** | 85,707 |
| Less: Other reserves (Note 31) | **976** | 976 |
| Total equity | **88,428** | 86,683 |
| **Gearing ratio** | **0.41** | 0.31 |

## 43. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Set out below are the carrying amounts of the Group's and Company's financial assets and financial liabilities that are carried on the balance sheets:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 |
| **Assets** | | | | |
| Trade receivables | **46,370** | 35,948 | **–** | – |
| Other receivables | **17,430** | 15,221 | **13,040** | 13,080 |
| Deposits | **62** | 80 | **10** | 8 |
| Financial receivable | **707** | 1,368 | **–** | – |
| Amounts due from subsidiaries | **–** | – | **11,614** | 12,127 |
| Loans to subsidiaries | **–** | – | **14,175** | 14,483 |
| Amounts due from associates | **7,851** | 8,661 | **49** | 50 |
| Amount due from a related party | **6,203** | 6,714 | **–** | – |
| Fixed and bank deposits | **1,422** | 1,517 | **1,389** | 1,484 |
| Cash and bank balances | **10,704** | 15,502 | **599** | 197 |
| **Loans and receivables** | **90,749** | 85,011 | **40,876** | 41,429 |
| **Available-for-sale financial assets (Note 8)** | **558** | 558 | **538** | 538 |
| **Liabilities** | | | | |
| Amounts due to bankers | **19,311** | 22,170 | **–** | – |
| Provisions | **–** | 4,911 | **–** | – |
| Trade payables | **12,319** | 15,267 | **–** | – |
| Other payables | **10,803** | 12,113 | **948** | 803 |
| Amounts due to subsidiaries | **–** | – | **22,552** | 24,369 |
| Amounts due to associates | **1,216** | 202 | **243** | 192 |
| Amount due to a related party | **2,009** | 2,034 | **–** | – |
| Term loans | **17,180** | 5,001 | **–** | – |
| **Liabilities at amortised cost** | **62,838** | 61,698 | **23,743** | 25,364 |

**44. SEGMENT INFORMATION**

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

I. Trading segment is a supply of assembly and distribution of flowline control products, distribution of oilfield drilling equipment for use on onshore and offshore rigs and drilling platforms, provision of complete fire protection and detection systems, as well as electrical products for the marine, coal mining, oil and gas, petrochemical and pharmaceutical industries. In these respects, the Group offers products and related services in the areas of oil and gas, power, petrochemical and pharmaceutical industries.

II. Manufacturing/Design/Research and Development segment is involved in research, development, design and manufacture of flowline control products, high pressure and temperature valves and related oilfield products.

III. Marine Logistics segment is in the business of chartering of vessels to the offshore oil and gas and other related industries.

IV. Energy and Utilities segment is involved in procurement and construction projects of waste water treatment facility and provision of wastewater treatment services to the end-users.

V. Resources segment is in the business of sales and mining of coal and other natural resources.

VI. Corporate and Others segment is involved in Group level corporate services and treasury functions and operating and maintenance of oil and gas facility services.

*Geographical Information*

The Group's geographical segments are based on the location of the Group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers. Others include countries such as India, Australia and Philippines.

Non-current assets consist of property, plant and equipment, investment in associates and intangible asset (excluding goodwill) as presented in the Group's balance sheet.

***Information about major customers***

During the financial year, there was 1 customer (2016: 1 customer) which contributed at least 10% of the Group's revenue of $91,414,000 (2016: $43,179,000). The revenue is attributable to the trading segment.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 44. SEGMENT INFORMATION (CONTINUED)

