ANNUAL REPORT 2017

INNOTEK

STRENGTHENING OUR CORE BUSINESS

MISSION **STATEMENT**

Our mission is to provide innovative products, technologies and business solutions for our customers to help them achieve their operating and business goals.

We will continuously invest in technology and develop an operational structure that allows our customers to meet their cost targets while simultaneously assuring a good return to our shareholders. We always respect the value of our employees and invest in them, our most important asset, as they are the fuel for our growth as an organisation.

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CORE VALUES

ACHIEVEMENT

- Drive towards excellence in all that we do
- Growth in profitability and shareholder value are our measures of success
- Respect is earned, not granted, regardless of position

COMMUNICATION

- Don't be defensive – assume good intentions from others
- Reveal your issues – no hidden agendas and don't keep problems internally
- Be a good listener – attack the problem, not the person

TEAMWORK

- Zero tolerance for political behaviour
- Be vested in the success of our subordinates, peers and superiors
- Build consensus as much as possible without hindering decision making
- Respect for the individual, as all team members provide something of value

BALANCE

- If it's not fun, change it – we are probably not doing it right
- Respect for the family as well as the business
- Realise the equal value of all functions within the organisation
- Balance the organisational success with the caring of people

COMMITMENT

- Do what you say you will do, in all relationships
- Continuous customer satisfaction – embrace the customers and suppliers as our partners
- Take the time to develop our employees

CREATIVITY

- Encourage "out-of-the box" thinking among employees
- Challenge existing paradigms in all that we do
- Create an environment that encourages new ideas from employees, while fostering teamwork

CORPORATE INFORMATION

REGISTERED OFFICE
390 Orchard Road
#14-01 Palais Renaissance
Singapore 238871

With effect from 27 March 2018 change to:
160 Robinson Road
#24-12 SBF Center
Singapore 068914
Telephone : (65) 6535 0689
Facsimile : (65) 6533 2680
Website : www.innotek.com.sg

PLACE OF INCORPORATION
Singapore

COMPANY REGISTRATION NUMBER
199508431Z

DATE OF INCORPORATION
28 November 1995

BOARD OF DIRECTORS
Mr. Neal Manilal Chandaria, Chairman
Mr. Lou Yiliang
Mr. Steven Chong Teck Sin
Mr. Sunny Wong Fook Choy
Mr. Teruo Kiriyama

COMPANY SECRETARY
Ms. Linda Sim Hwee Ai

AUDIT & RISK MANAGEMENT COMMITTEE
Mr. Steven Chong Teck Sin, Chairman
Mr. Neal Manilal Chandaria
Mr. Teruo Kiriyama

NOMINATING COMMITTEE
Mr. Teruo Kiriyama, Chairman
Mr. Neal Manilal Chandaria
Mr. Sunny Wong Fook Choy

REMUNERATION COMMITTEE
Mr. Sunny Wong Fook Choy, Chairman
Mr. Teruo Kiriyama
Mr. Steven Chong Teck Sin

AUDITOR
Ernst & Young LLP
One Raffles Quay
North Tower, Level 18
Singapore 048583

Audit Partner-in-charge:
Ms. Wong Lai Mun
(Date of appointment: Since financial year ended 31 December 2017)

BANKERS
DBS Bank Ltd
Bank of China Limited
The Hongkong and Shanghai Banking Corporation Limited

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

CHAIRMAN'S LETTER TO SHAREHOLDERS

MR. NEAL MANILAL CHANDARIA
Chairman, Non-Executive and Non-Independent Director

Sun Mansfield Plant

Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I present to you the annual report of InnoTek Limited ("InnoTek" or the "Group") for the financial year ended 31 December 2017. This is the first time I am presenting this report following my appointment as Chairman in late April 2017.

I am pleased to inform you that it has been another profitable year for InnoTek, driven largely by our Group Chief Executive Officer ("CEO"), Mr. Lou Yiliang and his team. Thanks to their restructuring efforts, the Group has significantly improved its operational efficiencies and asset utilisation, and our turnaround strategy is now well on track.

We reported a healthy set of results this year with annual revenue of $212.7 million and net profit after tax of $9.8 million, overcoming challenges such as wage inflation, labour shortage and stiff competition, as well as rising raw material prices in China. Although overall performance was lower than that of FY2016 due to reduced turnover in our Office Automation ("OA") segment, we received encouraging responses to products in our TV segment, such as heat sinks and bezels.

To mitigate the slowdown in OA segment as several Japanese brands relocate operations from China to Southeast Asia, we have incorporated a subsidiary in Thailand to strengthen synergies with clients. We have also set up a subsidiary in Weihai, China to support Hewlett Packard's printer-related operations there, following its acquisition of Samsung's printer business in China.

Mansfield Suzhou Plant

Magix Dongguan Plant

Growth prospects in the TV segment are bright as the global shift to larger-format, higher-definition TV panels continue to benefit the Group, even overtaking OA as our main revenue contributor this year. We will continue to pursue this segment and are investing in initiatives to boost manufacturing efficiency, such as robotic arms and other methods of automation.

The automotive business remains a key segment amid steady growth for the industry, especially in China. In addition to developing new revenue streams and pursuing new orders for car seat moulds and stamping, we will work closely with global suppliers to grow our business in this segment.

In the year ahead, we will continue managing competitive and cost pressures even as we do our utmost to secure more programmes and expand our customer base. In the meantime, we are pleased to announce a final full-year dividend of 1.0 cent, double that of FY2016, subject to approval at the upcoming Annual General Meeting ("AGM").

CHANGES TO THE BOARD OF DIRECTORS

I was appointed as Chairman of the Board following Mr. Robert Sebastiaan Lette's retirement as Chairman and non-Executive Director after last year's AGM on 27 April 2017.

Mr. Lette joined the Board in 2002 and was appointed as Chairman in 2004, and has been a true asset to the Group throughout his years of service. We are grateful to him for his guidance and contributions, and wish him all the best in his future endeavours.

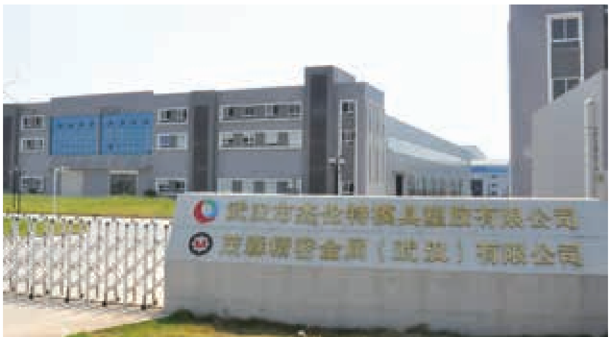
APPRECIATION

On behalf of the Board, I thank our customers, business partners, management and employees for your commitment and hard work over the past year. In particular, I would like to express my appreciation to Mr. Lou for providing us with strong and clear leadership in his capacity as Group CEO. His efforts to improve our productivity and performance have been instrumental in InnoTek's turnaround.

Last but not least, I wish to extend our heartfelt appreciation to all shareholders of InnoTek for your loyalty and support over the years. I look forward to speaking with you all at the upcoming AGM.

N. Chandaria

MR. NEAL MANILAL CHANDARIA
Chairman, Non-Executive and Non-Independent Director



Mansfield Wuhan Plant

Feng Chuan Tooling (Dongguan) Plant

CHIEF EXECUTIVE OFFICER MESSAGE

Dear Valued Shareholders,

I am pleased to present the annual report for InnoTek Limited ("InnoTek" or the "Group") for the financial year ended 31 December 2017 ("FY'17"). It has been almost two years since I joined the Board as Executive Director and Chief Executive Officer of Mansfield Manufacturing Company Limited ("Mansfield"), InnoTek's main operating subsidiary.

As shareholders are aware, I was re-designated as Group Chief Executive Officer in March 2017 to better reflect my role in leading the team through the arduous journey of restructuring and stabilising our core business. We worked with management and employees to improve cash flows, customer engagement and operational efficiencies, even as we strengthened our product offerings through employees training and technological innovation.

These tough measures were essential for us to stay profitable and competitive at a time when customers across all our business segments – office automation ("OA"), TV and automotive – are cutting costs. I am grateful to the InnoTek family for their support and resilience through this transformative period.While it has not been an easy road, we are now poised to recognise the fruits of our labour in FY'18 and beyond.

MR. LOU YILIANG
Chief Executive Officer

FINANCIAL PERFORMANCE

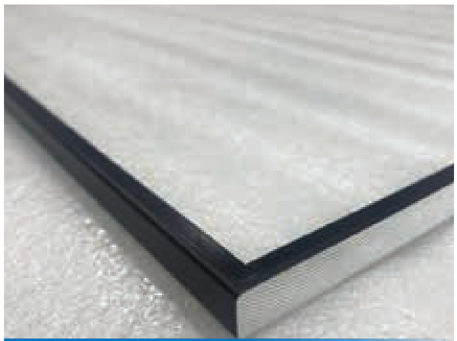
FY'17 revenue dipped 1.0% to $212.7 million from $214.7 million in FY'16, due to lower sales of OA and consumer products as Japanese customers moved production out of China. This was offset by higher sales of heat sinks – a new product which we introduced in the first half of FY'17, and can be used in TVs and computers – as well as TV bezels and car display panels.

The TV segment, which typically has lower margins, overtook OA as our main revenue contributor this year, accounting for 39% of sales in the last three months of FY'17.

The Group's net profit after tax was $9.8 million in FY'17, a drop from last year's $11.6 million mainly due to higher tax expenses. However, we were heartened to see that our profit before tax was $15.8 million in FY'17, $2.0 million higher than the $13.8 million in FY'16.

InnoTek's net cash position improved to $35.8 million as at 31 December 2017 compared to $30.0 million a year earlier, due to positive cash flows from operations.

Automotive Parts



TV Bezel

Earnings per ordinary share for FY'17 declined to 4.39 cents compared to 5.17 cents a year ago. Conversely, the Group's net asset value per share increased to 59.8 cents as at 31 December 2017 from 55.8 cents.

BUSINESS REVIEW

The manufacturing sector in China has been beset by challenges such as wage inflation, higher raw material prices and other operating costs. Several companies – including major Japanese customers in the OA segment – have transferred operations from China to lower-cost Southeast Asian countries such as Vietnam and Thailand.

To strengthen our synergies with these key customers, we have incorporated a subsidiary in Thailand, Mansfield (Thailand) Co. Ltd. ("Mansfield Thailand"). We expect to complete construction of the plant in the second quarter of 2018 and commence production in the second half of 2018. Until then, we will support the operations in Thailand from our Dongguan facilities.

While OA has taken a backseat as our top revenue driver, our business in China still holds promise. In the third quarter of 2017, we incorporated a subsidiary in Weihai, China, Mansfield Technology (Weihai) Co. Ltd. ("Mansfield Weihai"). In January 2018, it passed Hewlett Packard's ("HP") audit requirements for new facilities. Mansfield Weihai can now support HP's printer-related operations, following the electronics giant's US$1.05 billion acquisition of Samsung's printer business in China.

Mansfield Weihai will be primarily engaged in research and development, the design and manufacture of precision metal stamping, tooling, non-metal and assembly products and services. It is scheduled to begin mass-producing OA products under the HP brand in the second half of 2018.

We are cautiously optimistic about prospects in the TV and automotive segments, both of which we are developing as core businesses. The TV sector is seeing relatively stable growth amid demand for better-quality finishes and larger, higher-definition panels. We are investing in initiatives such as robotics and other forms of automation to enhance manufacturing efficiency.

Meanwhile, China's automotive sector is undergoing a period of transition, as current programmes are nearing end-of-life while new ones will only start production in the second half of 2018. We are continually pursuing new programmes and exploring partnerships with global suppliers, and are looking into the production of car interior and safety components.

Although we were profitable in FY'17, there is still room for improvement in our business fundamentals, processes and product lines. It is vital that we stay versatile and humble to keep pace with customer requirements and industry trends, even as we expand our customer base and geographical presence.

I wish to express my deepest gratitude to all my colleagues at InnoTek, as well as our business partners, customers and suppliers, for their faith in us. I look forward to another year of growth together.

MR. LOU YILIANG
Chief Executive Officer

BOARD OF DIRECTORS

MR. NEAL MANILAL CHANDARIA

Chairman, Non-Executive and Non-Independent Director

Mr. Neal Manilal Chandaria joined InnoTek as a Non-Executive and Non-Independent Director on 2 November 2015 and is a member of the Nominating Committee. Mr. Chandaria was appointed Chairman of the Board and member of the Audit & Risk Management Committee on 27 April 2017. He is a senior executive at Comcraft Group, which is globally active in various sectors including steel, aluminum, plastics, packaging and information technology. Based in Singapore, he has been helping Comcraft develop its businesses in Asia for more than 20 years. He was previously involved in Comcraft's businesses in Africa and Europe.

Mr. Chandaria graduated from Stanford University with a degree in economics. He is the Honorary Consul of the Republic of Kenya in Singapore. Mr. Chandaria was re-elected as a Director of the Company at the 2016 AGM.

MR. LOU YILIANG

Executive and Non-Independent Director

Mr. Lou Yiliang was appointed Executive Director of InnoTek and Chief Executive Officer of Mansfield Group on 2 November 2015. In 2017, Mr. Lou was appointed Chief Executive Officer of InnoTek Limited.

Born in Shanghai, Mr. Lou has vast experience in the consumer electronics and home appliances businesses in Asia. He started his career as an entrepreneur in the 1980s by helping to procure Toshiba consumer electronic products from Japan to China. The business helped pave the way for the transfer of technology from Toshiba in Japan to major Chinese manufacturers of TV sets and other consumer electronics. These included Chang Hong, Haier, Hisense and Konka.

In 2000, Mr. Lou set up Toyo Communication Technology (Shenzhen) Co. Ltd., which makes and assembles printed circuit boards and provides electronic manufacturing services.

In 2006, Mr. Lou formed a joint venture Konka Precision Mould Plastic Co. Ltd. with major TV manufacturer Konka to develop precision moulds for TV and office automation components as well as automotive products.

Mr. Lou is Chairman of Konka Precision Mould Plastic Co. Ltd., which has a 51:49 joint venture company, Anhui KM Technology Company Limited, with Mansfield Manufacturing Company Limited, a wholly-owned subsidiary of InnoTek.

Besides Chinese, Mr. Lou is also proficient in Japanese. He was re-elected as a Director of the Company at the 2016 AGM and is due for re-election at this year's AGM.

BOARD OF DIRECTORS

MR. STEVEN CHONG TECK SIN

Non-Executive and Independent Director

Mr. Steven Chong Teck Sin joined InnoTek as a Director on 17 September 2012 and is the Chairman of the Audit & Risk Management Committee and member of the Remuneration Committee.

Mr. Chong has extensive experience as director of public listed companies in Singapore, particularly in the technology sector. Between 1999 and 2004 he served as Executive Director and Group Managing Director (Commercial) of Seksun Corporation Ltd, which was then listed on the Main Board of the Singapore Exchange ("SGX"). He later held non-executive directorships in several other SGX listed companies.

Mr. Chong was also a board member of the Accounting and Corporate Regulatory Authority, a statutory board of Singapore's Ministry of Finance from April 2004 to March 2010, as well as a board member of Singapore's largest charity called the National Kidney Foundation from October 2008 to July 2010. Mr. Chong currently sits on the board of public companies listed on the SGX and the Hong Kong Stock Exchange.

Mr. Chong graduated with a Bachelor of Engineering from the University of Tokyo in 1981 on a government scholarship and subsequently obtained a Masters of Business Administration from the National University of Singapore in 1987 through part-time study. Mr. Chong was re-elected as a Director of the Company at the 2016 AGM and is due for re-election at this year's AGM.

MR. SUNNY WONG FOOK CHOY

Non-Executive and Independent Director

Mr. Sunny Wong Fook Choy joined InnoTek as a Non-Executive Independent Director on 17 November 2014 and is the Chairman of the Remuneration Committee and member of the Nominating Committee.

Mr. Wong has extensive experience as director of pubic listed companies in Singapore. He sits on the board of Civmec Limited, Excelpoint Technology Ltd., KTL Global Limited and Mencast Holdings Ltd.

A practising advocate and solicitor of the Supreme Court of Singapore, Mr. Wong is a shareholder and Director of the law firm, Wong Tan & Molly Lim LLC. He has extensive experience in legal practice and is the Managing Director and Head of Corporate, Banking and Finance Department of Wong Tan & Molly Lim LLC. He is also a shareholder and Director of WTML Management Services Pte. Ltd.

Mr. Wong holds a Bachelor of Law (Honours) from the National University of Singapore. Mr. Wong was re-elected as a Director of the Company at the 2017 AGM.

BOARD OF DIRECTORS

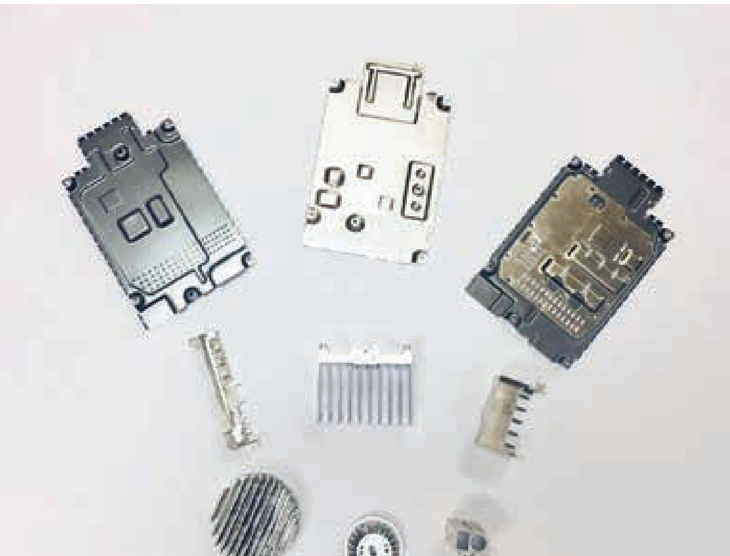
MR. TERUO KIRIYAMA
Non-Executive and
Independent Director

Mr. Teruo Kiriyama was appointed to the Board of InnoTek as an Independent Director on 2 November 2015 and is the Chairman of the Nominating Committee and member of the Audit & Risk Management Committee and Remuneration Committee. He brings to InnoTek a wealth of experience, having held various senior management positions in Japanese conglomerate Toshiba Corporation for almost two decades.

Mr. Kiriyama was advisor to Toshiba Corporation from 2014 to 2015. Before this, he was Toshiba's Corporate Vice-President from 2011 to 2014, during which time he was also the Chairman and Chief Executive Officer of Toshiba China. Under his watch, Toshiba China generated annual sales of some US$6 billion and boasted a 35,000-strong workforce amid a period of political sensitivity for Japanese businesses in China.

Besides China, Mr. Kiriyama was also involved in Toshiba's operations in Europe, the United States, Canada and several emerging markets. He graduated from Japan's Doshisha University in Kyoto with a degree in economics.

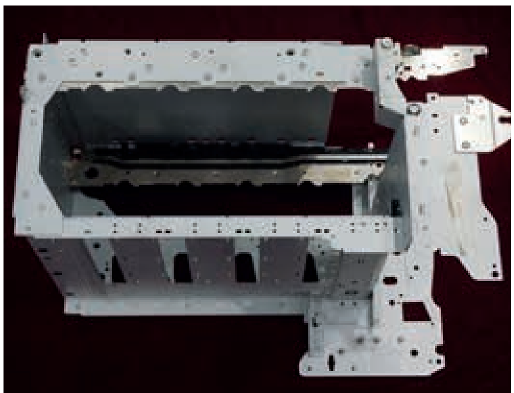
He was re-elected as a Director of the Company at the 2016 AGM.



Automotive Parts

Automotive Part

Office Automation Part



Office Automation Part

SENIOR MANAGEMENT

MR. KUANG YUBIN
Chief Operating Officer,
Director, Mansfield Group

Mr. Kuang Yubin joined Mansfield Manufacturing Company Limited in December 2015 as Chief Operating Officer and Director. Prior to joining Mansfield, Mr. Kuang held various senior positions at many organisations. Mr. Kuang was with the Konka Group Co., Ltd. ("Konka") for more than 14 years and assumed various key roles. He led the Enterprise Management team and was promoted to become the General Manager of the Enterprise Management and Human Resource Divisions. He also previously served as the General Manager of the Multimedia Division in Konka. Mr. Kuang played a critical part in growing Konka's colour TV business, which dominated China's domestic market for several years. After Konka, Mr. Kuang joined Skyworth Overseas Development Ltd. and served as the General Manager for four years, where he played an instrumental role in transforming the business to achieve a new peak. With over 25 years' experience in the electronics industry, Mr. Kuang – who reports directly to Mr. Lou Yiliang, the Chief Executive Officer – is an asset to the Group.

Mr. Kuang graduated from Zhongshan University, China, with a Bachelor of Economics degree.

MR. OKURA IPPEI
Director, Mansfield Group

Mr. Okura Ippei was appointed as Director of Mansfield responsible for group sales of Mansfield Hong Kong in December 2015. He has extensive industry experience in research, manufacturing and corporate management.

Prior to joining Mansfield, Mr. Okura worked in research at the National Laboratory for High Energy Physics (KEK) from 1989 to 1993. He joined Toyoichi Tsusho Co., Ltd. in 1993, where he was involved in technical cooperation and trade between China and Japan. He became the Director at Shenzhen Konka Precision Mould Plastic Co. Ltd. in 2006. In 2014, he joined Anhui KM Technology Company Limited. as Managing Director.

Mr. Okura holds a master's degree in science from Tokyo Gakugei University.

MR. UKAWA MASATSUGU
General Manager Internal
Audit Department,
Director, Mansfield Group

Mr. Ukawa Masatsugu joined Mansfield Group as General Manager, Internal Audit Department and Director of Mansfield in December 2015.

Prior to joining Mansfield, Mr. Ukawa was in investment banking at Nomura Securities Co., Ltd. from 1986 to 2010. Between1993 and 2008, he was the resident CEO of NOMURA CITIC International Investment Consulting Co., Ltd, an investment consultancy in Beijing, China founded by Nomura. Over the course of his work at NOMURA CITIC Co., Mr. Ukawa successfully established multiple Sino-Japanese joint ventures in various fields.

From 2010 to 2015, Mr. Ukawa was a director of KITO Co., a professional crane equipment manufacturer. He was responsible for managing the company's business in China, and served as the General Manager of Jiangyin KITO Crane Co., Ltd, a subsidiary of KITO Co. located in Jiangyin, China.