### Business segments

| | Trading | | Manufacturing/ Design/Research and Development | | Marine Logistics | | Energy and Utilities | | Resources | | Corporate/Others | | Eliminations | | Note | Per consolidated financial statements | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 | | 2017 $'000 | 2016 $'000 |
| **Revenue:** | | | | | | | | | | | | | | | | | |
| External customers | **127,390** | 86,911 | **1,731** | 1,869 | **–** | – | **837** | 701 | **–** | – | **–** | – | **–** | – | | **129,958** | 89,481 |
| Intersegment sales | **115** | 33 | **999** | 1,530 | **–** | – | **–** | – | **–** | – | **2,904** | 2,904 | **(4,018)** | (4,467) | A | **–** | – |
| Total revenue | **127,505** | 86,944 | **2,730** | 3,399 | **–** | – | **837** | 701 | **–** | – | **2,904** | 2,904 | **(4,018)** | (4,467) | | **129,958** | 89,481 |
| **Result:** | **7,771** | 9,017 | **(274)** | (575) | **(4,119)** | 903 | **(409)** | (403) | **(2,629)** | 1,036 | **795** | 2,563 | **3,275** | (4,351) | B | **4,410** | 8,190 |
| Depreciation and amortisation | **(1,002)** | (1,044) | **(34)** | (45) | **–** | – | **(4)** | (7) | **–** | – | **(1,050)** | (1,170) | **–** | – | | **(2,090)** | (2,266) |
| Impairment loss on property, plant and equipment | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | (1,000) | **–** | – | | **–** | (1,000) |
| Other non-cash (expenses)/ income | **(3,882)** | (8,130) | **–** | – | **3,780** | 433 | **(22)** | (26) | **423** | – | **(986)** | 430 | **2,489** | 7,898 | C | **1,802** | 605 |
| Interest income | | | | | | | | | | | | | | | | **1,890** | 616 |
| Finance costs | | | | | | | | | | | | | | | | **(1,118)** | (660) |
| Share of results of associates | | | | | | | | | | | | | | | | **474** | 1,598 |
| Profit before tax | | | | | | | | | | | | | | | | **5,368** | 7,083 |
| Income tax (expense)/credit | | | | | | | | | | | | | | | | **(1,447)** | 182 |
| Profit for the year | | | | | | | | | | | | | | | | **3,921** | 7,265 |

## NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2017

## 44. SEGMENT INFORMATION (CONTINUED)

### Business segments (Continued)

| | Trading | | Manufacturing/ Design/Research and Development | | Marine Logistics | | Energy and Utilities | | Resources | | Corporate/Others | | Eliminations | | | Per consolidated financial statements | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 | Note | 2017 $'000 | 2016 $'000 |
| **Assets:** | **146,848** | 146,201 | **2,689** | 2,419 | **24,956** | 29,542 | **9,054** | 9,851 | **–** | 1 | **109,659** | 113,837 | **(152,722)** | (162,585) | D | **140,484** | 139,266 |
| Investment in associates | **–** | – | **–** | – | **3,276** | 2,936 | **–** | – | **–** | – | **1,472** | 1,675 | **–** | – | | **4,748** | 4,611 |
| Unallocated assets | | | | | | | | | | | | | | | | **665** | 626 |
| Total assets | | | | | | | | | | | | | | | | **145,897** | 144,503 |
| **Liabilities:** | **(87,448)** | (85,957) | **(6,236)** | (5,346) | **(94,708)** | (104,814) | **(12,609)** | (13,283) | **(53,823)** | (56,053) | **(60,312)** | (61,674) | **246,401** | 258,654 | E | **(68,735)** | (68,473) |
| Unallocated liabilities | | | | | | | | | | | | | | | | **(2,367)** | (2,041) |
| Total liabilities | | | | | | | | | | | | | | | | **(71,102)** | (70,514) |
| **Other segment information:** | | | | | | | | | | | | | | | | | |
| Additions to non-current assets | **530** | 715 | **18** | – | **–** | – | **–** | 4 | **–** | – | **263** | 290 | **–** | – | F | **811** | 1,009 |

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

## 44. SEGMENT INFORMATION (CONTINUED)

**Business segments** (Continued)

Notes:

A Inter-segment revenue are eliminated on consolidation.

B The following items are added to/(deducted from) segment profit/(loss) to arrive at the segment results.

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Interest income from inter-segments | **318** | 489 |
| Interest expense from inter-segments | **(322)** | (493) |
| Loss from inter-segments operation | **(3,396)** | (128) |
| Exchange differences on quasi-equity loans | **9,945** | (2,188) |
| Dividend from an associate | **(29)** | (31) |
| Dividend from subsidiaries | **(3,241)** | (2,000) |
| | **3,275** | (4,351) |

C Other non-cash (expenses)/income consist of write back of impairment loss on doubtful receivables, allowance for slow moving inventories, inventories written off, bad debts recovered/written off, impairment loss on doubtful receivables, reversal of accruals and provisions for vessel disposed off, write back of provision for legal claim and impairment loss on amount due from associates as presented in the respective notes to the financial statements.

D The elimination refers to inter-segment assets.

E The elimination refers to inter-segment liabilities.

F Additions to non-current assets consist of additions to property, plant and equipment and intangible assets.

***Geographical segments***

Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follows:

| | Revenue | | Non-current assets | |
|---|---|---|---|---|
| | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 |
| People's Republic of China | **8,556** | 17,226 | **17** | 24 |
| Canada | **773** | – | **–** | – |
| Indonesia | **103,806** | 47,298 | **9,500** | 10,514 |
| Japan | **3** | 12 | **1,471** | 1,676 |
| Malaysia | **501** | 1,943 | **–** | – |
| Singapore | **8,834** | 11,141 | **27,750** | 27,501 |
| Thailand | **3,526** | 2,775 | **1** | 1 |
| United States of America | **294** | 852 | **–** | – |
| United Kingdom | **217** | 641 | **229** | 244 |
| United Arab Emirates | **177** | 2,632 | **–** | – |
| Vietnam | **1,260** | 3,576 | **–** | – |
| Qatar | **220** | – | **–** | – |
| Others | **1,791** | 1,385 | **–** | – |
| Consolidated | **129,958** | 89,481 | **38,968** | 39,960 |

Non-current assets information presented above consist of property, plant and equipment, investment in associates and intangible assets (excluding goodwill) as presented in the Group's balance sheet.

## 45. RELATED PARTY TRANSACTIONS

### (a) *Sale and purchase of goods and services*

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

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Sales of goods and services to associates | **3** | 43,180* |
| Service fees charged to an associate | **–** | 5,920* |
| Shareholder's loans to an associate | **118** | 5,425* |
| Dividend income from an associate | **29** | 31 |
| Rental paid to a director of certain subsidiaries | **37** | 38 |
| Loan from/(repayment to) a director of certain subsidiaries | **3** | (36) |
| Secretarial fee paid to a director-related firm | **24** | 20 |
| Professional fees paid to a director-related firm | **169** | 94 |

* Inclusive of transactions with PT Gunanusa Utama Fabricators up to cessation as associate of the Group and Company.

*Company/firm related to the directors*

During the financial year, two of the directors of the Company who are also the directors of a secretarial and professional firm, respectively provided secretarial and professional services to the Group for total amount of approximately $193,000 (2016: $114,000). Approximately $104,000 (2016: $33,000) was outstanding at the end of the financial year.

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

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Short-term employee benefits | **2,349** | 2,256 |
| Defined contributions | **109** | 120 |
| Other short-term benefits | **66** | 64 |
| Total compensation paid to key management personnel | **2,524** | 2,440 |
| Comprise of amounts paid to: | | |
| Directors of the Company | **1,790** | 1,387 |
| Other key management personnel | **734** | 1,053 |
| | **2,524** | 2,440 |

## 46. AUTHORISATION OF FINANCIAL STATEMENT FOR ISSUE

The financial statements for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 2 April 2018.