Mr. Ukawa brings to Mansfield Group more than 30 years of experience in investment banking, finance and corporate management in both China and Japan. With his extensive knowledge of Chinese and Japanese corporate culture and business models, Mr. Ukawa is well positioned to lead the Mansfield Group in internal risk management.

Mr. Ukawa graduated from Japan's Waseda University with a degree in economics.

SENIOR MANAGEMENT

MS. QUEK SIEW HOON
Corporate Controller

Ms. Quek Siew Hoon joined InnoTek in 2000 and has been with the Group for more than 17 years. Ms. Quek has over 25 years of experience in finance and accounting. She is responsible for the finance functions of the Group and frequently travels to the Group's subsidiaries in Hong Kong and China.

In her early career, Ms. Quek joined KPMG for two years and was responsible for auditing assignments mainly manufacturing companies. Thereafter she spent more than three years with Texas Instruments Singapore (Pte) Limited in the position of Financial Accountant and later as Cost Accountant at its Singapore manufacturing plant which was later taken over by Micron Semiconductor.

Prior to joining InnoTek Limited, Ms. Quek was a Finance Director of Seagate Technology Electronic Assembly Operations ("EAO") division which had manufacturing operations in Singapore, Batam and Senai. Ms. Quek spent 11 years at Seagate, starting as a Costing and Financial Planning Manager and was subsequently promoted to Finance Director. She handled complex inventory systems, budgeting, scrap and product cost controls, financial reporting and other accounting functions of the EAO division; besides providing financial information to the EAO president for his strategic planning. Her other responsibilities included ensuring adherence to financial policies and compliance amongst others.

Ms. Quek holds a Bachelor of Accountancy Degree from the National University of Singapore and is a member of the Institute of Singapore Chartered Accountants.

MS. IVY NEO MEOW KHIM
Finance Director, Mansfield Group

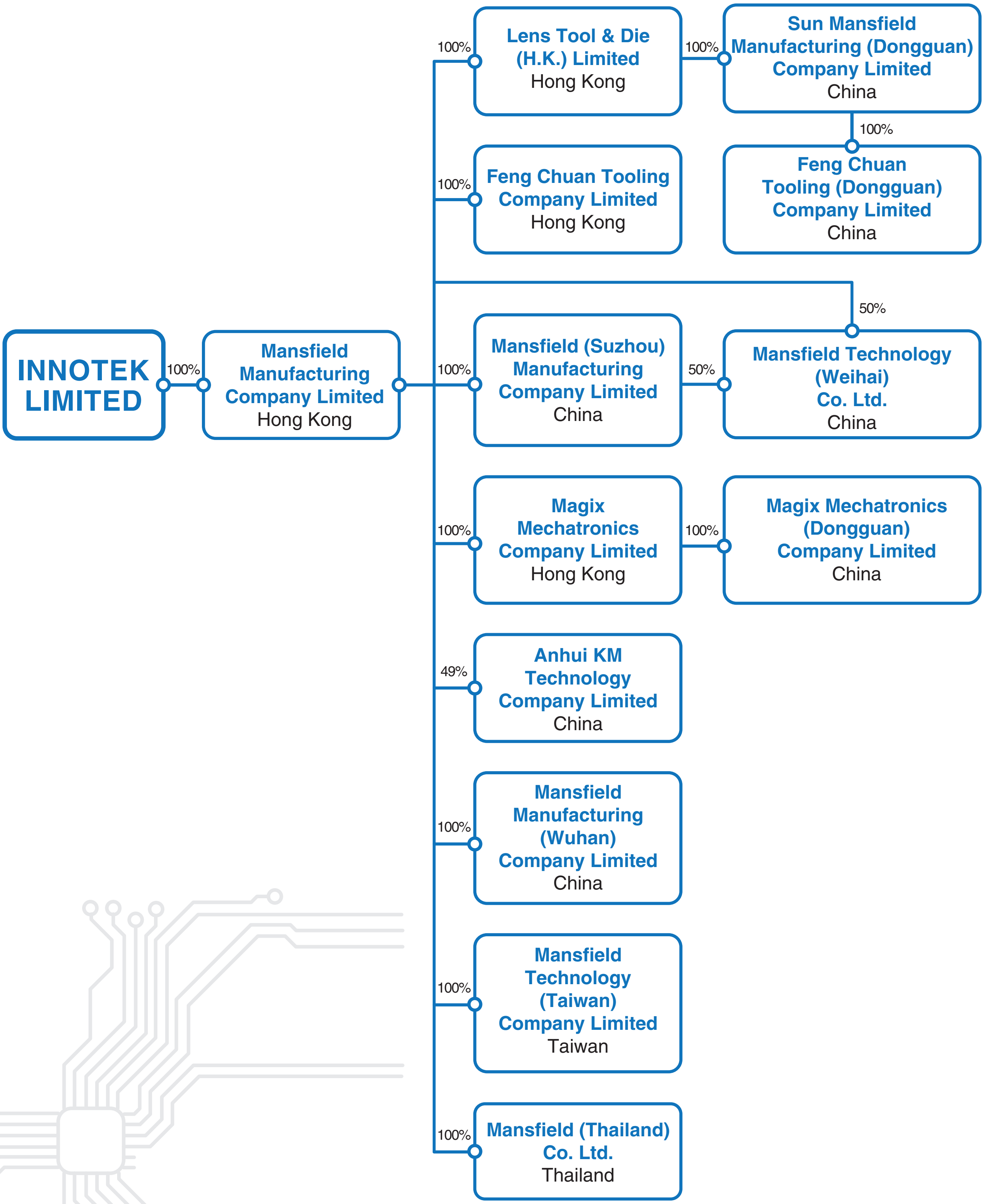
Ms. Ivy Neo Meow Khim joined Mansfield (Suzhou) Manufacturing Company Limited as Financial Controller in May 2014. After a year and a half, she was re-designated as Finance Director of Mansfield Group where she oversees the Mansfield Group's financial affairs and corporate functions and works closely with the core leadership team.

Ms. Neo has over 30 years of financial exposure with more than 10 years working experience in the manufacturing environment in China. Prior to joining Mansfield, Ms. Neo was with various companies including Sino-American Joint Venture, Yaguang Nypro Precision Molding (Tianjin) Co. Ltd, Celestica Holdings (HK) Ltd, Thomson Multimedia Co Ltd, Keppel Shipyard and Singapore Press Holdings.

Ms. Neo graduated from Victoria University of Australia with a Master of Business Administration (Accounting) and is an associate member of the Australian CPA.

GROUP STRUCTURE

as at 22 March 2018



INNOTEK LOCATIONS

InnoTek Limited
390 Orchard Road
#14-01 Palais Renaissance
Singapore 238871

With effect from 27 March 2018 change to:
160 Robinson Road
#24-12 SBF Center
Singapore 068914
Telephone : (65) 6535 0689
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Website : www.innotek.com.sg

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Telephone : (852) 2489 1968
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Anhui Province, China 239000
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Mansfield Technology (Weihai) Co. Ltd.
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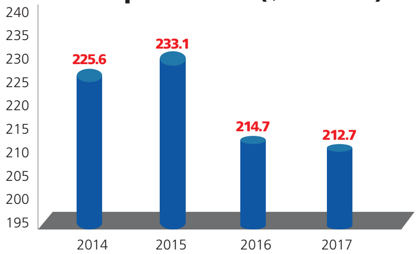
Tokyo 135-0042 Japan
Telephone : (81) 3-5646 5313
Facsimile : (81) 3-5646 5320

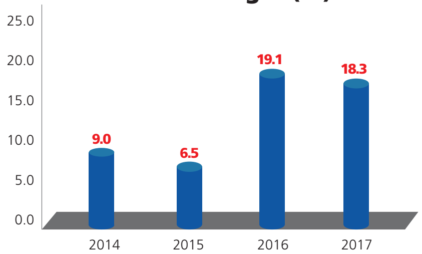
FINANCIAL HIGHLIGHTS

FOR THE YEAR ($ '000)	**2014**	**2015**	**2016**	**2017**
Revenue	225,580	233,137	214,740	**212,682**
Operating (loss)/profit	(17,959)	(16,299)	10,636	**8,289**
(Loss)/profit before tax	(28,647)	(15,260)	13,799	**15,794**
(Loss)/profit for the year attributable to owners of the Company	(28,228)	(16,293)	11,569	**9,832**
AT YEAR END ($ '000)				
Shareholder equity	131,217	116,226	124,820	**133,932**
Property, plant and equipment, investment properties and prepaid land lease payments	72,304	64,133	56,769	**56,647**
Total debts	10,095	5,288	73	**50**
Less : Cash and bank balances	(24,336)	(25,180)	(30,090)	**(35,784)**
Net cash	14,241	19,892	30,017	**35,734**
Weighted average number of shares	223,835	223,835	223,835	**224,006**
Number of shares as at end of period	223,835	223,835	223,835	**224,125**
PER SHARE (cents)				
(Loss)/profit attributable to owners of the company	(12.61)	(7.28)	5.17	**4.39**
Net assets	58.6	51.9	55.8	**59.8**
RATIOS				
Operating (loss)/profit	(8.0%)	(7.0%)	5.0%	**3.9%**
(Loss)/profit before tax	(12.7%)	(6.5%)	6.4%	**7.4%**
(Loss)/profit after tax	(12.5%)	(7.0%)	5.4%	**4.6%**
Net cash	10.9%	17.1%	24.0%	**26.7%**
Current ratio (times)	1.56	1.58	1.92	**2.02**

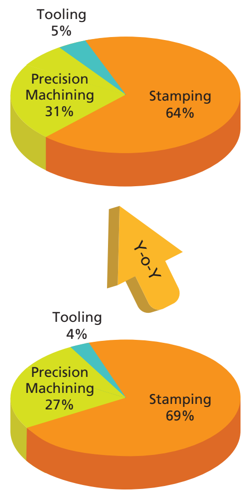
Group Revenue ($'Million)



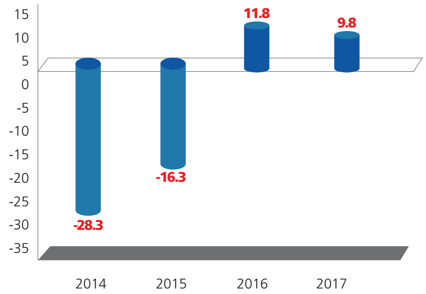
Gross Margin (%)



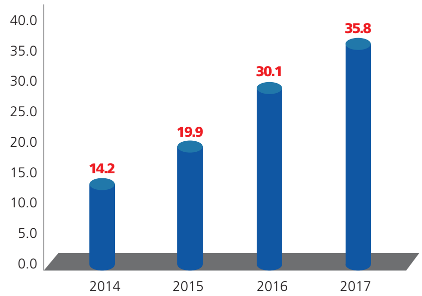
Revenue FY17 vs FY16 Revenue (Bussiness Units)



Net Profit After Tax ($'Million)



Net Cash ($'Million)



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CORPORATE GOVERNANCE

The Board and management of InnoTek Limited ("InnoTek" or the "Company") are committed to setting and maintaining a high standard of corporate governance within the Company and its subsidiaries (the "Group").

On 2 May 2012, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("Code"), which took effect with respect to Annual Reports of listed entities relating to financial years commencing 1 November 2012. This report ("Report") outlines the corporate governance framework and practices adopted by the Company with specific reference given to the Code. In so far as the Company has not complied with any guideline, we have provided the reasons.

BOARD MATTERS

Board's Conduct of its Affairs

Principle 1: Effective Board to lead and control the company

The Board is collectively responsible for overall corporate governance, strategic direction and formulation of policies to oversee the business, performance and affairs of the Group. The Board supervises the Management which has the role of ensuring that the day-to-day operation and administration of the Group are carried out in accordance with the policies and strategies determined by the Board, and in that respect, Management is fully accountable to the Board.

The principal functions of the Board are to:

– Act as ultimate decision-making body of the Company, except with respect to those matters reserved to shareholders. All directors take decisions objectively in the interests of the Company;

– Represent shareholders' interest in developing the Company's businesses successfully including optimising long-term financial returns;

– Review and evaluate management performance and ensure that management is capable of executing its responsibilities;

– Act as an advisor to senior management;

– Recognise its legal, social and moral obligations towards its stakeholders;

In addition to its statutory duties, the Board is also responsible for:

– Providing entrepreneurial leadership within a framework of prudent and effective controls which enable risks to be adequately assessed and managed;

– Ensuring that the necessary financial and human resources are in place for the Company to meet its objectives and overseeing the management of the Company and the Group;

– Approving of investment and divestment proposals;

– Overseeing the processes for evaluating the adequacy of internal controls and risk management, financial reporting and compliance;

– Approving the nominations of board directors and oversees succession planning. Assuming responsibility for compliance with the Companies Act and other regulatory bodies; and

– Setting the Company's values and standards and ensuring that its obligations to its shareholders and others are understood and met.

Financial and other matters that require the Board's approval are set out in the Group's Financial Procedures Manual ("FPM") which is reviewed and updated periodically. All policies and procedures on financial matters including approval limits and authorities are clearly defined in the FPM. Other matters specifically reserved to the Board for decision include strategic planning, corporate or financial restructuring, material acquisitions and disposals of assets, annual budget, capital expenditure, share issuances, share buy-backs and dividends.

CORPORATE GOVERNANCE

To ensure that specific issues are subject to in-depth and timely review, certain functions have been delegated to various Board Committees, which would submit their recommendations or decisions to the Board. The Board Committees constituted by the Board are the Audit & Risk Management Committee, the Nominating Committee ("NC") and the Remuneration Committee. Each Board Committee has its own terms of reference.

Board meetings are scheduled quarterly for the purpose of, *inter alia*, approving the release of the Group's financial results. Ad hoc Board meetings are also held whenever the Board's guidance or approval is required. Important and critical matters concerning the Company are also tabled for the Board's decision by way of written resolutions, faxes and electronic mails. The Company's Articles of Association allow a Board meeting to be conducted by way of videoconference, teleconference and other forms of electronic communication.

A total of four Board meetings were held in 2017. The number of Board committee meetings as well as Board members' attendance thereat is set out below:

	Board	**Audit & Risk Management Committee**	**Remuneration Committee**	**Nominating Committee**
No. of Meetings Held	**4**	**4**	**1**	**1**
	Attended	**Attended**	**Attended**	**Attended**
Mr. Lou Yiliang	4/4	4/4	1/1	1/1
Mr. Steven Chong Teck Sin	4/4	4/4	1/1	1/1
Mr. Sunny Wong Fook Choy	4/4	4/4	1/1	1/1
Mr. Teruo Kiriyama	4/4	4/4	1/1	1/1
Mr. Neal Manilal Chandaria	4/4	4/4	1/1	1/1

Training for Directors

Newly appointed Directors are briefed on the Group's business activities, strategic direction, corporate governance practices as well as their statutory and other duties and responsibilities. In addition, new Directors are given a memorandum outlining their obligations, duties and responsibilities to the Company. As and when new regulations and changes to regulations and accounting standards which have an important bearing on the Company's or Directors' disclosure obligations, Directors will be briefed either during the Board meetings or through memorandum and emails. Where appropriate, Directors are encouraged to attend courses, conferences and seminars in relevant fields. All new Directors are offered courses conducted by external organisations on corporate governance, leadership and industry-related subjects. The registration process is facilitated by the Company with course fees borne by the Company. Mr. Chandaria attended a course on Listed Company Director Essentials organised by the Singapore Institute of Directors in May 2017. All new Directors will have an opportunity to visit Group's offices and plants overseas to familiarise themselves with the InnoTek Group's businesses.

BOARD COMPOSITION AND GUIDANCE

Principle 2: Strong and independent Board

The current Board comprises five directors, three of whom are independent and non-executive.

With independent directors making up 60% of the Board, the Board is able to exercise objective judgement on corporate affairs independently, in particular from Management, as there is a strong and independent element on the Board.

The Board comprises the following members:

1)	Mr. Neal Manilal Chandaria	Non-Executive and Non-Independent
2)	Mr. Lou Yiliang	Executive and Non-Independent
3)	Mr. Steven Chong Teck Sin	Non-Executive and Independent
4)	Mr. Sunny Wong Fook Choy	Non-Executive and Independent
5)	Mr. Teruo Kiriyama	Non-Executive and Independent

CORPORATE GOVERNANCE

Profiles of the current Directors are set out in the Board of Directors' section of this Annual Report.

The Nominating Committee is responsible for reviewing the independence of each Director based on the guidelines set out in the Code. For the financial year ended 31 December 2017, Mr. Steven Chong Teck Sin, Mr. Sunny Wong Fook Choy and Mr. Teruo Kiriyama were considered by the Nominating Committee to be independent as they do not have any significant business relationship with the InnoTek Group and neither are they related to any of the other Directors or substantial shareholders of the InnoTek Group. Annually, each independent director is required to submit a confirmation of independence based on the guidelines provided in the Code.

The Articles of Association of the Company provide that at least one third of the Directors for the time being, shall retire as Directors at each annual general meeting of the Company ("AGM"). Also, all new Directors appointed by the Board during the year shall hold office until the next AGM, and are eligible for re-election at the said AGM.

In accordance with the Articles of Association of the Company, Mr. Steven Chong Teck Sin and Mr. Lou Yiliang are due to retire by rotation at the 2018 AGM and being eligible, both Mr. Steven Chong Teck Sin and Mr. Lou Yiliang have offered themselves for re-election at the 2018 AGM.

The Code also states that the independence of any director who has served on the Board beyond nine years from the date of his first appointment should be subject to particularly rigorous review. The current Board do not have directors who have served the Board for nine years or more.

The Board has five directors. Taking into account the scope and nature of the operations of the Company, the requirement of the business and the need to avoid undue disruptions from changes to the composition of the Board and board committees, the Board considers its structure, size and composition appropriate for the Group's present operations. Non-Executive directors constructively challenge and help develop proposals on strategy and review the performance of Management. With the core competencies of members of the Board in various fields of finance, legal, business, management, industry and strategic planning, their stature, and wealth of international business experience, the Company is well positioned to chart new frontiers for the InnoTek Group. The Directors actively participate and engage Management in setting goals and objectives for the Company and the Group and monitor the reporting of performance.

Composition of Board and Board Committees

Director	**Board Membership**	**Audit & Risk Management Committee**	**Nominating Committee**	**Remuneration Committee**
Mr. Neal Manilal Chandaria	Chairman and Non-Independent Director	Member	Member	–
Mr. Lou Yiliang	Executive Director	–	–	–
Mr. Steven Chong Teck Sin	Independent Director	Chairman	–	Member
Mr. Sunny Wong Fook Choy	Independent Director	–	Member	Chairman
Mr. Teruo Kiriyama	Independent Director	Member	Chairman	Member

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Principle 3: Clear division of responsibilities between Chairman and Chief Executive Officer to ensure a balance of power and authority

The position of Chairman and Chief Executive Officer ("CEO") are separate and had always been held by two separate persons to ensure an appropriate balance of power and authority, and a clear division of responsibilities and accountability.

CORPORATE GOVERNANCE

The Chairman, Mr. Neal Manilal Chandaria is a non-executive director. He leads the Board to ensure its effectiveness in all aspects of its role. He ensures Directors receive accurate, timely and clear information, fosters effective communication with shareholders, encourages constructive relations between the Board and Management, and among Directors, and promotes high standards of corporate governance.

Although the Code recommends the appointment of a lead independent director where the Chairman is not an independent director, NC was of the view that there is no necessity for the Company to appoint a lead independent director as shareholders could access to any one of the Company's Directors or the Corporate Controller directly, if necessary.

BOARD MEMBERSHIP

Principle 4: Formal and transparent process for appointment of new directors to the Board

The Nominating Committee, through a formal and transparent process, reviews the diversity of skills, experience, gender, knowledge, size and composition of the Board. The NC has a set of principles to guide it in carrying out its responsibilities of reviewing and determining an appropriate Board size and composition and makes its recommendations to the Board on all board appointments. The NC met once in 2017.

The NC comprises three Directors, majority of whom, including the NC Chairman, are independent:

Mr. Teruo Kiriyama	Chairman
Mr. Neal Manilal Chandaria	Member
Mr. Sunny Wong Fook Choy	Member

The Chairman is not associated with a substantial shareholder. Members of the NC comprise persons of stature, integrity and accountability, who would be able to exercise independent judgement in the performance of their duties.

The NC is guided by its Terms of Reference, which sets out its responsibilities. Its duties with regard to nomination functions are to review and make recommendations to the Board on all board appointments, to review all nominations for the appointment and re-appointment of directors, to evaluate the effectiveness and performance of the Board as a whole and each individual director and to review the independence of each director annually. In determining the independence of directors, the NC determines whether or not a director is independent bearing in mind the Code's definition of an "independent director" and guidance as to relationships which would deem a director not to be independent. The NC has endorsed the independence status of Mr. Steven Chong Teck Sin, Mr. Sunny Wong Fook Choy and Mr. Teruo Kiriyama.

The process for the selection and appointment of new directors to the Board is carried out when necessary by the Nominating Committee. The NC initiates and executes a process to search and identify suitable candidates for nomination to the Board for appointment.

The NC works with the Board to determine the appropriate characteristics, skills and experience for the Board as a whole as well as its individual members. Upon the review and recommendation of the NC for the appointment of directors, new directors will be appointed by way of a board resolution. Such new directors must submit themselves for re-election at the next AGM of the Company immediately following his appointment.

Apart from sitting on this Board, Mr. Lou Yiliang, Mr. Teruo Kiriyama and Mr. Neal Manilal Chandaria do not sit on the board of other listed company in Singapore. Mr. Steven Chong Teck Sin sits on the board of three other listed companies while Mr. Sunny Wong Fook Choy sits on the board of four other listed companies, apart from InnoTek Limited.

The Nominating Committee determines annually whether a Director has been adequately carrying out his duties as a Director of the Company, taking into consideration the number of that Director's other listed company board representations and other principal commitments. The Company does not set a limit on the number of directorship held by its Directors but engage with its Director from time to time to check on their effectiveness as a Director of the Company. The Nominating Committee is of the view that each Director has been able to effectively discharge his duties as a Director of the Company.

The Board does not appoint alternate directors as recommended by Guideline 4.5 of the Code.

CORPORATE GOVERNANCE

BOARD PERFORMANCE

Principle 5: Formal assessment of the effectiveness of the Board and contribution of each director

Annually, the NC evaluates the effectiveness of the Board as a whole as well as the individual director by establishing a process for conducting reviews of all Board members.