# STATISTICS OF SHAREHOLDINGS

AS AT 16 MARCH 2018

| | | |
|---|---|---|
| Class of shares | : | Ordinary shares |
| Total number of shares | : | 140,767,484 ordinary shares |
| Voting rights | : | One vote per ordinary share |
| Number of treasury shares held | : | Nil |
| Number of subsidiary holdings held | : | Nil |

## DISTRIBUTION OF SHAREHOLDINGS

| Size of Shareholding | Number of Shareholders | % | Number of Shares | % |
|---|---|---|---|---|
| 1 – 99 | 196 | 4.65 | 3,107 | 0.00 |
| 100 – 1,000 | 724 | 17.19 | 396,450 | 0.28 |
| 1,001 – 10,000 | 2,212 | 52.50 | 9,891,659 | 7.03 |
| 10,001 – 1,000,000 | 1,067 | 25.33 | 51,235,295 | 36.40 |
| 1,000,001 and above | 14 | 0.33 | 79,240,973 | 56.29 |
| Total | 4,213 | 100.00 | 140,767,484 | 100.00 |

## TWENTY LARGEST SHAREHOLDERS

| No. | Name of Shareholders | Number of Shares | % |
|---|---|---|---|
| 1. | Raffles Nominees (Pte) Ltd | 16,498,593 | 11.72 |
| 2. | KGI Securities (Singapore) Pte Ltd | 15,455,000 | 10.98 |
| 3. | DBS Nominees Pte Ltd | 12,752,145 | 9.06 |
| 4. | Koh Kian Kiong | 9,312,000 | 6.62 |
| 5. | United Overseas Bank Nominees Pte Ltd | 8,780,470 | 6.24 |
| 6. | Citibank Nominees Singapore Pte Ltd | 2,810,247 | 2.00 |
| 7. | Hong Leong Finance Nominees Pte Ltd | 2,734,100 | 1.94 |
| 8. | Phillip Securities Pte Ltd | 2,629,752 | 1.87 |
| 9. | Ling Kee Poh | 1,650,000 | 1.17 |
| 10. | UOB Kay Hian Pte Ltd | 1,632,565 | 1.16 |
| 11. | OCBC Securities Private Ltd | 1,507,875 | 1.07 |
| 12. | OCBC Nominees Singapore Pte Ltd | 1,260,062 | 0.89 |
| 13. | Koh Yan Yock | 1,119,200 | 0.79 |
| 14. | CGS-CIMB Securities (S) Pte Ltd | 1,098,964 | 0.78 |
| 15. | Chan Keng Mun | 798,500 | 0.57 |
| 16. | Tang Joo Kok | 787,700 | 0.56 |
| 17. | Chan Tat Soon | 780,000 | 0.55 |
| 18. | Phang Yeh Fenn | 754,300 | 0.54 |
| 19. | HL Bank Nominees (S) Pte Ltd | 678,300 | 0.48 |
| 20. | Tan Boak Wah | 672,000 | 0.48 |
| | Total | 83,711,773 | 59.47 |

# STATISTICS OF SHAREHOLDINGS
AS AT 16 MARCH 2018

## SHAREHOLDING OF THE SUBSTANTIAL SHAREHOLDERS
**(As recorded in the Register of Substantial Shareholders as at 16 March 2018)**

| Name | Direct Interest | % | Deemed Interest | % |
|---|---|---|---|---|
| Fame Asia Limited | 16,055,989 | 11.41 | – | – |
| Leung Kwok Hung, Jonathan[(i)] | – | – | 16,055,989 | 11.41 |
| Yang Yi-Chung | 8,608,174 | 6.12 | – | – |
| Koh Kian Kiong[(ii)] | 9,312,000 | 6.62 | 18,150,000 | 12.89 |

Notes:

(i) Mr Leung Kwok Hung, Jonathan has a deemed interest in 16,055,989 ordinary shares held by Fame Asia Limited.

(ii) Mr Koh Kian Kiong has 6,750,000 ordinary shares held under the name of United Overseas Bank Nominees Pte Ltd and 11,400,000 ordinary shares held under the name of KGI Securities (Singapore) Pte Ltd.

## PERCENTAGE OF SHAREHOLDING HELD IN PUBLIC'S HANDS

Based on information available to the Company as at 16 March 2018, there were approximately 62.61% of the Company's total number of issued ordinary shares (excluding preference shares, convertible equity securities and treasury shares) held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of FEDERAL INTERNATIONAL (2000) LTD (the "**Company**") will be held at 47 Genting Road, Singapore 349489 on Friday, 27 April 2018 at 10:00 a.m. for the following purposes:

**AS ORDINARY BUSINESS**

1. To receive and adopt the Directors' Statement and the Audited Financial Statements of the Company for the financial year ended 31 December 2017 together with the Auditor's Report thereon. **(Resolution 1)**

2. To approve first and final one-tier tax-exempt cash dividend of 1.5 Singapore cents per ordinary share of the Company for the financial year ended 31 December 2017. **(Resolution 2)**

3. To approve special one-tier tax-exempt cash dividend of 0.5 Singapore cents per ordinary share of the Company for the financial year ended 31 December 2017. **(Resolution 3)**

4. To re-elect the following Directors of the Company retiring pursuant to Regulation 91 of the Constitution of the Company:

   Mr Koh Kian Kiong **(Resolution 4)**
   Mr Yee Kee Shian, Leon **(Resolution 5)**

   Mr Yee Kee Shian, Leon will, upon re-election as a Director of the Company, remain as the Chairman of the Nominating Committee and Remuneration Committee of the Company and a member of the Audit Committee of the Company. Mr Yee Kee Shian, Leon will be considered independent for the purpose of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

5. To approve the Directors' fees of S$190,000 to Non-Executive Directors of the Company for the financial year ending 31 December 2018, to be paid quarterly in arrears (FY2017: S$190,000). **(Resolution 6)**

6. To re-appoint Baker Tilly TFW LLP as the Auditor of the Company and to authorise the Directors of the Company to fix its remuneration. **(Resolution 7)**

7. To transact any other ordinary business which may be properly transacted at the Annual General Meeting of the Company.

**AS SPECIAL BUSINESS**

To consider and if thought fit, to pass the following resolution as Ordinary Resolution, with or without any modifications:

8. **Authority to issue shares**

   That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), the Directors of the Company be authorised and empowered to:

   (a) (i) issue shares in the Company ("**shares**") whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

   at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and

## NOTICE OF ANNUAL GENERAL MEETING

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instruments made or granted by the Directors of the Company while this Resolution was in force,

provided that:

(1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall be limited as follows:

(A) without prejudice to sub-paragraph (1)(B) below, the aggregate number of shares to be issued shall not exceed 50 per centum (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 (4) below), of which the aggregate number of shares to be issued other than on a pro rata basis to shareholders of the Company shall not exceed 20 per centum (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 (4) below) ("**General Limit**");

(B) in addition to the General Limit, the aggregate number of shares to be issued by way of renounceable rights issues on a pro rata basis ("**Renounceable Rights Issues**") shall not exceed 50 per centum (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 (4) below ("**Additional Limit**");

(C) where an issue of shares is to be issued by way of Renounceable Rights Issues, that issue shall first use the Additional Limit, and in the event that the Additional Limit has been fully used and is insufficient to satisfy that issue, that issue may use the General Limit, but only to the extent of the then remaining General Limit;

(D) where an issue of shares is to be issued otherwise than by way of Renounceable Rights Issue, that issue may only use the General Limit, but only to the extent of the then remaining General Limit;

(E) an issue of shares that is not for a financing purpose may only use the General Limit, but the number of such shares that may be issued shall be limited to the numerical number of the then remaining Additional Limit;