All Directors are required to assess the performance of the Board, the Board Committees and the individual director by way of a questionnaire. The assessment covers areas such as contribution of each individual director to the effectiveness of the Board and Board Committees, information management, Board processes, Shareholder management, managing the Company's performance. The NC takes into consideration their respective preparedness, commitment, participation, attendance at Board and Board committee meetings. The evaluation would also take into account their respective ability to make informed decisions and level of comprehension of legal, accounting and regulatory requirements and whether they have the essential skills to competently discharge the Board's duties. The results of the evaluation of the Board as a whole as well as the individual director would be presented to the NC and brought up by the NC Chairman for discussion and follow-up action where necessary. As and when the need arises, NC Chairman will, in consultation with the NC member, propose new members to be appointed to the Board or seek the resignation of Directors.

The NC is satisfied that each Director is able to and has been adequately performing his duties as a Director of the Company, devoting sufficient time and attention to the affairs of the Company.

ACCESS TO INFORMATION

Principle 6: Provision of complete, adequate and timely information prior to board meetings and on an ongoing basis

The Company recognised the importance of providing the Board with timely and complete information prior to its meetings and as and when the need arises.

In order to ensure that the Board is able to fulfill its responsibilities, the Management provides the Board with monthly financial reports, forecasts/budgets and other relevant information of the Group as well as revised budgets with explanation for any material variance between the projection and the actual results of budgets. In addition, the Management provides adequate and timely information to the Board on affairs and issues that require the Board's attention and decision.

Board members have full co-operation from Management and separate and independent access to the senior management including the Company Secretary, who attends all Board and Board committee meetings.

The role of the Company Secretary is clearly defined and includes responsibility for ensuring that board procedures are followed and that the Company complies with the requirements of the Companies Act and all other applicable rules and regulations. The Company Secretary ensures that Board members are fully briefed and aware of their duties and responsibilities when making decisions. The Company Secretary also facilitates orientation and training of new Directors as well as updates Directors on new developments in corporate governance, legal and regulatory matters. Apart from the above, the Company Secretary's responsibilities also include ensuring good information flows within the Board and its committees, and between senior management and non-executive directors. In accordance with the Company's Articles of Association, the appointment and removal of the Company Secretary is subject to the approval of the Board.

Board members are aware that they, whether as a group or individually, can have independent professional advice as and when necessary to enable them to discharge their responsibilities effectively. The cost of such professional advice is borne by the Company.

REMUNERATION MATTERS

Principle 7 – Formal and transparent procedure for fixing remuneration packages of directors

The Remuneration Committee ("RC") which is also the Employees' Share Option Plan Committee comprises three Directors, majority of whom, including the RC Chairman, are independent:

Mr. Sunny Wong Fook Choy	Chairman
Mr. Steven Chong Teck Sin	Member
Mr. Teruo Kiriyama	Member

CORPORATE GOVERNANCE

There is a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual top management executives including directors.

The RC is guided by its Terms of Reference, which sets out its responsibilities. The primary function of the RC is to advise the Board on compensation issues generally, and in particular, in relation to Directors and key management executives, bearing in mind that a meaningful portion of Management's compensation should be contingent upon financial performance in order to foster the creation of long-term shareholder value.

The principal responsibilities of the RC include the following:

– advise the Board of Directors on compensation matters, as well as best practice with regard to non-cash compensation and trends;

– review Management's appraisal on current market situation as it relates to compensation and Management's recommendation of the overall aggregate adjustments to be made at the annual review of compensation for all staff, Management and Directors, including options and other equity incentive schemes;

– recommend to the Board compensation packages for senior management, non-executive directors and CEO;

– responsible for the grant of options and other equity incentives, if any, to Directors, Management and staff based on the recommendations by the Management;

– oversee the implementation of remuneration policies within the InnoTek Group and ensure that no director participates in decisions on his own remuneration matter; and

LEVEL AND MIX OF REMUNERATION

Principle 8: Appropriate remuneration to attract, retain and motivate directors

In setting remuneration packages, the RC considers the level of remuneration to attract, retain and motivate Executive Directors and Key Management and to align their interests with those of shareholders. A proportion of Executive Directors' remuneration is structured to link rewards to the performance of the InnoTek Group as a whole, as well as individual performance.

On an annual basis, the RC reviews the level and mix of remuneration and benefits policies and practices of the Company. When conducting such reviews, the RC takes into account the performance of the Company and that of individual employees. It also reviews and approves the framework for salary, performance bonus and incentives for key management employees.

The total remuneration mix comprises three key components; that is, annual fixed cash, annual performance incentive, and the InnoTek Share Option Schemes. The annual fixed cash component comprises the annual basic salary plus any other fixed allowances which the Company benchmarks with the relevant industry market median. The annual performance incentive is tied to the Company's business unit's and individual employee's performance. The InnoTek Share Option Scheme is a long-term incentive plan. The equity component is intended to achieve the objective of aligning the interests of the Executive Directors and Key Management with those of the shareholders of the Company. Performance targets are set and performances are evaluated annually.

Executive directors do not receive directors' fees but are remunerated as a member of Management. Non-Executive Directors' fees take into account a Director's contributions, additional responsibilities on Board Committees, experience, qualifications and time committed and require shareholders' approval at the Company's AGM. The RC is mindful not to over-compensate the Non-Executive Directors to the extent that their independence may be compromised.

In reviewing the fees for Non-Executive Directors, the RC has adopted a framework based on guidelines recommended by the Singapore Institute of Directors, which comprises a base fee, fees for membership in Board Committees as well as fees for chairing Board Committees, taking into consideration the amount of time and effort that each Board member may be required to devote to the role and the fees paid by comparable companies.

CORPORATE GOVERNANCE

The first InnoTek Employees' Share Option Plan ("Plan") approved at the Extraordinary General Meeting ("EGM") of the Company on 18 September 2000 ran its full duration of five years from the first date of grant and had expired on 7 February 2006. The expiration of the Plan however did not affect options which had been granted and accepted by the participants of the Plan whether such options have been exercised or not. After the expiry of the Plan, a subsequent plan known as InnoTek Employees' Share Option Scheme II ("Scheme II") was approved by shareholders at the EGM on 30 April 2008. Scheme II expired on 10 March 2014. At the EGM in 2014, the Company adopted a new InnoTek Employees' Share Option Scheme 2014 with the approval of its shareholders.

The RC is assigned the responsibility of administering all share option plans in accordance with the rules of the respective plan, to determine and approve the list of grantees of the share options, the date of grant and the price thereof. During the year, 3,000,000 options were granted under the InnoTek Employees' Share Option Scheme 2014.

On 9 March 2017, Mr. Lou Yiliang was granted 3,000,000 options under the InnoTek Employees' Share Option Scheme 2014.

DISCLOSURE ON REMUNERATION

Principle 9: Clear disclosure on remuneration policy, level and mix

The remuneration policy of the Company is based on an annual appraisal system using the criteria of core values, competencies, key result areas, performance rating and potential. Rewards are linked with corporate and individual performance.

A breakdown, showing the level and mix of each individual Director's remuneration payable for the financial year ended 31 December 2017 is as follows:

	Remuneration	Fee	Salary	Bonus	Allowance/ Benefits	Others	Total
Directors' Remuneration	$	(%)	(%)	(%)	(%)	(%)	(%)
Mr. Robert Sebastiaan Lette [1]	26,605	100	–	–	–	–	100
Mr. Steven Chong Teck Sin	70,000	100	–	–	–	–	100
Mr. Sunny Wong Fook Choy	63,000	100	–	–	–	–	100
Mr. Lou Yiliang	777,362	–	61	–	–	39	100
Mr. Teruo Kiriyama	89,411	100	–	–	–	–	100
Mr. Neal Manilal Chandaria	74,102	100	–	–	–	–	100

Note: [1] Mr. Robert Sebastiaan Lette retired on 27 April 2017.

The total Directors' Fees of $323,118 will be tabled at this AGM for shareholders' approval.

Details of the share option plan are set out in the Directors' Statement whilst disclosure of the Directors' remunerations also made in the notes to the financial statements.

Key Management Personnel Remuneration	Salary (%)	Bonus (%)	Allowance / Benefits (%)	Others (%)	Total (%)
<u>$250,000 to below $500,000</u>					
Mr. Kuang Yubin	52	40	–	8	100
Mr. Li Wei Ta	32	64	1	3	100
<u>Below $250,000</u>					
Mr. Okura Ippei	59	41	–	–	100
Mr. Song Lei	76	13	11	–	100
Mr. Ukawa Masatsugu	59	41	–	–	100

CORPORATE GOVERNANCE

The aggregate remuneration paid to the key management personnel is $1,559,430.

Mr. Okura Ippei, the brother of Mr. Lou Yiliang, is the Sales Director of Mansfield Manufacturing Company Limited, the wholly-owned subsidiary of the Company. His remuneration for 2017 was within the band of $200,000 to $250,000.

The Company does not have any long-term incentive scheme apart from the InnoTek Employees' Share Option Scheme 2014 which was approved and adopted at the 2014 AGM. Details of the share option plans are set out in the Directors' Statement.

There are no termination, retirement and post-employment benefits granted to Directors, the CEO or the key Management personnel.

ACCOUNTABILITY, RISK MANAGEMENT, INTERNAL CONTROLS AND AUDIT

Principle 10 – Board to present balanced and understandable assessment of the company's performance

Shareholders are presented with the quarterly and full-year financial results within 45 days of the end of the quarter and 60 days of the end of the financial year. Through the release of its financial results, the Board aims to present shareholders with a balanced and comprehensible assessment of the Group's performance, position and prospects which extends to interim and other price sensitive public reports, and reports to regulators (if required).

Management currently provides the Board with monthly management reports of the Group's performance and Directors have separate and independent access to the Management of the Group.

In addition, the Directors have separate and independent access to the Corporate Controller of the Company. From time to time information on major transactions are discussed and circulated to Directors as and when they arise.

Principle 12 – Establishment of an Audit & Risk Management Committee with written terms of reference

The Audit & Risk Management Committee ("ARMC") has three members. The ARMC comprises entirely non-executive directors, majority of whom (including the Chairman) are independent. The Board is satisfied that members of the ARMC are appropriately qualified to discharge their responsibilities. The Chairman and members of the ARMC are:

Mr. Steven Chong Teck Sin	Chairman
Mr. Neal Manilal Chandaria	Member
Mr. Teruo Kiriyama	Member

The ARMC met four times during the year under review. The Corporate Controller, representatives of the Internal Audit firm, Mazars LLP, Company Secretary and the External Auditor are usually invited to these meetings. The ARMC meets with the internal and external auditors, without the presence of the Company's management, at least once a year to obtain feedback on the competency and adequacy of the finance function and to ascertain if there are any material weaknesses or control deficiencies in the Group's financial reporting and operational systems. This meeting enables the auditors to raise issues encountered in the course of their work directly to the ARMC. In addition, the ARMC is periodically updated on changes in accounting standards, risk management, corporate governance and regulatory related topics which have a direct impact on financial statements during the year.

The ARMC guided by its terms of reference, reviews the scope and results of the internal and external audit and the cost effectiveness, significant financial reporting issues, and adequacy of the Company's internal controls, risk management as well as the effectiveness of the Company's internal audit function at least annually.

The responsibilities of the ARMC include the following:

– review and recommend to the Board the release of the quarterly and full year financial statements;

– review the independence and objectivity of the internal and external auditors, their appointment, re-appointment and audit fee;

– review and approve both the internal and external auditors' scope and plan to assure completeness of coverage and effective use of audit resources and where the auditors also supply a substantial volume of non-audit services to the Company, review the nature and extent of non-audit services performed by them to ensure that the independence of the auditors would not be affected;

CORPORATE GOVERNANCE

- review the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements and any formal announcements relating to the Company's financial performance;

- review and report to the Board the internal audit plan, oversees and reviews the adequacy and effectiveness of the internal control functions and evaluate the level of risks and assess the system of ensuring integrity of financial reporting, steps taken by Management to minimise or control Company's exposure to such risks and assessing financial risk management;

- review major findings on internal audit during the year and Management's responses thereto, difficulties encountered during the course of the audit and compliance with relevant professional internal audit standards with the Director of Internal Audit and Management;

- review interested person transactions as required under the Listing Manual of the Singapore Exchange Securities Trading Limited Listing Manual ("SGX-ST");

- review the internal and external business risks in the context of the Company's and its subsidiaries' business strategies as identified, analysed and assessed by the Management;

- oversee the risk management function and the Enterprise Risk Management framework as established by the Management;

- review the risk management policy and guidelines including risk levels and risk appetite submitted to it by the Management;

- monitor risk management activities and processes and procedures pertaining to risk-related activities; and

- monitor the integrity and effectiveness of internal controls and reporting systems.

The ARMC makes recommendations to the Board for approval by Shareholders, the appointment, re-appointment and removal of the Company's external auditor. It also reviews and approves the remuneration and terms of engagement of the internal audit firm and the external auditor.

The ARMC reviews the Group's risk assessment according to the guidelines in its terms of reference and, based on the auditors' reports and management controls in place throughout the Group, is satisfied that there are adequate internal controls, including financial, operational, compliance and information technology controls, and risk management systems in the Group.

The ARMC has full access to the external and internal auditors and has full authority to invite any Director or executive officer to its meetings. The ARMC is authorised to have full and unrestricted access and co-operation of the Company's Management, personnel, records and other information as required to discharge its responsibilities.

The ARMC has reviewed all non-audit services provided by the external auditors to the Company and is of the opinion that the extent of such services provided will not prejudice the independence and objectivity of the external auditors. The amount paid and payable to external auditors for audit and non-audit services fees were $320,000 and $47,000, respectively, for the financial period under review. The ARMC discussed and recommended the re-appointment of Ernst & Young LLP as its external auditor. The re-appointment of the external auditor will be subject to approval by way of an ordinary resolution of shareholders at the Company's Annual General Meeting, to be held on 25 April 2018.

In appointing the audit firm for the Company, the ARMC is satisfied that the Company has complied with the requirements of Rule 712 and 715 of the Listing Manual of the SGX-ST.

Principle 11 – Sound system of internal controls to safeguard the shareholders' investments and the company's assets

Principle 13 – Establishment of an internal audit function that is independent of the functions it audits

The Board considers that the Group has in place, a system of internal controls of its procedures and processes maintained by the Company's Management to safeguard shareholders' investments and assets of the Company. The system of internal controls addresses financial, operational, compliance and information technology controls and risk management. The Board, however, notes that the system of internal controls provides reasonable, but not absolute assurance that the Group will not be affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. In this regard, the Board also notes that no system can provide absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, fraud or other irregularities.

CORPORATE GOVERNANCE

The Group has set up an Internal Audit Department ("IAD") in Mansfield headed by Mr. Ukawa Masatsugu, a Director of Mansfield Manufacturing Company Limited in addition to the appointment of Mazars LLP, an independent assurance service provider ("internal auditor" or "IA"), to perform the internal audit works of the Group. The IAD has a team who work closely with the IA to discharge its function properly. The IA's primary line of reporting is to the ARMC Chairman and the IA have unfettered access to all the Company's documents, records, properties and personnel, including access to the ARMC. The ARMC is of the view that the IA has adequate resources to perform the functions and maintained their independence from the activities that IA audits.

Mazars LLP works closely with the IAD to provide independent and objective assessments and consulting services which are designed to evaluate the adequacy and effectiveness of the Mansfield Group's system of internal controls. A risk-based approach is used to develop the annual audit plan to ensure that all high risk areas are monitored for proper coverage and audit frequency.

The IA subscribes to, and is guided by the standard established by internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors and has incorporated these standards into its audit practices.

The focus of the Internal Audit function is to strengthen the internal control structure and risk management of the Group through the conduct of independent and objective reviews. The IA also conducts tests to verify the Group's assets and liabilities and to check on compliance with the Group's system of internal controls including financial, operational and compliance controls.

In addition to the annual internal audit plan, both the IA and the IAD are also involved in conducting system or process reviews that may be requested by Management on specific areas of concern during the course of the year. By allowing such flexibility in the audit work plan, the IA and IAD are able to help Management understand risks and internal control issues associated with the changes taking place in their businesses by providing them with timely input on new or emerging issues during the year.

The ARMC has reviewed the effectiveness, adequacy and robustness of the Company's risk management policies, procedures and internal controls, including financial, operational, compliance and information technology controls. Material non-compliance and internal control weakness noted during the audit, and the auditors' recommendations to address such non-compliance and weakness will be reported to the ARMC. Management follows up and implements the internal and external auditors' recommendations.

Apart from the internal auditors, the external auditor, Ernst & Young LLP, also contribute an independent perspective on relevant internal controls arising from their financial audit and report their findings to the ARMC.

The Board has together with the ARMC reviewed the adequacy and effectiveness of the Group's risk assessment programmes and internal control processes. The Board has received assurance on the adequacy and effectiveness of the Group's internal controls including financial, operational, compliance and information technology controls and risk management system. Based on the work performed by the internal auditors during the financial year as well as the statutory audit by the external auditors, and reviews performed by Management, the Board with the concurrence of the ARMC, is of the opinion that the Group's system of internal controls including financial, operational, compliance and information technology risk controls and risk management systems were adequate as at 31 December 2017 in providing reasonable assurance of the effectiveness of the Group under the current business environment.

The Board has received assurance from the Chief Executive Officer, Chief Operating Officer and the General Managers of the Business Units, Head of Internal Audit Department and the Corporate Controller of the Company that as at 31 December 2017:

(a) the financial records of the Group have been properly maintained and the financial statements for the year ended 31 December 2017 give a true and fair view of the Group's operations and finances; and

(b) true and fair view of the Group's operations and finances; and

 (b) the system of risk management and internal controls in place for the respective business divisions were adequate and effective as at 31 December 2017 to address the Group's financial, operational, compliance and information technology risks which the business divisions consider relevant and material to their operations.

CORPORATE GOVERNANCE

WHISTLE BLOWING POLICY

To reinforce a culture of good business ethics and governance, the Group has in place a whistle-blowing policy and procedures as prescribed under the Guidebook for Audit Committee in Singapore. The aim of this policy is to encourage the reporting in good faith of any suspected improper conduct whilst protecting the whistleblowers from reprisal within the limits of the law.

The whistle blowing policy provides employees an avenue for reporting in good faith of suspected fraud, corruption, dishonest practices or other similar matters. All reports are channeled to the ARMC Chairman directly via a dedicated and secured e-mail channel who will treat the matter with utmost confidentiality.

All cases reported are treated confidentially and objectively investigated. Identities of whistle blower will be kept confidential to the extent possible. Results of the investigation would not be disclosed or discussed with anyone other than those who have a legitimate right to know. Investigation of such reports will be handled by the whistle blow committee headed by Mr. Kuang Yubin and involve persons who need to be involved in order to properly carry out the investigation. The committee will review the information disclosed and will, on a best efforts basis, carry out the investigation in a timely manner. The committee will interview the whistle blower, if known, and if it was an anonymous submission, to determine whether the circumstances warrants a report to the ARMC for further investigation and corrective actions (if any) to be taken.

Anonymous complaints may be considered, taking into account factors such as the seriousness of the issues raised, the credibility of the report and the likelihood of confirming the allegation.

SHAREHOLDERS RIGHTS AND RESPONSIBILITIES

Principle 14, 15 & 16 – Communication with Shareholders

The Company is committed to promoting effective communication with all shareholders, ensuring all shareholders are provided with equal and timely access to material information concerning the Company. Prompt and relevant information with regard to the Company's corporate developments and financial performance is disseminated in compliance with its continuous disclosure obligations in line with the Code and the Listing Manual of the SGX-ST.

The Company discloses to its shareholders pertinent information in a clear, forthcoming and timely manner on a regular basis. The quarterly financial results are published through the SGXNET, news releases and the Company's corporate website. The Company also retained an investor relations firm to assist in its dissemination of material information. The Company had been holding analyst briefings after its results announcement in previous years. The Company monitors the dissemination of material information to ensure that it is made publicly available on a timely and non-selective basis.

The Company does not practice selective disclosure. Price-sensitive information is first publicly released through SGXNET, either before the Company meets with any investors or analysts or simultaneously with such meetings. The results are published through the SGXNET, news releases and the Company's website and Share Investor. All shareholders of the Company receive the annual report, and notice of AGM, which is held within four months after the close of the financial year. The notice is also advertised in the newspapers. The annual report is also available on the Company's corporate website, www.innotek.com.sg.

Whilst shareholders have a right to appoint up to two proxies to attend and vote at General Meetings on their behalf, the Articles currently do not provide for shareholders to vote at General Meetings in absentia such as by mail, email or fax. Such voting methods will need to be carefully reviewed for feasibility to ensure there is no compromise to either the integrity of the information or the proper authentication of the identity of the shareholders.

On 3 January 2016, the legislation was amended, among other things to allow certain members, defined as "relevant intermediary" to attend and participate in general meetings without being constrained by the two-proxy requirement. Relevant intermediary includes corporations holding licenses in providing nominee and custodial services and Central Provident Fund ("CPF") Board which purchases shares on behalf of the CPF investors.

At General Meetings, shareholders are given the opportunity to communicate their views on matters relating to the Group, with the Board members, Board Committees, the Company Secretary as well as the external auditor in attendance at the AGMs.

The minutes of general meetings, which include substantial comments or queries from shareholders and responses from the Board are available to shareholders upon written request.

CORPORATE GOVERNANCE

To promote greater transparency and effective participation, the Company has conducted the voting of all its resolutions by poll at its general meetings. Independent scrutineers are appointed to conduct the voting process. Independent scrutineers brief the shareholders on the rules and the voting process and verify and tabulate votes after each resolution. The detailed voting results at the general meetings showing the number of votes cast for and against each resolution and the respective percentages tabled, are announced immediately at the general meetings and via SGXNET immediately after each general meeting.

During the year, the Company held a briefing session with the financial and investment community after the release of its Third Quarter financial results in November 2017. The Board was present and key management of the Group presided over the briefing session and offered comprehensive review of the Company's performance. An information package comprising the financial statements, media release were shared with all participants at the briefing.

DIVIDEND POLICY

In considering the level of dividend payments, the Board takes into account various factors, including the level of cash available, the return on equity and retained earnings and set aside a certain percentage of the Group net operating profits attributable to shareholders for payment of dividend.

The Board is proposing to Shareholders to pay a first and final (one-tier, tax-exempt) dividend of 1.0 cent per share at the AGM on 25 April 2018.

DEALINGS IN SECURITIES

In line with the rules of the Listing Manual of the SGX-ST, the Company has in place a policy and guidelines on dealings in the securities of the Company. This policy and guidelines restrict Directors and employees from trading in the Company's securities during the period falling two weeks before the announcement of the Company's financial statements for each of the first three quarters of its financial year and one month before the announcement of the Company's full year financial statements.

Additionally, Directors and employees of the Company are also reminded to be mindful of the insider trading prohibitions and ensure that their dealings in securities do not contravene the laws on insider trading under the Securities and Futures Act, and the Companies Act. The policy and guidelines also remind employees and Directors of the Group that they should not deal in the Company's securities on short term considerations.

Directors are required to report to the Company Secretary whenever they deal in the Company's shares and the Company Secretary will make the necessary announcements.

INTERESTED PERSON TRANSACTION POLICY

In general, the Company has established procedures to ensure that all Interested Person Transactions will be undertaken on an arms' length basis and on normal commercial terms, which are generally no more favourable than those extended to unrelated third parties and will thus not be prejudicial to the interests of the Company and the shareholders.

The Company has adopted an internal policy in respect of any transactions with interested persons and has procedures established for the review and approval of the Company's interested person transactions.

The aggregate value of Interested Person Transactions entered into during the financial year under review are as follows:–

Name of Interested Person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than $100,000)
Anhui KM Technology Company Limited	$1,679,323	None
Dongguan Konka Mould Plastic Co. Ltd.	$299,354	None
Toyoichi Tsusho Co. Ltd.	$29,239	None
Wuhan Grand Mould Plastic Co. Ltd.	$678,618	None

The Company does not have any shareholders' mandate for interested person transactions.

CORPORATE GOVERNANCE

MATERIAL CONTRACTS

During the financial year, there were no material contracts entered into by the Company or any of its subsidiary companies involving the interests of any director or the controlling shareholder of the Company except those announced via SGXNET from time to time in compliance with the SGX-ST Listing Manual.

RISK MANAGEMENT

InnoTek acknowledges that appropriate management of the risks accompanying its business is vital to prevent losses and damages in the fast-changing business environment. The Board has put in place processes and procedures which help to identify and manage areas of significant strategic, business and financial risks. The Group manages risk under an overall risk management framework determined by the Board and supported by the Audit and Risk Management Committee and Internal Audit. Management periodically reviews the past performance of, and profiles the current and future risks facing the Group. This system by its nature can only provide reasonable, but not absolute, assurance to investors regarding:

– the safeguarding and protection of the Group's assets against unauthorised or improper use or disposal;

– protection against material misstatements or losses;

– the maintenance of proper accounting records;

– the reliability of financial information used within the business and for publication;

– the compliance with appropriate legislations, regulations and best practices; and

– the identification and containment of business risks.

Among the various risks that affect the Group include, but are not limited to:

1. **Industry and customer risk**

   The market demands and customers specific requirements constantly remind the Company not to be complacent and to keep up and be able to cater to the needs in the market and of its customers. In the event the Company is unable to meet customer and industry requirements, there may be a possibility that its products and/or process will become obsolete, and its customers may take their business to those who are able to meet such requirements. As such, the Company works closely with its customers and industry sources to ensure that its technology and product roadmaps are in line with customer requirements.

2. **Under utilisation of production capacity**

   The Company's business is characterised by high fixed costs including plant facilities, manufacturing equipment and machineries. In the event when it's capacity utilisation decreases due to poor demand or cancellation or delay of customer orders, the Company could encounter significantly higher unit production costs, lower margins and potentially significant losses. Under utilisation of production capacity could also result in equipment write-offs, restructuring charges and employee layoffs.

3. **Dependence on a small customer base**

   In the highly competitive industry with low margin and customers could easily bring their orders elsewhere, the loss of one or more of its major customers or a substantial reduction in orders by any major customer, for any reason, could have a material adverse effect on the Group's revenue. To mitigate the risk of losing customer the Company works closely with its customers, so as to be able to build long term working relationships and, hence, build long-term customers' trust and loyalty.

4. **Primary materials prices and timely supply of materials**

   The Group relies on a limited number of qualified suppliers for some of the materials used in its precision metal component division manufacturing processes. Any increase in the price of primary materials would affect the cost of manufacturing. The Group mitigates the risk by not committing to large orders of fixed price materials thus enabling

CORPORATE GOVERNANCE

the Group to adjust prices when appropriate and feasible. The timely supply of sufficient quantity of raw materials by its supplier is also crucial in meeting the commitments to its customers. To mitigate the risk the Group employs supply chain management and builds long term relationships with qualified suppliers.

5. Exposure to credit risks

The Group is exposed to credit risks of its customers. From time to time, in the ordinary course of business, certain customers may default on their payment. Such events may arise due to the inherent risk from its customers' business, risk pertaining to the political, economic, social and legal environment of its customers' jurisdiction and foreign exchange risk. However, the Group regularly reviews its exposure by way of monthly management reports, market feedbacks, performing checks on customers' financial status and executes necessary payment recovery measures to minimise its credit risks.

6. Foreign currency risk

The Group has transactional currency exposures arising from sales or purchases that are denominated in a currency other then the respective functional currencies of the Group entities. The Group manages its transactional currency exposures by matching as far as possible, its receipts and payments in each individual currency.

7. Liquidity risk

To ensure that it has adequate funding to achieve these requirements and its long-term goals, the Group regularly monitors its capital expenditure to ensure an appropriate rate of returns, monitors the efficiency of the investment and pursues new financing opportunities to supplement its current capital resources.

8. Changes in the political, social and economic conditions

The Group's manufacturing facilities are located mainly in China. Any unfavourable changes in the political, social, legal, regulatory and economic conditions in China may disrupt our operations and affect our financial performance.

Regulatory changes could result in increased costs to the Group. The Group continues to evaluate and monitor developments with respect to new and proposed rules and regulations by the local authorities in the different provinces in China which can or may affect the Group in any way, and cannot predict or estimate the amount of additional costs the Group may incur or the timing of such costs.

SUSTAINABILITY REPORTING

The Board recognises that to ensure business is sustainable; the Group has to strike a balance between its business needs and the need of the society and the environment in which the Group operates. The Board believes that to grow sustainably, the Group has to regularly reach out to all stakeholders, from its employees to the community, and to be responsible stewards of its natural environment. The Group's efforts to employ eco-friendly and sustainable value chain processes, training programmes for its employees, interaction and cooperation with the communities, its anti-corruption procedures and the relevant policy to ensure health, safety and welfare of its employees and other sustainability issues will be released in a stand-alone report to its shareholders before the end of this year.

CORPORATE SOCIAL RESPONSIBILITY

As part of our corporate social responsibility, we strive to positively impact the communities where we operate by contributing time and resources. The Group's subsidiary in Suzhou had recently participated in a charity event jointly organised with the Suzhou Labour Union and China Lion Federation, Suzhou Wuyue Service Team and Suzhou Rainbow Service Team to bring joy and encouragement to the residents of Suzhou Mudu Disabled Person Centre.

The Company continue to play its part in ensuring energy conservation in our plants and offices by cutting down on our energy usage. This helps mitigate climate change and save costs for the Group. Appropriate measures have been put in place to conserve energy and reduce water usage in all our facilities. We adopt good human resource policies and practices that promote fairness, safe working conditions and encourage teamwork, which is one of the Company's Core Values.

Our ongoing focus on safety and security, encompassing the reduction of accidents, sick leave and environmental damage, is keeping us on a steady course towards a more sustainable business. At the same time, the Company encourages social conscious behaviour in its employees to actively contribute to the communities and seek to engage in worthy social activities.

DIRECTORS' STATEMENT

The directors are pleased to present their statement to the members together with the audited consolidated financial statements of InnoTek Limited (the "Company") and its subsidiaries (collectively, the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2017.

Opinion of the directors

In the opinion of the directors,

(i) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date; and

(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:

Neal Manilal Chandaria (Chairman)
Lou Yiliang
Steven Chong Teck Sin
Sunny Wong Fook Choy
Teruo Kiriyama

Arrangements to enable directors to acquire shares and debentures

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

Directors' interests in shares and debentures

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

	Direct interest		Deemed interest	
Name of director	**At the beginning of financial year**	**At the end of financial year**	**At the beginning of financial year**	**At the end of financial year**
Ordinary shares of the Company				
Lou Yiliang[(1)]	–	–	11,902,800	11,902,800
Share options of the Company				
Lou Yiliang	2,000,000	5,000,000	–	–

[(1)] Lou Yilang is deemed to be interested in the 11,902,800 ordinary shares held through Phillip Securities Pte Ltd.

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2018.

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

DIRECTORS' STATEMENT

Options

(1) InnoTek Limited – Employees' Share Option Plan

(a) InnoTek Employees' Share Option Plan (the "Plan") was approved by the shareholders at an Extraordinary General Meeting on 18 September 2000. The Plan expired on 8 February 2006. Options granted under the Plan remain exercisable until the end of the relevant Option Period. The Plan expired in 2006 and was succeeded by the InnoTek Employees' Share Option Scheme II.

(b) InnoTek Employees' Share Option Scheme II ("Scheme II") was approved by shareholders at the Extraordinary General Meeting on 30 April 2008. Scheme II expired on 9 March 2014 and options granted under the Scheme II remain exercisable until the end of the relevant Option Period.

(c) InnoTek Employees' Share Option Scheme 2014 ("Scheme 2014") was approved by shareholders at the Extraordinary General Meeting on 28 April 2014. Scheme 2014 succeeded Scheme II which expired in 2014.

(2) All employees' share option plans are administered by the Remuneration Committee whose members are:

Sunny Wong Fook Choy (Chairman)
Teruo Kiriyama
Steven Chong Teck Sin

(3) During the financial year, there were 3,000,000 share options to subscribe for ordinary shares of the Company granted to a director of the Company under Scheme 2014.

(4) Details of all the options to subscribe for ordinary shares of the Company under Scheme II and Scheme 2014 as at 31 December 2017 are as follows:

Expiry date	Exercise price ($)	Number of options
23 May 2018	0.280	680,000
19 January 2021	0.185	2,000,000
6 June 2021	0.156	1,500,000
9 March 2022	0.350	3,000,000
Total		7,180,000

(5) Details of the options to subscribe for ordinary shares of the Company granted to a director of the Company pursuant to the Scheme 2014 are as follows:

Name of director	Options granted during financial year	Aggregate options granted since commencement of plan to end of financial year	Aggregate options exercised since commencement of plan to end of financial year	Aggregate options outstanding as at end of financial year
Lou Yiliang	3,000,000	5,000,000	–	5,000,000
Total	3,000,000[1]	5,000,000	–	5,000,000

[1] 3,000,000 options are exercisable between the periods from 9 March 2018 to 8 March 2022 at the exercise price of $0.350 if the vesting conditions are met.

DIRECTORS' STATEMENT

Options (cont'd)

Details of the options to subscribe for ordinary shares of the Company granted to a director of a subsidiary pursuant to the Scheme 2014 are as follows:

Name	Options granted during financial year	Aggregate options granted since commencement of plan to end of financial year	Aggregate options exercised since commencement of plan to end of financial year	Aggregate options outstanding as at end of financial year
Kuang Yubin	–	1,500,000	–	1,500,000
Total	–	1,500,000	–	1,500,000

(6) Since the commencement of the employee share option plans till the end of the financial year:

- No options have been granted to the controlling shareholders of the Company and their associates
- No participant other than those mentioned in point (5) above, has received 5% or more of the total options available under the plans
- No options other than those mentioned above have been granted to directors and employees of the Company and its subsidiaries
- No options that entitle the holder to participate, by virtue of the options, in any share issue of any other corporation have been granted
- No options have been granted at a discount

Audit & Risk Management Committee

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

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

DIRECTORS' STATEMENT

Audit & Risk Management Committee (cont'd)

- Recommended to the board of directors the external auditor to be nominated, approved the compensation of the external auditor, and reviewed the scope and results of the audit

- Reported actions and minutes of the ARMC to the board of directors with such recommendations as the ARMC considered appropriate

- Reviewed interested person transactions in accordance with the requirements of the Singapore Exchange Securities Trading Limited's Listing Manual

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

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

Further details regarding the ARMC are disclosed in the Corporate Governance Report.

Auditor

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

On behalf of the board of directors,

Neal Manilal Chandaria
Director

Lou Yiliang
Director

Singapore
22 March 2018

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2017

Independent Auditor's Report to the Members of InnoTek Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of InnoTek Limited (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 2017, the statements of changes in equity of the Group and the Company and the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

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

Impairment of Trade Receivables

The gross balance of the Group's trade receivables as of 31 December 2017 is $65.4 million, against which allowance for doubtful debts of $0.9 million was made. The impairment assessment of trade receivables requires management to exercise significant judgement on trade debtors' ability to repay after taking into account the Group's operating environments that continue to be challenging due to slower domestic growth, rising labour costs and intense competition. The collectability of trade receivables is also a key element of the Group's working capital management, which is managed on an ongoing basis by management.

As part of our audit, we obtained an understanding of the processes and controls relating to the monitoring of trade receivables. Our audit procedures included, amongst others, requesting confirmation of trade receivable balances and reviewing for collectability by way of obtaining evidence of receipts from the customers subsequent to the year-end. We evaluated management's assumptions used to determine the amount of allowance for doubtful debts, through testing of ageing for samples of trade receivables and assessment of significant overdue trade receivables by reviewing historical payment patterns and whether any payments subsequent to year-end had been received up to the date of completing our audit procedures. In evaluating management's determination of allowance for doubtful debts, we considered the facts and circumstances specific to the countries and economic environments where the subsidiaries operate in. We also assessed the adequacy of the Group's disclosures related to the impairment of trade receivables and the related risks such as credit risk and liquidity risk included in Note 21 *Trade and other receivables* and Note 34 *Financial risk management objectives and policies*.

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2017

Independent Auditor's Report to the Members of InnoTek Limited (cont'd)

Key Audit Matters (cont'd)

Allowance for Inventory Obsolescence

The gross balance of the Group's inventories as of 31 December 2017 is $25.8 million, against which allowance for inventory obsolescence of $0.8 million was made. The determination of allowance for inventory obsolescence requires management to exercise significant judgement in identifying slow moving or obsolete inventories and making estimates of their net realisable values. This process is particularly complicated for inventories that are components of customers' products that are reaching or have reached their end-of-life.

As part of our audit, we attended and observed physical inventory counts at all material inventory locations where we performed procedures to identify slow moving and obsolete inventories. We tested management's ageing analyses for samples of inventories by re-performing the ageing calculation and discussed with management on how slow moving inventories for selected samples are dealt with. We obtained an understanding of the analyses and assessments made by management with respect to slow moving and obsolete inventories and end-of-life products, including the specific identification of these inventories, and tested the adequacy of the allowance made by management by comparing the net carrying amount of inventories to their net realisable values. We also assessed the adequacy of the disclosures related to the allowance for inventory obsolescence included in Note 20 *Inventories*.

Other Information

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

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

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

Responsibilities of Management and Directors for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2017

Independent Auditor's Report to the Members of InnoTek Limited (cont'd)

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

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

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

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

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

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

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

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

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

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

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

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 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 Wong Lai Mun.

Ernst & Young LLP

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore

22 March 2018

CONSOLIDATED INCOME STATEMENT

For the financial year ended 31 December 2017

	Note	Group 2017 $'000	Group 2016 $'000
Revenue	5	212,682	214,740
Cost of sales		(173,740)	(173,761)
Gross profit		38,942	40,979
Other items of income			
Interest income	6	567	414
Other income	7	5,352	3,091
Other items of expense			
Selling and distribution		(3,896)	(4,594)
Administrative expense		(23,042)	(25,206)
Finance cost	8	(1)	(89)
Other expenses	9	(2,246)	(859)
Share of results of joint venture	17	118	63
Profit before tax	10	15,794	13,799
Income tax expense	11	(5,962)	(2,230)
Profit for the year attributable to owners of the Company		9,832	11,569
Earnings per share attributable to owners of the Company (cents per share)			
Basic	12	4.39	5.17
Diluted	12	4.35	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

	Group	
	2017	**2016**
	$'000	$'000
Profit for the year	9,832	11,569
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net surplus on revaluation of leasehold buildings	1,252	–
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation	(1,281)	(3,196)
Other comprehensive income for the year, net of tax	(29)	(3,196)
Total comprehensive income for the year attributable to owners of the Company	9,803	8,373

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
ASSETS					
Non-current assets					
Property, plant and equipment	13	27,805	36,467	1	10
Investment properties	14	26,978	16,919	–	–
Prepaid land lease payments	15	1,864	3,383	–	–
Intangible assets	16	120	144	12	26
Investment in subsidiary	4	–	–	47,061	47,061
Investment in joint venture	17	1,631	1,521	–	–
Deferred tax assets	19	861	3,265	–	–
Deposit paid for purchase of property, plant and equipment		2,562	572	–	–
Loan to a subsidiary	23	–	–	23,552	25,702
Other receivables	21	1,433	1,431	–	–
		63,254	63,702	70,626	72,799
Current assets					
Inventories	20	24,971	23,759	–	–
Trade and other receivables	21	69,283	63,559	4,270	3,310
Tax recoverable		–	58	–	–
Prepayments	22	545	821	55	66
Other investments	18	14,796	15,332	14,796	15,332
Derivatives	24	112	20	112	20
Cash and bank balances	25	35,784	30,090	2,458	4,576
		145,491	133,639	21,691	23,304
Total assets		208,745	197,341	92,317	96,103
EQUITY AND LIABILITIES					
Current liabilities					
Provisions	26	180	135	–	–
Income tax payable		5,552	2,944	42	1
Derivatives	24	–	190	–	190
Trade and other payables	27	66,136	66,272	660	683
Finance lease liabilities	32(e)	23	23	–	–
		71,891	69,564	702	874
Net current assets		73,600	64,075	20,989	22,430

BALANCE SHEETS

As at 31 December 2017

	Note	Group 2017 $'000	Group 2016 $'000	Company 2017 $'000	Company 2016 $'000
Non-current liabilities					
Provisions	26	561	693	–	–
Deferred tax liabilities	19	2,334	2,214	430	318
Finance lease liabilities	32(e)	27	50	–	–
		2,922	2,957	430	318
Total liabilities		74,813	72,521	1,132	1,192
Net assets		133,932	124,820	91,185	94,911
Equity attributable to owners of the Company					
Share capital	28(a)	98,021	98,021	98,021	98,021
Treasury shares	28(b)	(12,997)	(13,164)	(12,997)	(13,164)
Retained earnings		47,886	40,251	5,631	9,785
Other reserves	29	1,022	(288)	530	269
Total equity		133,932	124,820	91,185	94,911
Total equity and liabilities		208,745	197,341	92,317	96,103

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

2017 Group	Note	Equity, total $'000	Attributable to owners of the Company Share capital $'000	Treasury shares $'000	Retained earnings $'000	Other reserves $'000
At 1 January 2017		124,820	98,021	(13,164)	40,251	(288)
Profit for the year		9,832	–	–	9,832	–
Other comprehensive income for the year						
Net surplus on revaluation of leasehold buildings		1,252	–	–	–	1,252
Foreign currency translation		(1,281)	–	–	–	(1,281)
Other comprehensive income for the year, net of tax		(29)	–	–	–	(29)
Total comprehensive income for the year		9,803	–	–	9,832	(29)
Contributions by and distributions to owners						
Grant of equity-settled share options to employees	10	347	–	–	–	347
Treasury shares reissued pursuant to employee share options plan	28(b)	81	–	167	–	(86)
Dividends on ordinary shares	37	(1,119)	–	–	(1,119)	–
Total contributions by and distributions to owners, representing total transactions with owners in their capacity as owners		(691)	–	167	(1,119)	261
Others						
Transfer to statutory reserve fund		–	–	–	(1,078)	1,078
At 31 December 2017		133,932	98,021	(12,997)	47,886	1,022

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

2016 **Group**	**Note**	**Equity, total** $'000	**Attributable to owners of the Company** **Share capital** $'000	**Treasury shares** $'000	**Retained earnings** $'000	**Other reserves** $'000
At 1 January 2016		116,226	98,021	(13,164)	28,655	2,714
Profit for the year		11,569	–	–	11,569	–
Other comprehensive income for the year, net of tax						
Foreign currency translation		(3,196)	–	–	–	(3,196)
Total comprehensive income for the year		8,373	–	–	11,569	(3,196)
Contributions by and distributions to owners						
Grant of equity-settled share options to employees	10	221	–	–	–	221
Expiry of employee share options		–	–	–	27	(27)
Total contributions by and distributions to owners, representing total transactions with owners in their capacity as owners		221	–	–	27	194
At 31 December 2016		124,820	98,021	(13,164)	40,251	(288)

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	Note	Equity, total $'000	Share capital $'000	Treasury shares $'000	Retained earnings $'000	Other reserves $'000
At 1 January 2016		94,030	98,021	(13,164)	9,098	75
Profit for the year, representing total comprehensive income for year		660	–	–	660	–
<u>Contributions by and distributions to owners</u>						
Grant of equity-settled share options to employees	10	221	–	–	–	221
Expiry of employee share options		–	–	–	27	(27)
Total contributions by and distributions to owners, representing total transactions with owners in their capacity as owners		221	–	–	27	194
At 31 December 2016 and 1 January 2017		94,911	98,021	(13,164)	9,785	269
Loss for the year, representing total comprehensive income for year		(3,035)	–	–	(3,035)	–
<u>Contributions by and distributions to owners</u>						
Grant of equity-settled share options to employees	10	347	–	–	–	347
Treasury shares reissued pursuant to employee share option plans	28(b)	81	–	167	–	(86)
Dividends on ordinary shares	37	(1,119)	–	–	(1,119)	–
Total contributions by and distributions to owners, representing total transactions with owners in their capacity as owners		(691)	–	167	(1,119)	261
At 31 December 2017		91,185	98,021	(12,997)	5,631	530

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

CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 31 December 2017

	Note	Group 2017 $'000	Group 2016 $'000
Operating activities			
Profit before tax		15,794	13,799
Adjustments for:			
Depreciation of property, plant and equipment	13	4,840	5,785
Amortisation of intangible assets	16	89	229
Amortisation of prepaid land lease payments	15	69	89
Net loss/(gain) on disposal of property, plant and equipment	7, 9	130	(205)
Net (gain)/loss on derivatives	7, 9	(282)	163
Grant of equity-settled share options to employees	10	347	221
Net fair value loss/(gain) on other investments	7, 9	416	(61)
Reversal of impairment loss on property, plant and equipment	13	(1,253)	–
Net loss on disposal of other investments	10	37	5
Net fair value (gain)/loss on investment properties	7, 9	(346)	521
Net (write-back)/allowance for doubtful debts	21	(273)	169
Share of results of joint venture	17	(118)	(63)
Net (reversal)/provisions	26	(51)	122
Interest expense	8	1	89
Interest income	6	(567)	(414)
Dividend income from other investments	7	(172)	(139)
Net allowance/(write-back) for inventory obsolescence	20	284	(158)
Exchange differences		1,199	(143)
Operating cash flows before changes in working capital		20,144	20,009
Changes in working capital:			
(Increase)/decrease in trade and other receivables		(4,783)	4,792
Increase in inventories		(1,478)	(1,992)
Decrease/(increase) in prepayments		276	(31)
Decrease in trade and other payables		(136)	(8,865)
Decrease in provisions		–	(197)
Cash flows from operations		14,023	13,716
Interest paid		–	(89)
Interest received		587	364
Income taxes paid		(915)	(879)
Net cash flows generated from operating activities		13,695	13,112

CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 31 December 2017

	Note	Group 2017 $'000	Group 2016 $'000
Investing activities			
Purchase of property, plant and equipment	13	(2,979)	(1,793)
Proceeds from disposal of property, plant and equipment		145	330
Purchase of other investments		(6,849)	(21,385)
Deposit paid for property, plant and equipment		(1,990)	(417)
Additions to intangible assets	16	(67)	(15)
Proceeds from disposal of other investments		6,908	21,267
Dividend from other investments	7	172	139
Investment in joint venture		–	(507)
Decrease in bank balance under portfolio investment management		400	59
Decrease in pledged time deposits		–	1,309
Loan to a joint venture		(603)	–
Net cash flows used in investing activities		(4,863)	(1,013)
Financing activities			
Proceeds from reissuance of treasury shares	28(b)	81	–
Repayment of obligations under finance lease		(23)	(18)
Decrease in short-term financing		–	(5,454)
Dividend paid on ordinary shares	37	(1,119)	–
Net cash flows used in financing activities		(1,061)	(5,472)
Net increase in cash and cash equivalents		7,771	6,627
Effect of exchange rate changes on cash and cash equivalents		(1,677)	(350)
Cash and cash equivalents at 1 January		29,060	22,783
Cash and cash equivalents at 31 December	25	35,154	29,060

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

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

1. Corporate information

InnoTek Limited (the "Company") is a limited liability company incorporated and domiciled in Singapore and is listed on the Singapore Exchange.