(2) the General Limit and the Additional Limit shall not, in aggregate, exceed 100 per centum (100%) of the total number of issue shares (**excluding treasury shares and subsidiary holdings**) in the capital of the Company (as calculated in accordance with sub-paragraph (4) below);

(3) no shares shall be issued pursuant to this Resolution after 31 December 2018, if on that date the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) exceeds 50 per centum (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 (4) below);

# NOTICE OF ANNUAL GENERAL MEETING

(4) (subject to such calculation as may be prescribed by the SGX-ST for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1)(A) and (1)(B) above, the total number of issued shares (**excluding treasury shares and subsidiary holdings**) shall be based on the total number of issued shares (**excluding treasury shares and subsidiary holdings**) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

(a) new shares arising from the conversion or exercise of any convertible securities;

(b) new shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution, provided the share options or share awards were granted in compliance with Part VIII of Chapter 8; and

(c) any subsequent bonus issue, consolidation or subdivision of shares;

(5) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution of the Company; and

(6) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (i)] **(Resolution 8)**

**NOTICE OF BOOKS CLOSURE DATE AND PAYMENT DATE FOR FIRST AND FINAL DIVIDEND AND SPECIAL DIVIDEND**

NOTICE IS HEREBY GIVEN that subject to shareholders' approval being obtained at the Annual General Meeting of Federal International (2000) Ltd (the "**Company**") to be held at 47 Genting Road, Singapore 349489 on Friday, 27 April 2018 at 10:00 a.m.:

1. A first and final one-tier tax-exempt cash dividend of 1.5 Singapore cents per ordinary share of the Company ("**Proposed First and Final Dividend**") and a special one-tier tax-exempt cash dividend of 0.5 Singapore cents per ordinary share of the Company ("**Proposed Special Dividend**") for the financial year ended 31 December 2017 will be paid on 23 May 2018.

2. The Share Transfer Book and Register of Members of the Company will be closed on 17 May 2018 for the preparation of payment for the Proposed First and Final Dividend and the Proposed Special Dividend. Duly completed registrable transfers received by the Company's Share Registrar, B.A.C.S. Private Limited, 8 Robinson Road, #03-00 ASO Building, Singapore 048544 up to 5:00 p.m. on 16 May 2018 will be registered to determine shareholders' entitlement to the Proposed First and Final Dividend and the Proposed Special Dividend.

   Shareholders whose securities accounts maintained with The Central Depository (Pte) Limited are credited with ordinary shares of the Company at 5:00 p.m. on 16 May 2018 will be entitled to the Proposed First and Final Dividend and the Proposed Special Dividend.

By Order of the Board

Tan Chee Keong
Noraini Binte Noor Mohamed Abdul Latiff
Yvette Lim Pei Yung
Company Secretaries
Singapore, 12 April 2018

## NOTICE OF ANNUAL GENERAL MEETING

**Explanatory Note**

(i) The Ordinary Resolution 8 in item 8 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting ("**AGM**") of the Company, or the date by which the next AGM of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding the aggregated of (i) 50% of the total number of issued shares (**excluding treasury shares and subsidiary holdings**) in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to shareholders of the Company (the General Limit) and (ii) additional 50% for Renounceable Rights Issues, of the total number of issued shares (**excluding treasury shares and subsidiary holdings**) in the capital of the Company (the Additional Limit), provided that the total number of shares which may be issued pursuant to (i) and (ii) shall not exceed 100% of the issued shares (**excluding treasury shares and subsidiary holdings**) at the time Ordinary Resolution 8 is passed, after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution 8 is passed and any subsequent bonus issue, consolidation or subdivision of shares.