The registered office and principal place of business of the Company is located at 390 Orchard Road, #14-01 Palais Renaissance, Singapore 238871.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and joint venture are disclosed in Notes 4 and 17. There has been no significant change in the nature of these activities during the year.

2. Summary of significant accounting policies

2.1 Basis of preparation

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

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below. Certain items in the financial statements have been reclassified to conform to current year's presentation.

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

<u>Convergence with International Financial Reporting Standards</u>

For annual financial period beginning on or after 1 January 2018, Singapore-incorporated companies listed on the Singapore Exchange will apply Singapore Financial Reporting Standards (International) ("SFRS(I)"), a new financial reporting framework identical to International Financial Reporting Standards. The Group will adopt SFRS(I) on 1 January 2018.

The Group has performed an assessment of the impact of adopting SFRS(I). On transition to SFRS(I), the Group expects to elect the option to deem cumulative translation differences for foreign operations to be zero on 1 January 2017, and accordingly, the gain or loss that will be recognised on a subsequent disposal of the foreign operations will exclude cumulative translation differences that arose before 1 January 2017. The Group expects to reclassify an amount of $557,000 of foreign currency translation reserve to the opening retained earnings as at 1 January 2017.

Other than the effects of the matter as described above and the impact on adoption of SFRS(I) 15 and SFRS(I) 9, the Group expects that the adoption of SFRS(I) will have no material impact on the financial statements in the year of initial application. The Group expects the impact of adopting SFRS(I) 15 and SFRS(I) 9 will be similar to the impact on adoption of FRS 115 and FRS 109 as disclosed in Note 2.3.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that in the current financial year, the Group has adopted all the new and revised standards which are effective for annual financial periods beginning on or after 1 January 2017, including the Amendments to FRS 7 *Disclosure Initiative*. The adoption of these standards did not have any material effect on the financial performance or position of the Group and the Company.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (cont'd)

2.3 Standards issued but not yet effective

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

Description	*Effective for annual periods beginning on or after*
Amendments to FRS 102 *Classification and Measurement of Share-based Payment Transactions*	1 January 2018
Amendments to FRS 40 *Transfers of Investment Property*	1 January 2018
FRS 109 *Financial Instruments*	1 January 2018
FRS 115 *Revenue from Contracts with Customers*	1 January 2018
FRS 116 *Leases*	1 January 2019
Improvements to FRSs (December 2016)	
– Amendments to FRS 28 *Investments in Associates and Joint Ventures*	1 January 2018
INT FRS 122 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
INT FRS 123 *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to FRS 109 *Prepayment Features with Negative Compensation*	1 January 2019
Amendments to FRS 28 *Long-term Interests in Associates and Joint Ventures*	1 January 2019
Improvements to FRSs (March 2018)	
– Amendments to FRS 12 *Income Taxes*	1 January 2019
– Amendments to FRS 23 *Borrowing Costs*	1 January 2019
Amendments to FRS 110 and FRS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Date to be determined

As disclosed in Note 2.1, the Group will adopt SFRS(I) on 1 January 2018. Upon adoption of SFRS(I) on 1 January 2018, the SFRS(I) equivalent of the above standards that are effective on 1 January 2018 will be adopted at the same time.

Except for SFRS(I) 9, SFRS(I) 15 and SFRS(I) 16, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the year of initial application. The nature of the impending changes in accounting policy on adoption of SFRS(I) 9, SFRS(I) 15 and SFRS(I) 16 are described below.

<u>SFRS(I) 15 *Revenue from Contracts with Customers*</u>

SFRS(I) 15 establishes a five-step model to account for revenue arising from contracts with customers, and introduces new contract cost guidance. Under SFRS(I) 15, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard is effective for annual periods beginning on or after 1 January 2018.

The Group has performed a preliminary assessment of adopting SFRS(I) 15 based on currently available information. This assessment may be subject to changes arising from ongoing analysis until the Group adopts SFRS(I) 15 in 2018.

The Group plans to apply the changes in accounting policies retrospective to each reporting year presented, using the full retrospective approach. The Group also plans to apply the following practical expedients:

– For completed contracts, the Group plans not to restate completed contracts that begin and end within the same year or are completed contracts on 1 January 2017; and

– For completed contracts that have variable consideration, the Group plans to use the transaction price at the date the contract was completed instead of estimating variable consideration amounts in the comparative year.

The Group is in a business of manufacture and sale of moulds and precision metal stamping and assembly components. The Group expects the following impact upon adoption of SFRS(I) 15:

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (cont'd)

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

SFRS(I) 15 *Revenue from Contracts with Customers* (cont'd)

Manufacture and sale of moulds

The Group currently recognises revenue from the sale of moulds when significant risks and rewards of the moulds are transferred to the customer, which coincides with delivery of moulds to the customer. For certain contracts, where the customer requires the moulds revenue to be amortised over the quantity of stamping components delivered, revenue on such moulds is recognised when significant risks and rewards of the stamping components are transferred to the customer, which coincides with delivery of stamping components to the customer.

Under SFRS(I) 15, manufacture of moulds is considered a separate performance obligation and hence, the transaction price will be allocated between the manufacture of moulds and stamping components on a relative stand-alone selling price basis and recognised separately. Revenue from manufacture of moulds are satisfied at a point in time as the Group does not have enforceable right to payment for performance completed to-date. Accordingly, some of the revenue from manufacture of moulds, currently recognised over the quantity of stamping components delivered will be adjusted upon adoption of SFRS(I) 15 to recognise revenue when the customer obtains control of the moulds. The Group does not expect any significant impact to arise from this change.

SFRS(I) 9 *Financial Instruments*

SFRS(I) 9 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting, and is effective for annual periods beginning on or after 1 January 2018. 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 the SFRS(I) 1-39 incurred loss model.

The Group plans to adopt the new standard on the required effective date without restating prior periods' information and recognises any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period at the date of initial application in the opening retained earnings.

The Group has performed a preliminary impact assessment of adopting SFRS(I) 9 based on currently available information. This assessment may be subject to changes arising from ongoing analysis, until the Group adopts SFRS(I) 9 in 2018.

SFRS(I) 9 requires the Group and the Company to record expected credit losses on all its 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 receivables. The Group does not expect any significant impact to arise from the adoption of SFRS(I) 9.

SFRS(I) 16 *Leases*

SFRS(I) 16 requires lessees to recognise most leases on balance sheets to reflect the rights to use the leased assets and the associated obligations for lease payments as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemption for lessees – leases of 'low value' assets and short-term leases. The new standard is effective for annual periods beginning on or after 1 January 2019.

The Group has performed a preliminary impact assessment of the adoption of SFRS(I) 16 and expects that the adoption of SFRS(I) 16 will result in increase in total assets, total liabilities and gearing ratio.

The Group plans to adopt the new standard on the required effective date by applying SFRS(I) 16 retrospectively with the cumulative effective of initial application as an adjustment to the opening balance of retained earnings as at 1 January 2019.

The Group is currently in the process of analysing the transitional approaches and practical expedients to be elected on transition to SFRS(I) 16 and assessing the possible impact of adoption.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (cont'd)

2.4 Basis of consolidation

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

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

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

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

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

– derecognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when controls is lost;

– derecognises the carrying amount of any non-controlling interest;

– derecognises 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; and

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

2.5 Foreign currency

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

(a) Transactions and balances

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

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

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (cont'd)

2.5 Foreign currency (cont'd)

(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.

Exchange differences arising on monetary items that form part of the Group's net investment in foreign operations are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

2.6 Property, plant and equipment

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

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

Leasehold buildings	–	10 to 25 years
Machinery and equipment	–	5 to 10 years
Furniture, fittings and office equipment	–	3 to 10 years
Motor vehicles	–	5 years
Leasehold improvements	–	5 to 20 years

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

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

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

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

2.7 Investment properties

Investment properties are properties that are held to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services, or for administrative purposes, or in the ordinary course of business. Investment properties comprise completed investment properties. Properties held under operating leases are classified as investment properties when the definition of an investment property is met.

Investment properties are initially measured at cost, including transaction costs.

Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (cont'd)

2.8 Prepaid land lease payments

Prepaid land lease payments under operating leases are initially measured at cost. Following initial recognition, prepaid land lease payments are measured at cost less accumulated amortisation. The prepaid land lease payments are amortised on a straight-line basis over the lease terms of 47 to 49 years.

2.9 Intangible assets

Intangible assets acquired separately are measured initially at cost. Following initial acquisition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as finite.

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

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

Computer software

Computer software was acquired separately and is amortised on a straight-line basis over its finite useful lives of 5 years.

2.10 Impairment of non-financial assets

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

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

Impairment losses are recognised in profit or loss.

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

2.11 Subsidiaries

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

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

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (cont'd)

2.12 Joint arrangement

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

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

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

The Group recognises its interest in a joint venture as an investment and accounts for the investment using the equity method. The accounting policy for investment in joint venture is set out in Note 2.13.

2.13 Joint venture

The Group account for its investment in joint venture using the equity method from the date on which it becomes a joint venture.

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

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

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

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

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

Upon loss of joint control over the joint venture, the Group measures the retained interest at fair value. Any difference between the fair value of the aggregate of the retained interest 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.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (cont'd)

2.14 Financial instruments

(a) Financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group. Derivatives, including separated embedded derivatives are also classified as held for trading.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences. Interest income and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

(ii) 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.

Derecognition

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

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (cont'd)

2.14 Financial instruments (cont'd)

(b) Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

(ii) Financial liabilities at amortised cost

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 rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Derecognition

A financial liability is derecognised 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 derecognition 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.

2.15 Impairment of financial assets

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

(a) Financial assets carried at amortised cost

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

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (cont'd)

2.15 Impairment of financial assets (cont'd)

(a) Financial assets carried at amortised cost (cont'd)

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 had 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.

2.16 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.

2.17 Inventories

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

– Raw materials: purchase costs on a first-in first-out basis.

– Finished goods and work-in-progress: costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a first-in first-out basis.

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

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

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (cont'd)

2.18 Provisions

(a) General

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.

(b) Restructuring provision

Restructuring provisions are only recognised when general recognition criteria for provisions are fulfilled. Additionally, the Group needs to follow a detailed formal plan about the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs and appropriate time-line. The people affected have a valid expectation that the restructuring is being carried out or the implementation has been initiated already.

2.19 Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

2.20 Borrowing costs

All 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

(a) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the Company makes 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.

(b) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the reporting period is recognised for services rendered by employees up to the end of the reporting period.

(c) Termination benefit

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefits is recognised at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognises related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employment benefits, short-term employee benefits, or other long-term employee benefits.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (cont'd)

2.21 Employee benefits (cont'd)

(d) Employee share option plans

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

The employee share option reserve is transferred to retained earnings upon expiry of the share options.

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 rental income. The accounting policy for rental income is set out in Note 2.23(d). Contingent rents are recognised as revenue in the period in which they are earned.

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.

(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.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (cont'd)

2.23 Revenue (cont'd)

(b) Dividend income

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

(c) Interest income

Interest income is recognised using the effective interest method.

(d) Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis.

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. 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 interests in joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

2. Summary of significant accounting policies (cont'd)

2.24 Taxes (cont'd)

(b) Deferred tax (cont'd)

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to 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 are recognised in the profit or loss except that deferred tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or directly in equity.

(c) Sales tax

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

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

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

2.25 Share capital and share issue expenses

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

2.26 Treasury shares

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

2.27 Contingencies

A contingent liability is:

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

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

(i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) The amount of the obligation cannot be measured with sufficient reliability.

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

Contingent liabilities and assets are not recognised on the balance sheet of the Group.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

3. Significant accounting judgements and estimates

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

3.1 Judgement made in applying accounting policies

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

(a) Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property. The carrying amount of the Group's investment properties at the end of the reporting period is disclosed in Note 14.

(b) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the timing and level of future taxable profits together with future tax planning strategies. In determining the timing and level of future taxable profits together with future tax planning strategies, the Group assessed the probability of expected future cash inflows based on expected revenues from existing orders and contracts for the next three years.

Where taxable profits are expected in the foreseeable future, deferred tax assets are recognised for unused tax losses. The carrying amounts of the recognised tax losses and the unrecognised tax losses as at 31 December 2017 were nil (2016: $13,305,000) and $37,526,000 (2016: $37,045,000) respectively. If the Group was able to recognise all unrecognised deferred tax assets, profit would increase by $8,617,000 (2016: $8,343,000).

(c) Income taxes

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amounts of the Group's income tax payable, deferred tax assets and deferred tax liabilities as at 31 December 2017 were $5,552,000 (2016: $2,944,000), $861,000 (2016: $3,265,000) and $2,334,000 (2016 $2,214,000) respectively. The carrying amounts of the Company's income tax payable and deferred tax liabilities as at 31 December 2017 were $42,000 (2016: $1,000) and $430,000 (2016 $318,000) respectively.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

3. Significant accounting judgements and estimates (cont'd)

3.2 Key sources of estimates uncertainty

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

(a) Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a loan or receivable is impaired. Factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments are objective evidence of impairment. In determining whether there is objective evidence of impairment, the Group considers whether there is observable data indicating that there have been significant changes in the debtor's payment ability or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

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 and the Company's loans and receivables at the end of the reporting period is disclosed in Note 21.

(b) Useful lives and residual value of property, plant and equipment

The Group determines the residual values, useful lives and related depreciation charges for the Group's property, plant and equipment. These estimates are based on the historical experience of the actual residual values and useful lives of property, plant and equipment of similar nature and functions. They could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where residual values or useful lives are less than previously estimated, or it will write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could results in a change in depreciable lives and therefore depreciation in the future periods. The carrying amounts of the Group's and the Company's property, plant and equipment at the end of the reporting period is disclosed in Note 13.

(c) Employee share options

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 30.

(d) Fair value of investment properties

Investment property is measured at its fair value. The fair value was based on a valuation on the property conducted by an independent firm of professional valuers using property valuation techniques which involve making assumptions on certain market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties, and the corresponding adjustments to the gain or loss recognised in profit or loss. The carrying amount of the investment properties at the end of the reporting period is disclosed in Note 14.

Further details including the key assumptions used for fair value measurement are given in Note 33.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

3. Significant accounting judgements and estimates (cont'd)

3.2 Key sources of estimates uncertainty (cont'd)

(e) Impairment of property, plant and equipment

The carrying amounts of items of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable. The recoverable amount of an item of property, plant and equipment is the higher of its fair value less costs of disposal and value in use, the calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the assets and discount rates are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

There has been no impairment loss recognised for the financial years ended 31 December 2017 and 2016. The carrying amount of the property, plant and equipment at the end of the reporting period is disclosed in Note 13.

(f) Inventory obsolescence

Management reviews the condition of inventories and makes allowance against obsolete and slow moving inventory items and end-of-life products which are identified as no longer suitable for sale or use. This review involves comparison of the carrying value of the inventory items with the respective net realisable value. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The carrying amount of the Group's allowance for inventory obsolescence as at 31 December 2017 was $780,000 (2016: $956,000).

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

4. Investment in subsidiary

	Company 2017 $'000	Company 2016 $'000
Equity shares, at cost	47,061	47,061

Name	Principal place of business	Principal activities	Proportion of ownership interest 2017 %	Proportion of ownership interest 2016 %
Mansfield Manufacturing Company Limited ("Mansfiled") [(1)]	Hong Kong	Metal stamping and sub-assembly of stamped components, tooling and die making	100	100
Held through subsidiaries			100	100
Go Smart Development Limited [(7)]	Hong Kong	Dormant	100	100
Lens Tool & Die (H.K.) Limited [(1)]	Hong Kong	Investment holding	100	100
Magix Mechatronics Company Limited [(1)]	Hong Kong	Sale of assembly components	100	100
Feng Chuan Tooling Company Limited [(1)]	Hong Kong	Sale of precision tools and dies	100	100
Feng Chuan Tooling (Dongguan) Company Limited [(2)(5)]	People's Republic of China	Manufacturing of precision tools and dies	100	100
Mansfield (Suzhou) Manufacturing Company Limited [(2)]	People's Republic of China	Metal stamping, tooling and die making	100	100
Magix Mechatronics (Dongguan) Company Limited [(2)]	People's Republic of China	Assembly of components	100	100
Sun Mansfield Manufacturing (Dongguan) Company Limited [(2)]	People's Republic of China	Metal stamping, tooling and die making	100	100
Mansfield Manufacturing (Wuhan) Company Limited [(2)]	People's Republic of China	Metal stamping	100	100
Mansfield Technology (Taiwan) Company Limited [(4)]	Taiwan	Sale of stamped components, precision tools and dies	100	100
Mansfield (Thailand) Co. Ltd. [(3)(6)]	Thailand	Metal stamping , tooling, and plastic injection	100	100
Mansfield Technology (Weihai) Co. Ltd. [(3)(6)]	People's Republic of China	Research and development, metal stamping tooling, assembly	100	100

* 50% of equity interests are held by Mansfield Manufacturing Company Limited and the remaining 50% of equity interests are held by Mansfield (Suzhou) Manufacturing Company Limited.

(1) Audited by member firms of Ernst & Young Global in the respective countries.
(2) Audited by member firms of Ernst & Young Global in the respective countries for group reporting purpose.
(3) Audited by Ernst & Young LLP for the purpose of group audit.
(4) Not required to be audited by the law in the country of incorporation.
(5) Transferred from Feng Chuan Tooling Company Limited to Sun Mansfield Manufacturing (Dongguan) Company Limited in 2017.
(6) Incorporated during the financial year ended 31 December 2017.
(7) In the process of deregistration.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

5. Revenue

Revenue represents the aggregate of net invoiced value of goods sold, after allowances for goods returned and trade discounts, and excludes intra-group transactions.

6. Interest income

	Group	
	2017	**2016**
	$'000	$'000
Interest income from bonds and banks	567	414

7. Other income

		Group	
	Note	**2017**	**2016**
		$'000	$'000
Rental income		2,213	1,459
Sample recharge		53	55
Dividend income from other investments		172	139
Net gain on disposal of property, plant and equipment		–	205
Net fair value gain on other investments		–	61
Net fair value gain on investment properties		346	–
Net gain on derivatives		282	–
Net foreign exchange gain		–	348
Reversal of impairment loss on property, plant and equipment	13	1,253	–
Government grants*		315	176
Net write-back for doubtful debts	21	273	–
Others		445	648
		5,352	3,091

* Government grants represent the incentive subsidies received from local district authorities in the People's Republic of China (the "PRC") for the business activities carried out by the Group in that district. There are no specific conditions attached to the grant.

8. Finance costs

	Group	
	2017	**2016**
	$'000	$'000
Interest expense on bank loans and borrowings	1	89

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

9. Other expenses

	Note	Group 2017 $'000	Group 2016 $'000
Net loss on derivatives		–	163
Net allowance for doubtful debts	21	–	169
Net fair value loss on investment properties		–	521
Net foreign exchange loss		1,700	–
Net fair value loss on other investments		416	–
Net loss on disposal of property, plant and equipment		130	–
Others		–	6
		2,246	859

10. Profit before tax

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

	Note	Group 2017 $'000	Group 2016 $'000
Audit fees:			
- Auditor of the Company		119	90
- Other auditors		362	362
Non-audit fees:			
- Auditor of the Company		23	18
- Other auditors		102	44
Inventories recognised as an expense in cost of sales	20	86,416	82,855
Depreciation of property, plant and equipment	13	4,840	5,785
Amortisation of intangible assets	16	89	229
Amortisation of prepaid land lease payments	15	69	89
Net loss on disposal of other investments		37	5
Employee benefit expense (including directors):			
Salaries and bonuses		46,787	53,190
Contributions to defined contribution plans		2,967	2,413
Long-term benefits	26	(51)	7
Termination benefits		–	115
Share-based payments (Employee share option plans)		347	221
Operating lease expense	32(c)	5,626	6,352

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

11. Income tax expense

Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2017 and 2016 are:

	Group	
	2017	**2016**
	$'000	$'000
Consolidated income statement		
Current income tax:		
Current income taxation	3,842	1,976
Under/(over) provision in respect of previous years	4	(26)
	3,846	1,950
Deferred income tax:		
Origination and reversal of temporary differences	1,087	280
Under provision in respect of previous years	1,029	–
	2,116	280
Income tax expense recognised in profit or loss	5,962	2,230

Relationship between income tax expense and accounting profit

A reconciliation between the income tax expense and the product of accounting profit multiplied by the applicable tax rate for the years ended 31 December 2017 and 2016 are as follows:

	Group	
	2017	**2016**
	$'000	$'000
Profit before tax	15,794	13,799
Tax at the domestic rates applicable to profits in the countries where the Group operates	4,003	3,986
Adjustments:		
Income not subject to taxation	(1,044)	(1,642)
Non-deductible expenses	2,368	2,219
Deferred tax assets not recognised	16	618
Benefits from previously unrecognised tax losses	(83)	(2,929)
Effect of tax exemption, tax rebates and tax incentive	(348)	–
Under/(over) provision in respect of previous years	1,033	(26)
Others	17	4
Income tax expense recognised in profit or loss	5,962	2,230

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

11. Income tax expense (cont'd)

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

For the financial year ended 31 December 2017, the corporate income tax rate applicable to the Company is 17% (2016: 17%). For the subsidiaries operating in Hong Kong and the PRC, income taxes are calculated using domestic tax rates of 16.5% (2016: 16.5%) and 25% (2016: 25%) respectively.

12. Earnings per share

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

Diluted earnings per share are 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 plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following table reflects the profit and loss data used in the computation of the basic and diluted earnings per share for the years ended 31 December 2017 and 2016:

	Group	
	2017	**2016**
	$'000	$'000
Profit for the year attributable to owners of the Company used in the computation of basic earnings per share	9,832	11,569

	Group	
	2017	**2016**
	No. of shares	**No. of shares**
	$'000	$'000
Weighted average number of ordinary shares for basic earnings per share computation	224,006	223,835
Effects of dilution:		
– Share options	1,910	218
Weighted average number of ordinary shares for diluted earnings per share computation *	225,916	224,053

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

Since the end of the financial year, no employees have exercised the option to acquire any ordinary shares. There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

13. Property, plant and equipment

Group	Note	Leasehold buildings	Machinery and equipment	Furniture fittings, and office equipment	Motor vehicles	Leasehold improvements	Construction in-progress	Total
		$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost								
At 1 January 2016		30,770	115,948	6,526	669	33,316	630	187,859
Additions		–	741	32	157	953	–	1,883
Reclassifications		–	368	–	–	–	(368)	–
Disposals		–	(2,307)	(133)	(184)	(8)	(129)	(2,761)
Exchange differences		(1,357)	(1,362)	(60)	6	(545)	(73)	(3,391)
At 31 December 2016 and 1 January 2017		29,413	113,388	6,365	648	33,716	60	183,590
Additions		–	1,469	231	36	504	739	2,979
Disposals		–	(975)	(260)	(44)	(1,592)	–	(2,871)
Revaluation surplus		1,252	–	–	–	–	–	1,252
Transfer to investment properties	14	(9,775)	–	–	–	–	–	(9,775)
Exchange differences		(557)	(6,144)	(334)	(28)	(1,506)	–	(8,569)
At 31 December 2017		20,333	107,738	6,002	612	31,122	799	166,606

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

13. Property, plant and equipment (cont'd)

Group	Note	Leasehold buildings $'000	Machinery and equipment $'000	Furniture fittings, and office equipment $'000	Motor vehicles $'000	Leasehold improvements $'000	Construction in-progress $'000	Total $'000
Accumulated depreciation and impairment loss								
At 1 January 2016		8,807	99,140	6,156	580	30,690	227	145,600
Depreciation charge for the year		1,029	3,980	171	63	542	–	5,785
Disposals		–	(2,146)	(133)	(164)	(8)	(167)	(2,618)
Exchange differences		(391)	(764)	(45)	4	(448)	–	(1,644)
At 31 December 2016 and 1 January 2017		9,445	100,210	6,149	483	30,776	60	147,123
Depreciation charge for the year		868	3,161	128	44	639	–	4,840
Disposals		–	(893)	(260)	(41)	(1,402)	–	(2,596)
Reversal of impairment loss on revaluation		(1,253)	–	–	–	–	–	(1,253)
Transfer to investment properties	14	(1,310)	–	–	–	–	–	(1,310)
Exchange differences		(163)	(5,965)	(334)	(27)	(1,454)	(60)	(8,003)
At 31 December 2017		7,587	96,513	5,683	459	28,559	–	138,801
Net carrying amount								
At 31 December 2016		19,968	13,178	216	165	2,940	–	36,467
At 31 December 2017		12,746	11,225	319	153	2,563	799	27,805

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

13. Property, plant and equipment (cont'd)

Company	**Leasehold improvements** $'000	**Furniture, fittings and office equipment** $'000	**Total** $'000
Cost			
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	20	9	29
Accumulated depreciation			
At 1 January 2016	6	3	9
Depreciation charge for the year	6	4	10
At 31 December 2016 and 1 January 2017	12	7	19
Depreciation charge for the year	7	2	9
At 31 December 2017	19	9	28
Net carrying amount			
At 31 December 2016	8	2	10
At 31 December 2017	1	–	1

Asset held under finance lease

During the financial year ended 31 December 2016, the Group acquired motor vehicle with an aggregate cost of $111,000 by means of finance leases. The cash outflow on acquisition of motor vehicle amounted to $18,000.

The carrying amount of motor vehicles held under finance leases at the end of the reporting period was $71,000 (2016: $91,000).

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

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

14. Investment properties

	Note	Group 2017 $'000	Group 2016 $'000
Balance sheet			
At 1 January		16,919	18,243
Transfer from prepaid land lease payments	15	1,380	–
Transfer from property, plant and equipment	13	8,465	–
Net gain/(loss) from fair value adjustments recognised in profit or loss		346	(521)
Exchange differences		(132)	(803)
At 31 December		26,978	16,919
Consolidated income statement			
Rental income from investment properties – Minimum lease payments		2,126	1,267
Direct operating expenses arising from rental generating properties		815	362

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance or enhancements.

Transfer to investment properties

During the financial year, a subsidiary of the Group within the precision components and tooling segment, Mansfield (Suzhou) Manufacturing Company Limited transferred two units of leasehold land and buildings that were held as owner-occupied properties to investment properties. The leases of the buildings have commenced on the dates of transfer.

The Group engaged BMI Appraisals Limited, an independent valuer to determine the fair value of the leasehold land and buildings on the dates of transferring leasehold land and buildings to investment properties. A reversal of impairment loss of $1,253,000 (2016: Nil), representing difference between fair value of the leasehold land and buildings and the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously, was recognised in "Other income" line item in profit or loss (Note 7).

Valuation of investment properties

Investment properties are stated at fair value, which has been determined based on valuations performed as at 31 December 2017 and 2016. The valuations were performed by BMI Appraisals Limited, an independent valuer with a recognised and relevant professional qualification and with recent experience in the location and category of the properties being valued. Details of valuation techniques and inputs used are disclosed in Note 33.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

14. Investment properties (cont'd)

The investment properties held by the Group as at 31 December are as follows:

Description and location	Existing use	Tenure	Unexpired lease term
Industrial complex located in Hedong Industrial Zone, Xiang Xin East Road, Yiantian Village, Fenggang Town, Dongguan City, Guangdong Province, The PRC	Factory	Leasehold	41 years
Industrial complex located in Jin Wang Road, Suzhou National New & Hi-Tech, Industrial Development Zone, Suzhou City, Jiangsu Province, The PRC	Factory	Leasehold	41 years

15. Prepaid land lease payments

		Group	
	Note	**2017**	**2016**
		$'000	$'000
Cost			
At 1 January		4,082	4,270
Transfer to investment properties	14	(1,662)	–
Exchange differences		(84)	(188)
At 31 December		2,336	4,082
Accumulated amortisation and impairment loss			
At 1 January		610	546
Amortisation for the year		69	89
Transfer to investment properties	14	(282)	–
Exchange differences		(12)	(25)
At 31 December		385	610
Net carrying amount		1,951	3,472
Amount to be amortised:			
– Not later than one year	22	87	89
– Later than one year but not later than five years		349	353
– Later than five years		1,515	3,030
		1,951	3,472

The Group has land use rights over three (2016: three) separate plots of state-owned land in the PRC where the Group's PRC manufacturing facilities reside. The land use rights are transferable and have remaining tenures ranging from 39 to 41 (2016: 40 to 42) years.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

16. Intangible assets

	Group Computer software $'000	Company Computer software $'000
Cost		
At 1 January 2016	2,693	27
Additions	15	15
Exchange differences	(46)	–
At 31 December 2016 and 1 January 2017	2,662	42
Additions	67	–
Exchange differences	(114)	–
At 31 December 2017	2,615	42
Accumulated amortisation		
At 1 January 2016	2,323	2
Amortisation	229	14
Exchange differences	(34)	–
At 31 December 2016 and 1 January 2017	2,518	16
Amortisation	89	14
Exchange differences	(112)	–
At 31 December 2017	2,495	30
Net carrying amount		
At 31 December 2016	144	26
At 31 December 2017	120	12

Amortisation expense

Amortisation of computer software is included in the “Administrative expenses” line item in profit or loss.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

17. Investment in joint venture

The Group has the following investment in joint venture:

Name	Country of incorporation	Principal activities	Proportion of ownership interest 2017 %	2016 %
Held through a subsidiary				
Anhui KM Technology Company Limited ("Anhui KM") [(1)]	People's Republic of China	Research and development, manufacturing and sale of precision metal parts, hardware fittings and metal assembly	49	49

[(1)] Audited by CAC CPA Limited Liability Partnership

The Group jointly controls the venture with other partner under the contractual agreement and requires unanimous consent for all major decisions over the relevant activities.

Summarised financial information in respect of Anhui KM based on its FRS financial statements and reconciliation with the carrying amount of the investment in the consolidated financial statements are as follows:

	Group 2017 $'000	Group 2016 $'000
Summarised balance sheet		
Cash and cash equivalents	266	188
Other current assets	6,514	4,206
Total current assets	6,780	4,394
Non-current assets	3,109	1,641
Total assets	9,889	6,035
Current liabilities (excluding trade and other payables and provisions)	(37)	(2,067)
Other current liabilities	(5,719)	(1)
Current liabilities, representing total liabilities	(5,756)	(2,068)
Net assets	4,133	3,967
Proportion of the Group's ownership	49%	49%
Group's share of net assets	2,025	1,944
Other adjustments	(394)	(423)
Carrying amount of the investment	1,631	1,521

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

17. Investment in joint venture (cont'd)

	Group	
	2017	**2016**
	$'000	$'000
Summarised statement of comprehensive income		
Revenue	9,018	7,124
Depreciation and amortisation	(307)	(194)
Other operating expenses	(8,392)	(6,794)
Interest income	11	16
Interest expense	(5)	(12)
Profit before tax	325	140
Income tax expense	(85)	(11)
Profit for the year, representing total comprehensive income for the year	240	129
Proportion of the Group's ownership	49%	49%
Share of results of joint venture	118	63

18. Other investments

	Group and Company	
	2017	**2016**
	$'000	$'000
Held for trading investments		
Equity securities (quoted)	4,817	4,431
Debt securities (quoted)	9,979	10,901
	14,796	15,332

Other investments are quoted equity securities and bonds and their fair values are determined using the last transacted bid prices on the stock exchange or in active markets at the end of the reporting period.

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

	Group and Company	
	2017	**2016**
	$'000	$'000
United States Dollar	8,125	7,732
Euro	1,164	841
Hong Kong Dollar	477	155
Japanese Yen	169	169

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

19. Deferred tax

Deferred tax as at 31 December relates to the following:

Group	Note	Balance sheet Unutilised tax losses	Provisions	Depreciation in excess of related capital allowances	Total
		$'000	$'000	$'000	$'000
Deferred tax assets					
At 1 January 2016		926	2,020	613	3,559
Credited/(charged) to profit or loss during the year	11	1,216	(1,123)	(459)	(366)
Exchange differences		56	13	3	72
At 31 December 2016 and 1 January 2017		2,198	910	157	3,265
(Charged)/credited to profit or loss during the year	11	(1,825)	4	(148)	(1,969)
Exchange differences		(373)	(53)	(9)	(435)
At 31 December 2017		–	861	–	861

Group	Note	Balance sheet Foreign income not remitted	Fair value adjustments on investment properties	Capital allowances in excess of related depreciation	Total
		$'000	$'000	$'000	$'000
Deferred tax liabilities					
At 1 January 2016		(241)	(1,904)	(114)	(2,259)
(Charged)/credited to profit or loss during the year	11	(77)	49	114	86
Exchange exchanges		–	(41)	–	(41)
At 31 December 2016 and 1 January 2017		(318)	(1,896)	–	(2,214)
Charged to profit or loss during the year	11	(112)	(35)	–	(147)
Exchange differences		–	27	–	27
At 31 December 2017		(430)	(1,904)	–	(2,334)

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

19. Deferred tax (cont'd)

	Balance sheet	
	2017	**2016**
Company	$'000	$'000
Deferred tax liabilities		
Foreign income not remitted	430	318

Unrecognised temporary differences relating to investment in subsidiaries and joint venture

At the end of the reporting period, no deferred tax liability (2016: Nil) has been recognised for taxes that would be payable on the undistributed earnings of the Group's subsidiaries and joint venture as:

– The Group has determined that undistributed earnings of its subsidiaries will not be distributed in the foreseeable future; and

– The joint venture of the Group cannot distribute its earnings until it obtains the consent of both the venturers. At the end of the reporting period, the Group does not foresee giving such consent.

Such temporary differences for which no deferred tax liability has been recognised aggregate to $9,662,000 (2016: $3,552,000).

Unrecognised deferred tax assets

At the end of reporting period, the Group has tax losses of approximately $37,526,000 (2016: $37,045,000), that are available for offset against future taxable profits of the companies in which the losses arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement with the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the Group operates. The tax losses arising from the PRC subsidiaries will expire in one to five years.

Tax consequences of proposed dividends

There are no income tax consequences (2016: Nil) attached to the dividends to the shareholders proposed by the Company but not recognised as a liability in the financial statements (Note 37).

20. Inventories

	Group	
	2017	**2016**
	$'000	$'000
Balance sheet		
Raw materials (at cost)	5,186	3,993
Work-in-progress (at cost)	7,657	7,483
Finished goods (at cost or net realisable value)	12,128	12,283
	24,971	23,759
Consolidated income statement		
Inventories recognised as an expense in cost of sales		
Inclusive of the following charge/(credit):	86,416	82,855
– Allowance for inventory obsolescence	493	–
– Write-back of allowance for inventory obsolescence	(209)	(158)

The write back of allowance for inventory obsolescence was made when the related inventories were sold above their carrying amounts in 2017.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

21. Trade and other receivables

	Note	Group		Company	
		2017	**2016**	**2017**	**2016**
		$'000	$'000	$'000	$'000
Trade and other receivables (current)					
Trade receivables		64,437	62,203	–	–
Amount due from a subsidiary		–	–	4,229	3,273
Other debtors		1,285	382	4	11
Refundable deposits		3,561	974	37	26
		69,283	63,559	4,270	3,310
Other receivables (non-current)					
Refundable deposits		1,433	1,431	–	–
Total trade and other receivables (current and non-current)		70,716	64,990	4,270	3,310
Add: Loan to subsidiary	23	–	–	23,552	25,702
Add: Cash and bank balances	25	35,784	30,090	2,458	4,576
Less: Sales tax receivables		(82)	(18)	(4)	(11)
Total loans and receivables		106,418	95,062	30,276	33,577

Trade receivables

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

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

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	$'000	$'000	$'000
United States Dollar	16,167	17,585	966	1,045
Euro	625	515	–	–
Hong Kong Dollar	–	–	1,527	533

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

21. Trade and other receivables (cont'd)

Amount due from a subsidiary

Amount due from a subsidiary is non-trade related, unsecured, non-interest bearing, repayable upon demand and is to be settled in cash.

Receivables that are past due but not impaired

The Group has trade receivables amounting to $15,056,000 (2016: $6,356,000) that are past due at the end of the reporting period but not impaired. These receivables are unsecured and the analysis of their ageing at the end of the reporting period is as follows:

	Group	
	2017	**2016**
	$'000	$'000
Trade receivables past due but not impaired		
Less than 30 days	11,362	3,881
30 to 60 days	1,619	1,356
61 to 90 days	1,195	257
91 to 120 days	540	380
More than 120 days	340	482
	15,056	6,356

Receivables that are impaired

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

	Group Individually impaired	
	2017	**2016**
	$'000	$'000
Trade receivables – Nominal amounts	949	1,356
Less: Allowance for impairment	(949)	(1,356)
	–	–
Movement in allowance accounts		
At 1 January	(1,356)	(1,603)
Net reversal/(charge) for the year	273	(169)
Written off	68	414
Exchange differences	66	2
At 31 December	(949)	(1,356)

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

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

22. Prepayments

	Note	Group 2017 $'000	Group 2016 $'000	Company 2017 $'000	Company 2016 $'000
Prepaid land lease payments	15	87	89	–	–
Other prepayments		458	732	55	66
		545	821	55	66

23. Loan to a subsidiary

Loan to a subsidiary is unsecured, bears interest ranging from 4.31% to 4.56% (2016: 2.23% to 4.1%) per annum, repayable upon demand and is to be settled in cash. The loan is denominated in Hong Kong Dollar and is not expected to be repaid within the next 12 months.

24. Derivatives

Group and Company	Note	Contract/ notional amount $'000	Assets $'000	Liabilities $'000
2017				
Total derivatives				
Forward currency contracts		9,194	112	–
Add: Held for trading investments	18		14,796	–
Total financial assets at fair value through profit or loss			14,908	–
2016				
Total derivatives				
Forward currency contracts		8,324	20	(190)
Add: Held for trading investments	18		15,332	–
Total financial assets/(liabilities) at fair value through profit or loss			15,352	(190)

Forward currency contracts are used to hedge foreign currency risk arising from the Group's investment in equity securities and denominated in United States Dollar, Euro and Japanese Yen.

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For the financial year ended 31 December 2017

25. Cash and bank balances

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	$'000	$'000	$'000
Cash at banks and on hand	34,154	25,849	828	335
Cash at bank under portfolio investment management	630	1,030	630	1,030
Short-term deposits	1,000	3,211	1,000	3,211
Cash and short-term deposits	35,784	30,090	2,458	4,576
Less: Bank balance under portfolio investment management	(630)	(1,030)	(630)	(1,030)
Cash and cash equivalents per cash flow statement	35,154	29,060	1,828	3,546

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one month and three months depending on the immediate cash requirements of the Group and the Company, and earn interest at the respective short-term deposit rates. The weighted average effective interest rate for the Group and the Company was 1.0% (2016: 0.3%) per annum respectively.

Bank balance under investment portfolio account is used for investment activities.

Cash and short-term deposits denominated in foreign currencies at 31 December are as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	$'000	$'000	$'000
United States Dollar	8,848	16,385	49	3,249
Euro	480	1,106	80	114

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26. Provisions

	Group		
	Provision for long service payment	**Provision for Indemnity**	**Total**
	$'000	$'000	$'000
At 1 January 2017	699	129	828
Unused amounts reversed	(51)	–	(51)
Exchange differences	(25)	(11)	(36)
At 31 December 2017	623	118	741
2016			
Current	6	129	135
Non-current	693	–	693
	699	129	828
2017			
Current	62	118	180
Non-current	561	–	561
	623	118	741

Long service payment

In December 2009, the Group introduced a long service payment plan ("LSP") in certain of its subsidiaries. The amount of the provision for LSP is estimated based on the resignation rates of employees of different grades. The estimation basis is reviewed on an ongoing basis and revised where appropriate. The Group has ceased the scheme for employees who joined from 1 October 2011 onwards. The provision for LSP is recognised for existing employees who joined prior to 1 October 2011.

Indemnity

The Group has made a provision of indemnity for exposure of certain inventories and receivable of major customer under Option Agreement upon disposal of Exerion group on 20 February 2012. This is expected to be concluded in 2018.

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For the financial year ended 31 December 2017

27. Trade and other payables

		Group		Company	
	Note	2017	2016	2017	2016
		$'000	$'000	$'000	$'000
Trade and other payables					
Trade payables		43,529	43,073	–	–
Other payables		5,212	6,242	190	176
Accrued operating expenses		15,150	16,083	470	507
Advance payment from customers		2,245	874	–	–
Total trade and other payables		66,136	66,272	660	683
Add: Finance lease liabilities	32(e)	50	73	–	–
Less: Advance payment from customers		(2,245)	(874)	–	–
Less: Accrued employee benefits and other taxes payable		(11,567)	(13,326)	(337)	(399)
Total financial liabilities carried at amortised cost		52,374	52,145	323	284

Trade payables and other payables

These amounts are non-interest bearing and are normally settled on 30 to 120 day terms.

Trade and other payables denominated in foreign currencies at 31 December is as follows:

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
United States Dollar	5,324	7,514	–	–
Euro	–	18	–	–

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

28. Share capital and treasury shares

(a) Share capital

	Group and Company			
	2017		2016	
	No. of shares		No. of shares	
	'000	$'000	'000	$'000
Issued and fully paid ordinary shares				
At 1 January and 31 December	246,656	98,021	246,656	98,021

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

The Group has an employee share option plan (Note 30) under which options to subscribe for the Company's ordinary shares have been granted to employees of the Group.

(b) Treasury shares

	Group and Company			
	2017		2016	
	No. of shares		No. of shares	
	'000	$'000	'000	$'000
At 1 January	22,821	13,164	22,821	13,164
Reissued pursuant to employee share option plans:				
– For cash on exercise of employee share options	(290)	(81)	–	–
– Transferred from employee share option reserve	–	(17)	–	–
– Loss transferred to gain or loss on reissuance of treasury shares	–	(69)	–	–
	(290)	(167)	–	–
At 31 December	22,531	12,997	22,821	13,164

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

The Company reissued 290,000 (2016: Nil) treasury shares pursuant to its employee share option plan at a weighted average exercise price of $0.28 (2016: Nil) each.

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For the financial year ended 31 December 2017

29. Other reserves

		Group		Company	
		2017	**2016**	**2017**	**2016**
		$'000	$'000	$'000	$'000
Asset revaluation reserve	(a)	1,252	–	–	–
Foreign currency translation reserve	(b)	(1,838)	(557)	–	–
Statutory reserve fund	(c)	1,078	–	–	–
Gain or loss on reissuance of treasury shares	(d)	(69)	–	(69)	–
Employee share option reserve	(e)	599	269	599	269
		1,022	(288)	530	269

(a) Asset revaluation reserve

The asset revaluation reserve represents increases in the fair value of leasehold buildings, net of tax.

(b) Foreign currency translation reserve

The foreign currency translation reserve represents exchange difference arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

(c) Statutory reserve fund

In accordance with the Foreign Enterprise Law applicable to the subsidiaries in the People's Republic of China, such subsidiaries are required to make appropriation to a Statutory Reserve Fund ("SRF"). At least 10% of the statutory profits after tax 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.