The authority for the Additional Limit is proposed pursuant to SGX-ST Practice Note 8.3 which became effective on 13 March 2017 until 31 December 2018 by which date no further shares shall be issued pursuant to this Resolution, if on that date the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) exceeds 50% of the total number of issued shares (**excluding treasury shares and subsidiary holdings**) in the capital of the Company ("the Enhanced Rights Issue Limit"). The Enhanced Rights Issue Limit is aimed at helping companies raise funds expediently for expansion activities or working capital. It is subject to the condition that the Company complies with applicable legal requirements including but not limited to provisions in the Companies Act requiring the Company to seek shareholders' approval and disclosure requirements under the Listing Manual on the use of the proceeds as and when the funds are materially disbursed and a status report on the use of proceeds in the annual report; and limitations in any existing mandate from shareholders.

The Board is of the view that the Enhanced Rights Issue Limit is in the interests of the Company and its shareholders as:

(a) Given the challenges arising from the prolonged low and volatile oil prices, having the Enhanced Rights Issue Limit will provide the Company with more fund raising options;

(b) The Company will be able to secure more projects and its shareholders will stand to benefit from the returns from these projects when the Company is able to raise funds expediently;

(c) The Enhanced Rights Issue Limit will allow the Company the flexibility to raise more funds as may be required to finance new projects as well as for general working capital purposes;

(d) The Enhanced Rights Issue Limit will also provide investors and shareholders with a wider range of options to participate in the Company's fund raising exercises; and

(e) The Enhanced Rights Issue Limit may also serve to expand the base of shareholders.

The Enhanced Rights Issue Limit will be exercised only if the Directors believe that to do so would be likely to promote the success of the Company for the benefit of shareholders as a whole.

# NOTICE OF ANNUAL GENERAL MEETING

**Notes**

1. A member of the Company, who is not a relevant intermediary (defined under Section 181 of the Companies Act, Chapter 50 of Singapore) entitled to attend and vote at the Annual General Meeting of the Company, is entitled to appoint not more than two (2) proxies to attend and vote in his/her stead at the Annual General Meeting of the Company. A proxy need not be a member of the Company. Where a member of the Company appoints more than one (1) proxy, the member shall specify the number of shares to be represented by each proxy.

2. A member of the Company, who is a relevant intermediary (defined in Section 181 of the Companies Act, Chapter 50 of Singapore) entitled to attend and vote at the Annual General Meeting of the Company, is entitled to appoint more than two (2) proxies to attend and vote at the Annual General Meeting of the Company. A proxy need not be a member of the Company. Where a member of the Company appoints more than one (1) proxy, the member shall specify the number of shares to be represented by each proxy.

3. If the appointor is a corporation, the instrument appointing a proxy or proxies must be executed under its seal or under the hand of an officer or attorney duly authorised in writing.

4. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 47 Genting Road, Singapore 349489 not less than forty-eight (48) hours before the time appointed for holding the Annual General Meeting of the Company.

**Personal Data Privacy**

Where a member of the Company submits an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting of the Company and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxy(ies) and/or representative(s) appointed for the Annual General Meeting of the Company (including any adjournment thereof) and the preparation and compilation of the attendance lists, proxy lists, minutes and other documents relating to the Annual General Meeting of the Company (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

**FEDERAL INTERNATIONAL (2000) LTD**
(Incorporated in the Republic of Singapore)
(Company Registration No: 199907113K)

**IMPORTANT:**
For CPF/SRS investors who have used their CPF monies to buy Federal International (2000) Ltd's shares, this Proxy Form is not valid for use and shall be ineffective for all intents and purposes if used or purported to be used by them. CPF/SRS investors should contact their respective agents if they have any queries regarding their appointment as proxies.