(d) Gain or loss on reissuance of treasury shares

This represents the gain or loss arising from purchase, sale, issue or cancellation of treasury shares. No dividend may be paid, and no other distribution (whether in cash or otherwise) of the Company's assets (including any distribution of assets to members on a winding up) may be made in respect of this reserve.

(e) Employee share option reserve

Employee share option reserve represents the equity-settled share options granted to employees (Note 30). The reserve is made up of the cumulative value of services received from employees recorded over the vesting period commencing from the grant date of equity-settled share options, and is reduced by the expiry or exercise of the share options.

30. Employee share option plans

(a) InnoTek Employees' Share Option Plan (the "Plan") was approved by the shareholders of the Company at an Extraordinary General Meeting held on 18 September 2000. The principal terms of the Plan were set out in the Circular to Shareholders dated 2 September 2000. The plan expired in 2006 and was succeeded by InnoTek Employees' Share Option Scheme II.

(b) InnoTek Employees' Share Option Scheme II ("Scheme II") was approved by shareholders at the Annual General Meeting on 30 April 2008. Scheme II expired on 9 March 2014 and options granted under the Scheme II remain exercisable until the end of the relevant Option Period.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

30. Employee share option plans (cont'd)

(c) InnoTek Employees' Share Option Scheme 2014 ("Scheme 2014") was approved by shareholders at the Extraordinary General Meeting on 28 April 2014. Scheme 2014 succeeded Scheme II which expired in 2014.

The options granted under "Scheme 2014" with the exercise price set at the Market Price (a price equal to the average of the last dealt prices for the Shares on the Singapore Exchange over the 5 consecutive Market Days immediately preceding the Date of Grant of an Option) shall be vested after the first anniversary of the Date of Grant whereas Options granted with the exercise price set at a discount to the Market Price shall only be exercisable after the second anniversary of the Date of Grant of such Option.

The option granted has a life span of 5 years from the Date of Grant and any option not exercisable on the date on which an option Holder ceased to be employed by the Group shall immediately lapse and become null and void on such date. There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these share options.

All employees share option plans are administered by the Remuneration Committee which approves the dates of grant after the announcement of the half year and full year results of the Group. The bulk of the options allocated for grant each year are given out after announcement of the full year results. The second grant in the year is mainly given to eligible employees who join the Group during the year and who were left out in the earlier grant.

The unissued ordinary shares of the Company under the plans as at 31 December 2017 can be found under the Section "Options" of the Directors' Statement.

<u>Movement of share options during the financial year</u>

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

	2017		**2016**	
	No. of share options	**WAEP ($)**	**No. of share options**	**WAEP ($)**
Outstanding at 1 January	4,470,000	0.20	1,510,000	0.28
– Granted	3,000,000	0.35	3,500,000	0.17
– Forfeited	–	–	(540,000)	0.28
– Exercised [2]	(290,000)	0.28	–	–
Outstanding at 31 December [1]	7,180,000	0.27	4,470,000	0.20
Exercisable at 31 December	4,180,000	0.19	970,000	0.28

(1) The range of exercise price for options outstanding at the end of the year was $0.156 to $0.350 (2016: $0.156 to $0.185). The weighted average remaining contractual life for these options is 3.4 years (2016: 3.5 years).

(2) The weighted average share price at the date of exercise of the options exercised during the financial year was $0.40 (2016: Nil).

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

30. Employee share option plans (cont'd)

Fair value of share options granted

The fair value of the share options granted under the Scheme II and Scheme 2014 is estimated at the grant date using the Trinomial Option Pricing Model, taking into account the terms and conditions upon which the share options were granted.

The following tables list the inputs to the option pricing models for the financial years ended 31 December 2017 and 2016:

Scheme 2014	
2,000,000 options granted on 19 January 2016	
Dividend yield ($/year)	–
Expected volatility (%)	55.8
Risk-free rate (% per annum)	1.1
Expected life of option (years)	3.0
Share price ($)	0.195
Fair value of options granted ($)	0.078

Scheme 2014	
1,500,000 options granted on 6 June 2016	
Dividend yield ($/year)	–
Expected volatility (%)	61.1
Risk-free rate (% per annum)	0.89
Expected life of option (years)	3.0
Share price ($)	0.159
Fair value of options granted ($)	0.066

Scheme 2014	
3,000,000 options granted on 9 March 2017	
Dividend yield ($/year)	0.005
Expected volatility (%)	53.4
Risk-free rate (% per annum)	1.71
Expected life of option (years)	3.0
Share price ($)	0.350
Fair value of options granted ($)	0.122

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

31. Related party transactions

(a) Sales and purchases of goods and services

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

	Group	
	2017	**2016**
	$'000	$'000
Sales of finished goods to:		
– Joint venture	1,040	1,072
– Companies related to a director	251	285
Purchase of goods from:		
– Joint venture	(22)	–
– Companies related to a director	(49)	(184)
Loan to a joint venture	603	–
Sales of property, plant and equipment to a joint venture	14	55
Purchase of services from companies related to a director	(708)	(333)

(b) Compensation of key management personnel

	Group	
	2017	**2016**
	$'000	$'000
Short-term employee benefits	4,414	3,465
Contributions to defined contribution plans	52	44
Share-based payments	347	221
	4,813	3,730
Comprise amounts paid/payable to:		
– Directors of the Company	1,100	1,004
– Other key management personnel	3,713	2,726
	4,813	3,730

The remuneration of key management personnel are determined by the Remuneration Committee having regard to the performance of individuals and market trends.

Interest of key management personnel in employee share option plan

In 2016, 3,500,000 share options were granted to the key management personnel under the Scheme 2014 at an average price of $0.17 each, exercisable between 19 January 2017 and 6 June 2021.

In 2017, 3,000,000 share options were granted to the key management personnel under the Scheme 2014 at an average price of $0.35 each, exercisable between 10 March 2018 and 9 March 2022.

At the end of the reporting period, the total number of outstanding share options granted by the Company to key management personnel under the Scheme 2014 amount to 6,780,000 (2016: 3,980,000).

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

32. Commitments and contingencies

(a) Capital commitments

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

	Group	
	2017	**2016**
	$'000	$'000
Capital commitments in respect of property, plant and equipment	5,275	915

(b) Contingent liabilities

At the end of the reporting, no corporate guarantees were issued in favour of certain financial institutions for banking facilities extended to the subsidiaries of the Group.

(c) Operating lease commitments – As lessee

In addition to the land use rights disclosed in Note 15, the Group and the Company entered into commercial leases on certain properties and motor vehicles. These leases have tenures range from one to five years (2016: One to five years) with no renewal option or escalation clauses included in the contracts. The Group is not restricted from subleasing the leased assets to third parties.

Minimum lease payments, including land lease payments recognised as an expense in profit or loss for the financial year ended 31 December 2017 amounted to $5,626,000 (2016: $6,352,000).

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

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	$'000	$'000	$'000
Not later than one year	6,183	6,190	57	102
Later than one year but not later than five years	7,151	12,050	95	26
	13,334	18,240	152	128

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

32. Commitments and contingencies (cont'd)

(d) Operating lease commitments – As lessor

The Group has entered into commercial property leases on its investment properties. The terms of the lease generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. These non-cancellable leases have remaining lease terms of 5 to 10 years (2016: 1.5 years).

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

	Group	
	2017	**2016**
	$'000	$'000
Not later than one year	2,876	1,581
Later than one year but not later than five years	13,706	512
	16,582	2,093

(e) Finance lease commitments – As lessee

The Group has a finance lease for certain item of motor vehicles. This lease has term of renewal but no purchase options and escalation clauses. Renewal is at the option of the specific entity that holds the lease.

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

	Group			
	2017		**2016**	
	Minimum lease payment	**Present value of payments**	**Minimum lease payment**	**Present value of payments**
	$'000	$'000	$'000	$'000
Not later than one year	23	23	23	23
Later than one year but not later than five years	28	27	51	50
Total minimum lease payments	51	50	74	73
Less: Amounts representing finance charges	(1)	–	(1)	–
Present value of minimum lease payments	50	50	73	73

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

32. Commitments and contingencies (cont'd)

(e) Finance lease commitments – As lessee (cont'd)

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

	Group			
	2016	**Cash flows**	**Others**	**2017**
	$'000	$'000	$'000	$'000
Obligations under finance lease				
– Current	23	(23)	23	23
– Non-current	50	–	(23)	27
Total	73	(23)	–	50

33. Fair value of assets and liabilities

(a) Fair value hierarchy

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

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

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

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33. **Fair value of assets and liabilities (cont'd)**

(b) **Assets and liabilities measured at fair value**

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

2017 Group	**Note**	**Fair value measurements at the end of the reporting period using**			
		Quoted prices in active markets for identical instruments	**Significant observable inputs other than quoted prices**	**Significant unobservable inputs**	**Total**
		(Level 1) $'000	(Level 2) $'000	(Level 3) $'000	$'000
Assets measured at fair value					
Held for trading financial assets	18				
Quoted equity securities		4,817	–	–	4,817
Quoted debt securities		9,979	–	–	9,979
Derivatives	24				
Forward currency contracts		–	112	–	112
Financials assets as at 31 December 2017		14,796	112	–	14,908
Non-financial assets as at 31 December 2017					
Investment properties – Commercial		–	–	26,978	26,978
Financial liabilities measured at fair value as at 31 December 2017					
Derivatives	24				
Forward currency contracts		–	–	–	–

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

33. Fair value of assets and liabilities (cont'd)

(b) Assets and liabilities measured at fair value (cont'd)

2016 Group	**Note**	**Fair value measurements at the end of the reporting period using**			
		Quoted prices in active markets for identical instruments	**Significant observable inputs other than quoted prices**	**Significant unobservable inputs**	**Total**
		(Level 1) $'000	(Level 2) $'000	(Level 3) $'000	$'000
Assets measured at fair value					
Held for trading financial assets	18				
Quoted equity securities		4,431	–	–	4,431
Quoted debt securities		10,901	–	–	10,901
Derivatives	24				
Forward currency contracts		–	20	–	20
Financials assets as at 31 December 2016		15,332	20	–	15,352
Non-financial assets as at 31 December 2016					
Investment properties – Commercial		–	–	16,919	16,919
Financial liabilities measured at fair value as at 31 December 2016					
Derivatives	24				
Forward currency contracts		–	190	–	190

(c) Level 2 fair value measurements

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

Derivatives

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

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33. Fair value of assets and liabilities (cont'd)

(d) Level 3 fair value measurements

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

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

Description	Fair value as at 31 December 2017 $'000	Valuation techniques	Unobservable inputs	Range
Recurring fair value measurements				
Investment properties – Commercial	26,978	Income approach	Market rental (per square metre and per month)	RMB13.30 – RMB13.50
			Capitalisation rate	8.0% - 9.5%

Description	Fair value as at 31 December 2016 $'000	Valuation techniques	Unobservable inputs	Range
Recurring fair value measurements				
Investment properties – Commercial	16,919	Income approach	Market rental (per square metre. and per month)	RMB13.30
			Capitalisation rate	8.0%

Under the income approach, more specifically a term and reversion analysis, fair value is estimated by considering the capitalised rental incomes derived from the existing tenancies with due provision for any reversionary income potential of the property at appropriate reversionary yield and where appropriate cross checking to comparable sales evidences as available in the relevant market subject to suitable adjustments between the property and the comparable properties.

For commercial investment properties, a significant increase/(decrease) in the market rental and passing rent would result in a significant increase/decrease) in the fair value of the investment properties. A significant increase/(decrease) in the capitalisation rate would result in a significant decrease/(increase) in the fair value of the investment property.

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33. Fair value of assets and liabilities (cont'd)

(d) Level 3 fair value measurements (cont'd)

(ii) Movements in Level 3 assets and liabilities measured at fair value

The following table presents the reconciliation for all assets and liabilities measured at fair value based on significant unobservable inputs (Level 3):

Group	Fair value measurements using significant unobservable inputs (Level 3) Investment properties - Commercial	
	2017	**2016**
	$'000	$'000
At 1 January	16,919	18,243
Total gains/(loss) included in profit or loss for the year	346	(521)
Transferred to investment properties	9,845	–
Exchange differences	(132)	(803)
At 31 December	26,978	16,919

(iii) Valuation policies and procedures

For all significant financial reporting valuations using valuation models and significant unobservable inputs, it is the Group's policy to engage external valuation experts who possess the relevant credentials and knowledge on the subject of valuation, valuation methodologies and FRS 113 fair value measurement guidance to perform the valuation.

For valuations performed by external valuation experts, the appropriateness of the valuation methodologies and assumptions adopted are reviewed along with the appropriateness and reliability of the inputs (including those developed internally by the Group) used in the valuations.

In selecting the appropriate valuation models and inputs to be adopted for each valuation that uses significant non-observable inputs, external valuation experts are requested to calibrate the valuation models and inputs to actual market transactions (which may include transactions entered into by the Group with third parties as appropriate) that are relevant to the valuation if such information are reasonably available. For valuations that are sensitive to the unobservable inputs used, reputable external valuation experts will be engaged to ensure valuation are properly executed according to industry standard guideline.

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

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

33. Fair value of assets and liabilities (cont'd)

(e) 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

Group	Total carrying amount		Aggregate fair value	
	2017	**2016**	**2017**	**2016**
	$'000	$'000	$'000	$'000
Non-current other receivables	1,433	1,431	1,107	1,250

Determination of fair value

Non-current other receivables

The fair value as disclosed in the table above are based on significant unobservable inputs (Level 3) and have been calculated by discounting the expected future cash flows using rates currently available for instruments on with similar terms, credit risk and remaining maturities.

Non-current loan to a subsidiary is repayable upon demand and is not expected to be repaid within the next 12 months. As the timing of the future cash flows arising from this amount cannot be estimated reliably, the fair values of this amount cannot be reliably measured.

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34. 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 risks are foreign currency risk, credit risk, liquidity risk and market risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks.

The Group also enters into derivative transactions, principally forward currency contracts. The purpose is to hedge the foreign currency risks arising from the Group's operations and investments and its sources of financing.

(a) 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 investment securities. The Group's policy is to obtain the most favourable interest rates available without increasing its exposure to foreign currency.

<u>Sensitivity analysis for interest rate risk</u>

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates, with all other variables held constant:

		Group	
		2017 Profit before tax	**2016 Profit before tax**
		$'000	$'000
Singapore Dollar	– Strengthened 1% (2016: 1%)	35	53
	– Weakened 1% (2016: 1%)	(35)	(53)
United States Dollar	– Strengthened 1% (2016: 1%)	70	55
	– Weakened 1% (2016: 1%)	(70)	(55)

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For the financial year ended 31 December 2017

34. Financial risk management objectives and policies (cont'd)

(b) 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 the Group entities, primarily SGD, Chinese Renminbi ("RMB") and Hong Kong Dollar ("HKD"). The foreign currencies in which these transactions are denominated are mainly United States Dollar ("USD") and Euro ("EUR"). The Group manages its transactional currency exposures by matching as far as possible, its receipt and payment in each individual currency.

The Group and the Company also hold quoted investment securities and cash and short-term deposits denominated in foreign currencies for investment and working capital purposes. At the end of the reporting period, such foreign currency balances are disclosed in Note 18 and Note 25.

The Group primarily utilises forward exchange contracts with maturities of less than twelve months to hedge foreign currency denominated financial assets, liabilities and firm commitments. Foreign exchange differences arising from translation of financial statements of foreign subsidiaries are taken to translation reserve, a component of equity.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in the USD and EUR exchange rates against the respective functional currencies of the Group entities, with all other variables held constant:

		Group	
		2017 Profit before tax	**2016 Profit before tax**
		$'000	$'000
USD/SGD	– Strengthened 5% (2016: 5%)	80	275
	– Weakened 5% (2016: 5%)	(80)	(275)
USD/HKD	– Strengthened 5% (2016: 5%)	860	1,228
	– Weakened 5% (2016: 5%)	(860)	(1,228)
EUR/HKD	– Strengthened 5% (2016: 5%)	51	80
	– Weakened 5% (2016: 5%)	(51)	(80)
USD/RMB	– Strengthened 5% (2016: 5%)	122	94
	– Weakened 5% (2016: 5%)	(122)	(94)

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34. Financial risk management objectives and policies (cont'd)

(c) 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 primarily arises from trade and other receivables. For other financial assets (including investment securities, cash and short-term deposits and derivatives), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

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 ongoing basis and the Group's exposure to bad debts is not significant.

Exposure to credit risk

At the end of the reporting period, the Group's and the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised on balance sheets.

Credit risk concentration profile

The Group's trading activities are carried out largely in Hong Kong and the PRC, and in the precision components and tooling sector.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are with creditworthy debtors with good payment record with the Group. Cash and short-term deposits, investment securities and derivatives are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

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

(d) Liquidity risk

Liquidity risk is the risk that the Group and 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 maturity 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.

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NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

34. Financial risk management objectives and policies (cont'd)

(d) Liquidity risk (cont'd)

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's financial assets used for managing liquidity risk and financial liabilities at the end of the reporting period based on contractual undiscounted payments obligations.

Group	One year or less $'000	Over five years $'000	Total $'000
2017			
Financial assets			
Trade and other receivables, excluding sales tax receivables	69,201	1,433	70,634
Cash and short-term deposits	35,784	–	35,784
Other investments	15,109	–	15,109
Derivatives	112	–	112
Total undiscounted financial assets	120,206	1,433	121,639
Financial liabilities			
Finance lease liabilities	23	28	51
Trade and other payables, excluding advance payment from customers, accrued employee benefits and other taxes payables	52,324	–	52,324
Total undiscounted financial liabilities	52,347	28	52,375
Total net undiscounted financial assets	67,859	1,405	69,264
2016			
Financial assets			
Trade and other receivables, excluding sales tax receivables	63,541	1,431	64,972
Cash and short-term deposits	30,090	–	30,090
Other investments	15,676	–	15,676
Derivatives	20	–	20
Total undiscounted financial assets	109,327	1,431	110,758
Financial liabilities			
Finance lease liabilities	23	51	74
Trade and other payables, excluding advance payment from customers, accrued employee benefits and other taxes payables	52,072	–	52,072
Derivatives	190	–	190
Total undiscounted financial liabilities	52,285	51	52,336
Total net undiscounted financial assets	57,042	1,380	58,422

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

34. Financial risk management objectives and policies (cont'd)

(d) Liquidity risk (cont'd)

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

Company	**One year or less** $'000	**Over five years** $'000	**Total** $'000
2017			
Financial assets			
Other receivables and loan to a subsidiary, excluding sales tax receivables	4,266	23,552	27,818
Cash and short-term deposits	2,458	–	2,458
Other investments	15,109	–	15,109
Derivatives	112	–	112
Total undiscounted financial assets	21,945	23,552	45,497
Financial liabilities			
Other payables, excluding accrued employee benefits and other taxes payables	323	–	323
Total undiscounted financial liabilities	323	–	323
Total net undiscounted financial assets	21,622	23,552	45,174
2016			
Financial assets			
Other receivables and loan to a subsidiary, excluding sales tax receivables	3,299	25,702	29,001
Cash and short-term deposits	4,576	–	4,576
Other investments	15,676	–	15,676
Derivatives	20	–	20
Total undiscounted financial assets	23,571	25,702	49,273
Financial liabilities			
Other payables and accruals, excluding accrued employee benefits	284	–	284
Derivatives	190	–	190
Total undiscounted financial liabilities	474	–	474
Total net undiscounted financial assets	23,097	25,702	48,799

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

34. Financial risk management objectives and policies (cont'd)

(e) Market risk

Market price 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 the market prices (other than interest or exchange rates). The Group and the Company are exposed to price risk arising from its investment in quoted equity and debts securities. These securities are quoted on the stock exchanges of New York, NASDAQ, Tokyo, Hong Kong and Deutsche Börse Xetra. The securities are classified as held for trading financial assets. The quoted debts securities are issued from their respective companies and subsequently traded between participants directly over-the-counter. Due to the diversity of qualities, maturities and yields, the prices of debts securities are determined by the willingness of participants to transact at a given price and are usually not quoted by a market maker such as an exchange.

The Group's objective is to manage investment returns to achieve real-term capital preservation and long-term capital growth.

Sensitivity analysis for price risk

At the end of the reporting period, if the price of the shares and bonds had been 2% higher/lower with all other variables held constant, the Group's profit before tax would have been $296,000 (2016: $307,000) higher/lower, arising as a result of higher/lower fair value gains on held for trading investments in equity and debts instruments.

35. Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder's 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 29(c), certain subsidiaries of the Group 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.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital. The Group includes within net debt, total loans and borrowings less cash and cash equivalents. Capital includes equity attributable to the owners of the Company less the fair value adjustment reserve and the above-mentioned restricted statutory reserve fund. The Group's policy is to keep the gearing ratio below one.

		Group	
	Note	**2017**	**2016**
		$'000	$'000
Finance lease liabilities	32(e)	50	73
Less: Cash and cash equivalents	25	(35,154)	(29,060)
Net cash		(35,104)	(28,987)
Equity attributable to the owners of the Company		133,932	124,820
Less: Fair value adjustment reserve	29(a)	(1,252)	–
Less: Statutory reserve fund	29(c)	(1,078)	–
Total capital		131,062	124,820
Gearing ratio		*	*

* Not applicable as the Group is in net cash position

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

36. Segment information

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

I. The precision components and tooling segment specialises in sales of stamping components, tooling design and fabrication to a wide range of industries such as automotive components, office automation and consumer electronics products. It also provides die making services to manufacturers of such products.

II. The precision machining segment specialises in the machining of products mainly from the TV and office automation industries. However, in line with the demand of products made of aluminium alloy and other light metals, this segment also has speciality in metal-related components for customers in the TV, tablets and mobile-phone industries through advance technologies like cold-forging, computer numerical control machining and surface decoration.