## PROXY FORM
*(Please see notes overleaf before completing this Proxy Form)*

*I/We, ____________________ NRIC/Passport/Registration No. ____________________

of ________________________________________
being a member/members of FEDERAL INTERNATIONAL (2000) LTD (the "**Company**"), hereby appoint:

| **Name** | **NRIC/Passport No.** | **No. of Shares to be represented by Proxy** |
|---|---|---|
| **Address** | | |

and/or (delete as appropriate)

| **Name** | **NRIC/Passport No.** | **No. of Shares to be represented by Proxy** |
|---|---|---|
| **Address** | | |

or failing *him/her, the Chairman of the Meeting as *my/our *proxy/proxies to vote for *me/us on *my/our behalf at the Annual General Meeting (the "**Meeting**") of the Company to be held on Friday, 27 April 2018 at 47 Genting Road Singapore 349489 at 10:00 a.m. and at any adjournment thereof. *I/We direct *my/our *proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder.

If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the *proxy/proxies will vote for, against or abstain from voting at *his/her discretion.

| **No.** | **Ordinary Resolutions relating to:** | **No. of Shares For**** | **No. of Shares Against**** |
|---|---|---|---|
| 1. | To receive and adopt Directors' Statement and Audited Financial Statements of the Company for the financial year ended 31 December 2017 together with Auditor's Report thereon | | |
| 2. | To approve first and final one-tier tax-exempt cash dividend of 1.5 Singapore cents per ordinary share of the Company for the financial year ended 31 December 2017 | | |
| 3. | To approve special one-tier tax-exempt cash dividend of 0.5 Singapore cents per ordinary share of the Company for the financial year ended 31 December 2017 | | |
| 4. | To re-elect Mr Koh Kian Kiong as a Director of the Company | | |
| 5. | To re-elect Mr Yee Kee Shian, Leon as a Director of the Company | | |
| 6. | To approve the Directors' fees to Non-Executive Directors of the Company amounting to S$190,000 for financial year ending 31 December 2018, to be paid quarterly in arrears | | |
| 7. | To re-appoint Baker Tilly TFW LLP as Auditor of the Company and to authorise the Directors to fix its remuneration | | |
| 8. | To approve the authority to issue shares | | |

** Delete where inapplicable*
*** Each share shall have one vote. If you wish to exercise all your votes "For" or "Against", please tick within the box provided. Alternatively, please indicate the number of votes as appropriate.*

Dated this ________ day of ______________ 2018

| **Total No. of Shares in:** | **No. of Shares** |
|---|---|
| (a) Depository Register | |
| (b) Register of Members | |

________________________________
Signature of Shareholder(s)/
Common Seal of Corporate Shareholder

**Notes:**

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register, you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. A member of the Company, who is not a relevant intermediary (defined under Section 181 of the Companies Act, Chapter 50 of Singapore) and entitled to attend and vote at the Annual General Meeting of the Company, is entitled to appoint not more than two (2) proxies to attend and vote in his/her stead at the Annual General Meeting of the Company. A proxy need not be a member of the Company. Where a member of the Company appoints more than one (1) proxy, the member shall specify the number of Shares to be represented by each proxy.

3. A member of the Company, who is a relevant intermediary (defined under Section 181 of the Companies Act, Chapter 50 of Singapore) and entitled to attend and vote at the Annual General Meeting of the Company, is entitled to appoint more than two (2) proxies to attend and vote at the Annual General Meeting of the Company. A proxy need not be a member of the Company. Where a member of the Company appoints more than one (1) proxy, the member shall specify the number of Shares to be represented by each proxy.

4. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 47 Genting Road, Singapore 349489 not less than forty-eight (48) hours before the time appointed for the holding the Annual General Meeting of the Company.

5. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his/her attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised in writing.

6. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument appointing a proxy or proxies, failing which, the instrument appointing proxy or proxies may be treated as invalid.

7. A corporation which is a member of the Company may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at the Annual General Meeting of the Company, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

**General:**

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his/her name in the Depository Register as at seventy-two (72) hours before the time appointed for holding the Annual General Meeting of the Company, as certified by The Central Depository (Pte) Limited to the Company.

**Personal Data Privacy:**

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member of the Company accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 12 April 2018.

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**FEDERAL INTERNATIONAL (2000) LTD**
(REGISTRATION NO. 199907113K)

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