III. The corporate and others segment is involved in group-level corporate services and treasury functions.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

36. Segment information (cont'd)

	Mansfield													
	Precision Components and Tooling		Precision Machining		Adjustments and Eliminations		Total		Corporate and Others		Eliminations		Per Consolidated Financial Statements	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue														
External customers	145,893	156,697	66,789	58,043	–	–	212,682	214,740	–	–	–	–	212,682	214,740
Results														
Interest income	36	391	113	65	–	(331)	149	125	1,496	1,115	(1,078)	(826)	567	414
Depreciation and amortisation	(2,391)	(4,454)	(2,583)	(1,625)	–	–	(4,974)	(6,079)	(24)	(24)	–	–	(4,998)	(6,103)
Net fair value gain/(loss) on investment properties	142	–	204	(521)	–	–	346	(521)	–	–	–	–	346	(521)
Dividend income from other investments	–	–	–	–	–	–	–	–	172	139	–	–	172	139
Net (loss)/gain on disposal of property, plant and equipment	(138)	162	8	43	–	–	(130)	205	–	–	–	–	(130)	205
Net foreign exchange (loss)/gain	(1,263)	567	(301)	(3)	–	–	(1,564)	564	(136)	(216)	–	–	(1,700)	348
Reversal of impairment loss on property, plant and equipment	1,253	–	–	–	–	–	1,253	–	–	–	–	–	1,253	–
Rental income	749	100	1,464	1,359	–	–	2,213	1,459	–	–	–	–	2,213	1,459
Share of results of joint venture	118	63	–	–	–	–	118	63	–	–	–	–	118	63
Finance cost	(1,078)	(894)	(1)	(331)	–	310	(1,079)	(915)	–	–	1,078	826	(1)	(89)
Other non-cash income/(expenses) [1]	340	50	(392)	(92)	–	–	(52)	(42)	(171)	(107)	–	–	(223)	(149)
Segment profit/(loss) before tax	1,072	3,348	15,409	11,442	–	–	16,481	14,790	(687)	(991)	–	–	15,794	13,799
Assets														
Investment in joint venture	1,631	1,521	–	–	–	–	1,631	1,521	–	–	–	–	1,631	1,521
Additions to non-current assets [2]	3,891	1,161	1,145	1,140	–	–	5,036	2,301	–	15	–	–	5,036	2,316
Segment assets	122,318	107,848	68,952	69,425	–	–	191,270	177,273	17,475	20,068	–	–	208,745	197,341
Segment liabilities	45,306	31,646	28,375	39,683	–	–	73,681	71,329	1,132	1,192	–	–	74,813	72,521

[1] Other non-cash income/expenses consist of net fair value gain/loss on other investments, net gain/loss on disposal of other investments, net gain/loss on derivatives, net write-back/allowance for doubtful debts, net allowance/write-back for inventory obsolescence and share-based payments as presented in the respective notes to the financial statements.

[2] Additions to non-current assets consist of additions to property, plant and equipment and intangible assets and deposit paid for purchase of property, plant and equipment.

NOTES TO FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

36. Segment information (cont'd)

Geographical information

Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follows:

	Revenues		Non-current assets	
	2017	**2016**	**2017**	**2016**
	$'000	$'000	$'000	$'000
Hong Kong/PRC	212,682	214,740	58,378	58,970
Thailand	–	–	2,569	–
Singapore	–	–	13	36
	212,682	214,740	60,960	59,006

Non-current assets information presented above consist of property, plant and equipment, investment properties, intangible assets, prepaid land lease payments, investment in joint venture and deposit paid for purchase of property, plant and equipment as presented in the balance sheet.

Information about major customers

Revenue from three (2016: two) major customers amount to $88,235,000 (2016: $89,053,000), arising from sales by the Precision Components and Tooling and Precision Machining segments.

37. Dividends

	Group and Company	
	2017	**2016**
	$'000	$'000
Declared and paid during the financial year		
Dividends on ordinary shares		
Final exempt (one-tier) dividend for 2016: 0.5 cents (2015: Nil) per share	1,119	–
Proposed but not recognised as a liability as at 31 December		
Dividends on ordinary shares, subject to shareholders' approval at the AGM		
Final exempt (one-tier) dividend for 2017: 1.0 cents (2016: 0.5 cents) per share	2,241	1,119

38. Authorisation of financial statements 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 22 March 2018.

STATISTICS OF SHAREHOLDINGS

As at 22 March 2018

No. of issued shares	-	246,656,428
No. of issued shares (excluding treasury shares)	-	224,125,428
No./Percentage of Treasury Shares	-	22,531,000 (9.13%)
Class of Shares	-	Ordinary Shares
Voting Rights (excluding treasury shares)	-	One vote per share

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 99	6	0.29	72	0.00
100 - 1,000	196	9.57	185,990	0.08
1,001 - 10,000	967	47.19	5,844,739	2.61
10,001 - 1,000,000	863	42.12	54,486,316	24.31
1,000,001 AND ABOVE	17	0.83	163,608,311	73.00
TOTAL	**2,049**	**100.00**	**224,125,428**	**100.00**

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	RAFFLES NOMINEES (PTE) LIMITED	41,876,800	18.68
2	ADVANTEC HOLDING SA	22,571,000	10.07
3	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	20,577,300	9.18
4	PHILLIP SECURITIES PTE LTD	17,761,300	7.92
5	DBS NOMINEES (PRIVATE) LIMITED	14,745,700	6.58
6	CITIBANK NOMINEES SINGAPORE PTE LTD	10,814,100	4.83
7	SING INVESTMENTS & FINANCE NOMINEES (PTE.) LTD.	8,206,700	3.66
8	MAYBANK KIM ENG SECURITIES PTE. LTD.	7,007,595	3.13
9	COMCRAFT INTERNATIONAL S.A	4,421,000	1.97
10	OCBC SECURITIES PRIVATE LIMITED	2,827,210	1.26
11	GOH GUAN SIONG (WU YUANXIANG)	2,740,200	1.22
12	CGS-CIMB SECURITIES (SINGAPORE) PTE. LTD.	2,440,106	1.09
13	UOB KAY HIAN PRIVATE LIMITED	1,894,600	0.85
14	DB NOMINEES (SINGAPORE) PTE LTD	1,790,000	0.80
15	SEE BENG LIAN JANICE	1,472,600	0.66
16	TAN KIAN CHUAN (CHEN JIANZHUAN)	1,400,000	0.62
17	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	1,062,100	0.47
18	WONG BARK CHUAN DAVID	1,000,000	0.45
19	TAN KAH BOH ROBERT@ TAN KAH BOO	935,000	0.42
20	CHANG KOK KEONG	840,000	0.37
	TOTAL	**166,383,311**	**74.23**

STATISTICS OF SHAREHOLDINGS

As at 22 March 2018

PERCENTAGE OF SHAREHOLDING IN THE HANDS OF PUBLIC (PUBLIC FLOAT)

Based on information available to the Company as of 22 March 2018, approximately 51.00% of the issued ordinary shares are held in the hands of the public. Accordingly, the Company has complied with Rule 723 of the SGX-ST Listing Manual requirement.

SUBSTANTIAL SHAREHOLDERS

The interests of the substantial shareholders in the Shares as recorded in the Register of Substantial Shareholders are set out below:

	Direct Interest		Deemed Interest	
Substantial Shareholders	**No. of Shares**	**%**	**No. of Shares**	**%**
Advantec Holding SA (1)	22,571,000	10.07	60,811,300	27.13
Trustee of Chandaria Trust I (2)	–	–	83,832,300	37.40
Gazelle Capital Pte Ltd (3)	–	–	14,082,700	6.28
Lim Teck-Ean (4)	–	–	14,082,700	6.28
Lim Su-Lynn (5)	–	–	14,082,700	6.28
Lou Yiliang (6)	–	–	11,902,800	5.31

Notes:

(1) Advantec Holding SA is deemed to be interested in the 60,811,300 shares held through the following:
- Raffles Nominees (Pte.) Limited in respect of 40,811,300 shares
- UOB Bank Nominees Pte Ltd in respect of 20,000,000 shares

(2) Trustee of Chandaria Trust I is deemed to be interested in the 83,382,300 shares held by Advantec Holding SA as well as a further 450,000 shares held by Metchem Engineering SA, both of which are wholly-owned by the Chandaria Trust I.

(3) Gazelle Capital Pte. Ltd. is deemed to be interested in 14,082,700 shares held through the following:
- OCBC Securities Private Limited in respect of 886,000 shares
- Maybank Kim Eng Securities Pte. Ltd. in respect of 5,000,000 shares
- Sing Investments & Finance Nominees (Pte.) Ltd. – 8,196,700 shares

(4) Mr. Lim Teck-Ean is deemed to be interested in the 14,082,700 shares held by Gazelle Capital Pte. Ltd.

(5) Ms. Lim Su-Lynn is deemed to be interested in the 14,082,700 shares held by Gazelle Capital Pte. Ltd.

(6) Mr. Lou Yiliang is deemed to be interested in the 11,902,800 shares held through Philip Securities Pte Ltd.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 22nd Annual General Meeting of **INNOTEK LIMITED** (the "Company") will be held at Basement 1, Oasia Hotel Novena, 8 Sinaran Drive, Singapore 307470 on Wednesday, 25 April 2018 at 9.30 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 year ended 31 December 2017 together with the Auditor's Report thereon.
(Resolution 1)

2. To declare a first and final (one-tier, tax-exempt) dividend of 1.0 cent per share for the year ended 31 December 2017 (2016: 0.5 cent per share).
(Resolution 2)

3. To re-elect Mr. Lou Yiliang (Chief Executive Officer and Executive Director) who will retire in accordance with Article 103 of the Company's Articles of Association and who, being eligible, offers himself for re-election as a Director of the Company.
(Resolution 3)

4. To re-elect Mr. Steven Chong Teck Sin (Non-Executive and Independent Director), who will retire in accordance with Article 103 of the Company's Articles of Association and who, being eligible, offers himself for re-election as a Director of the Company.
(Resolution 4)

   Subject to his re-appointment, Mr. Steven Chong Teck Sin who is considered an independent director, will be re-appointed as Chairman of the Audit & Risk Management Committee and member of the Remuneration Committee.

5. To approve the payment of Directors' fees of $323,118 for the year ended 31 December 2017 (2016: $360,743).
(Resolution 5)

6. To re-appoint Ernst & Young LLP as the Company's Auditor for the ensuing year and to authorise the Directors to fix their remuneration.
(Resolution 6)

7. Any other business –

   Requisition under section 183 of the Companies Act, Cap. 50 by a substantial shareholder - To declare a one-tier tax-exempt dividend of 7.5 cents per share for the financial year ended 31 December 2017.

   The Board of Directors do not recommend that shareholders vote in favour of the payment of the dividend.
   [See Explanatory Note (i) below] **(Resolution 7)**

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following ordinary resolutions, with or without modifications:

8. That pursuant to Section 161 of the Companies Act, Chapter 50 ("**Companies Act**") and the listing rules of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") ("**Listing Manual**"), the directors of the Company ("**Directors**") be authorised and empowered to:

   (a) (i) allot and issue shares in the capital of the Company ("**shares**") whether by way of rights or bonus; 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) 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 may in their absolute discretion deem fit; and

NOTICE OF ANNUAL GENERAL MEETING

(b) (notwithstanding that the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while this Resolution is in force;

Provided that:

(1) the aggregate number of shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 50% of the total number of issued ordinary shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below) of which the aggregate number of shares and Instruments to be issued other than on a pro-rata basis to existing shareholders of the Company shall not exceed 20% of the total number of issued ordinary shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such manner of 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) above, the total number of issued ordinary shares (excluding treasury shares) shall be based on the total number of issued ordinary shares (excluding treasury shares) in the capital of the Company at the time this Resolution is passed, after adjusting for:

(i) 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 this Resolution is passed; and

(ii) any subsequent bonus issue, consolidation or subdivision of shares;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual for the time being in force (unless such compliance has been waived by the SGX-ST) and the Articles of Association of the Company; and

(4) (unless revoked or varied by the Company in a general meeting) the authority conferred by this Resolution shall continue to be 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 the earlier.
[See Explanatory Note (ii) below] **(Resolution 8)**

9. That approval be and is hereby given to the Directors to offer and grant options in accordance with the provisions of the InnoTek Employees' Share Option Scheme II and/or the InnoTek Employees' Share Option Scheme 2014 ("Share Plans") and to allot and issue such number of ordinary shares in the capital of the Company as may be issued pursuant to the exercise of the options under the Share Plans, provided always that the aggregate number of shares to be issued pursuant to the Share Plans shall not exceed 15% of the total number of issued ordinary shares (excluding treasury shares) in the capital of the Company from time to time.
[See Explanatory Note (iii) below] **(Resolution 9)**

10. To transact any other business which may arise and can be transacted at an Annual General Meeting.

NOTICE OF BOOKS CLOSURE

NOTICE IS HEREBY GIVEN that the Share Transfer Books and Register of Members of the Company will be closed on 9 May 2018 for the preparation of dividend warrants. Duly completed transfers in respect of ordinary shares in the capital of the Company received by the Company's Registrar, Boardroom Corporate & Advisory Services Pte. Ltd., 50 Raffles Place, Singapore Land Tower #32-01, Singapore 048623 up to 5.00 p.m. on 8 May 2018 will be registered to determine members' entitlement to the proposed first and final dividend. Members whose Securities Accounts with The Central Depository (Pte) Limited are credited with Shares in the Company as at 5.00 p.m. on 8 May 2018 will be entitled to the proposed first and final dividend.

The proposed first and final dividend, if approved at this annual general meeting, will be paid on 22 May 2018.

By Order of the Board

Linda Sim Hwee Ai
Company Secretary

Singapore, 3 April 2018

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes:

(i) Ordinary Resolution 7 proposed in item 7 above is a requisition by Gazelle Capital Pte. Ltd. ("Gazelle"), a substantial shareholder of the Company holding 14,082,700 shares representing 6.28% of the Company's share capital. Gazelle had on 1 February 2018 submitted a requisition pursuant to their right under section 183 of the Companies Act, Cap. 50 ("section 183") for a resolution to be moved at the Annual General Meeting. The reasons for Gazelle's proposal are set out below:-

(a) No intention to utilise excess funds
The Company has not announced any plan in furtherance of any expansion or business growth which may require excess cash to be utilised. Gazelle noted that in the latest announced financial statements of the Company and its subsidiaries (the "Group") for the quarter ended 30 September 2017 (the "Financial Announcement"), it is stated that the Company's subsidiary Mansfield (Thailand) Co. Ltd. ("Mansfield Thailand") would be constructing a plant in Thailand scheduled for completion in the first half of FY2018, with production and revenue contributions expected to commence in the second half of FY2018. Until then, operational activities in Thailand will be supported from Dongguan. Revenue contribution from Mansfield Thailand is expected to gather momentum from FY2019.

There is no suggestion that this plant is a major investment that will impact in any significant manner the Company's cash reserve or that any need for cash cannot be met by the Company's expected cash generation through its ordinary course of business.

(b) Financial position
Based on the Financial Announcement, the Group has cash and cash assets of approximately $47 million of which $15.4 million are "held as trading financial assets". They have been so held since at least 2013. Furthermore, according to the Financial Announcement, the Company is debt-free.

(c) Improvement in financial performance
The performance of the Company has improved significantly in the past two years. For the financial year ended 31 December 2016 ("FY16"), net profit after tax increased to $11.6 million in FY16 from a net loss after tax of $16.3 million in the previous financial year.

For the nine months ended 30 September 2017, the Group achieved a net profit after tax of $7.1 million despite an extraordinary increase of tax payable from $2.9 million to $4.7 million or a 62% increase over the previous year.

(d) Reward for loyalty
The declaration of dividends of 7.5 cents per share would reward members of the Company for their loyalty and support, and would in some measure, compensate them for the poor dividend distribution in recent years, contrary to the Company's practices in past periods.

(e) Shareholder value
This resolution will greatly enhance shareholder value to the betterment of the Company and Group, raise its profile as a stable value investment and facilitate its future expansion programs.

After careful deliberation, the Directors do not accept the proposal by Gazelle and the Company's response to Gazelle's requisition under section 183 is as follows:-

1) The net profit after tax ("NPAT") of $9.8 million for 2017 is lower than the NPAT of $11.6 million for 2016. However, despite the lower profit made by the Company in 2017, the Directors are recommending a one-tier (tax-exempt) dividend payment of 1.0 cent per share, doubling the dividend of 0.5 cent per share paid last year.

2) The Directors believe in a sustainable dividend policy and does not consider that 7.5 cents dividend will be sustainable.

3) The Company has embarked on two major projects: Mansfield Thailand and Mansfield Technology (Weihai) Co. Ltd., which require substantial capital investment in addition to start-up expenses and working capital.

4) The existing Group operations also require significant funding for investment in automation to improve efficiency and for working capital to finance growth.

NOTICE OF ANNUAL GENERAL MEETING

5) The Board considers it will be prudent to maintain a cash reserve to enable the Group to manage unexpected events and to take advantage of business opportunities as they arise.

6) The Board is very mindful of returns to shareholders and regularly reviews if excess funds are available for distribution to shareholders.

(ii) Ordinary Resolution 8 proposed in item 8 above, if passed, will empower the Directors from the date of the above Annual General Meeting until the date of the next Annual General Meeting, to issue, or agree to issue shares and/or grant Instruments that might require shares to be issued on a pro rata basis to shareholders of the Company, up to an aggregate limit of 50% of the total number of issued ordinary shares (excluding treasury shares) in the capital of the Company of which up to 20% may be issued other than on a pro-rata basis to existing shareholders of the Company (calculated as described).

(iii) Ordinary Resolution 9 proposed in item 9 above, if passed, will empower the Directors, from the date of the above Annual General Meeting until the next Annual General Meeting, to offer and grant options in accordance with the provisions of the Share Plans and to allot and issue shares as may be issued pursuant to the exercise of options under the Share Plans up to an aggregate limit of 15% of the total number of issued ordinary shares (excluding treasury shares) in the capital of the Company from time to time ("15% Limit"). The 15 % Limit is calculated by including the shares which have already been allotted and issued pursuant to the exercise of options under the Share Plans.

Notes:

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

2. Intermediaries such as banks and capital markets services license holders which provide custodial services and are members of the Company may appoint more than two proxies provided that each proxy is appointed to exercise the rights attached to different shares held by the member.

3. If a proxy is to be appointed, the instrument appointing a proxy must be duly deposited at the Share Registrar's office at 50 Raffles Place #32-01 Singapore Land Tower Singapore 048623 not later than 48 hours before the time appointed for the holding of the Annual General Meeting.

4. The instrument appointing a proxy must be signed by the appointer or his attorney duly authorized in writing. Where the instrument appointing a proxy is executed by a corporation, it must be executed either under its common seal or under the hand of any officer or attorney duly authorized.

5. A Depositor's name must appear on the Depositor Register maintained by The Central Depository (Pte) Limited as at 72 hours before the time fixed for holding the Annual General Meeting in order for the Depositor to be entitled to attend and vote at the Annual General Meeting.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (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 proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) 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.

INNOTEK LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No.: 199508431Z)

PROXY FORM

(Please see notes overleaf before completing this Form)

I/We, ____ (Name)

Of ____ (Address)

Being a member/members of InnoTek Limited (the "**Company**"), hereby appoint:

Name	Address	NRIC/Passport Number	Proportion of Shareholdings

And/or (delete as appropriate)

Name	Address	NRIC/Passport Number	Proportion of Shareholdings

or failing him/her/them, the Chairman of the meeting as my/our proxy/proxies to vote for me/us on my/our behalf and, if necessary, demand for a poll at the 22nd Annual General Meeting ("**AGM**") of the Company to be held at Basement 1, Oasia Hotel Novena, 8 Sinaran Drive, Singapore 307470 at 9.30 a.m. and at any adjournment thereof. The proxy is to vote on the business before the meeting as indicated below. If no specific direction as to voting is given, the proxy will vote or abstain from voting at his/her/their discretion, as he/she/they will on any other matter arising at the AGM.

No.	Ordinary Resolutions relating to:	For	Against
1	Directors' Statement and the Audited Financial Statements for the year ended 31 December 2017		
2	Payment of proposed first and final dividend		
3	Re-election of Mr. Lou Yiliang		
4	Re-election of Mr. Steven Chong Teck Sin		
5	Approval of Directors' fees		
6	Re-appointment of Ernst & Young LLP as Auditor		
7	Requisition for the proposed payment of dividend of 7.5 cents per share		
8	Authority to allot and issue new shares		
9	Authority to offer and grant options and to allot and issue new shares in accordance with the provisions of the Share Plans		

(Please indicate with a cross [X] in the space provided whether you wish your vote to be cast for or against the Resolutions as set out in the Notice of AGM)

Dated this ____________ day of __________________ 2018.

Total Number of Shares in:	No. of Shares
(a) CDP register	
(b) Register of Members	

____

Signature of Shareholder(s)
or, Common Seal of Corporate Shareholder

IMPORTANT: PLEASE READ NOTES OVERLEAF

Notes:-

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50), you should insert that number. If you have Shares registered in your name in the Register of Members of the Company, you should insert that number. 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. If no number is inserted, this form of proxy will be deemed to relate to all the Shares held by you.

2. A member (other than a Relevant Intermediary) entitled to attend and vote at a meeting of the Company is entitled to appoint not more than two proxies to attend and vote on his behalf. A proxy need not be a member of the Company. Where a member appoints more than one proxy, he shall specify the proportion of his shareholding to be represented by each proxy. If no such proportion or number is specified, the first named proxy may be treated as representing 100% of the shareholding and any second named proxy as an alternate to the first named

3. A member of the Company who is a Relevant Intermediary entitled to attend and vote at the AGM of the Company is entitled to appoint more than two (2) proxies to attend and vote in his/her stead, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member appoints more than two (2) proxies, the number and class of shares to be represented by each proxy must be stated.

   "**Relevant Intermediary**" means:

   (a) a banking corporation licensed under the Banking Act, Chapter 19 of Singapore or a wholly owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or

   (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act, Chapter 289 of Singapore and who holds shares in that capacity; or

   (c) the Central Provident Fund Board ("CPF Board") established by the Central Provident Fund Act, Chapter 36 of Singapore, in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the CPF Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

4. The instrument appointing a proxy or proxies must be deposited at the Share Registrar's office at 50 Raffles Place #32-01 Singapore Land Tower Singapore 048623 not less than 48 hours before the time set for the meeting.

5. The instrument appointing a proxy or proxies must be under the hand of the appointer or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or under the hand of its officer or attorney duly authorised.

6. Where an instrument appointing a proxy or proxies is signed on behalf of the appointer by an attorney, the power of attorney (or other authority) or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.

7. A corporation, which is a member, may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the meeting, in accordance with Section 179 of the Companies Act, Cap. 50.

8. The Company shall be entitled to reject an instrument of proxy which is incomplete, improperly completed, illegible or where the true intentions of the appointer are not ascertainable from the instructions of the appointer specified on the instrument of proxy. In addition, in the case of Shares entered in the Depository Register, the Company may reject an instrument of proxy if the member, being the appointer, is not shown to have Shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the meeting, as certified by The Central Depository (Pte) Limited to the Company.

9. An investor who buys shares using CPF monies (''**CPF Investor**") and/or SRS monies ("**SRS Investor**") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.

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INNOTEK

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