

KEEP MOVING FORWARD

**ANNUAL
REPORT
2019**

Corporate Profile

JEP Holdings Ltd. is a leading solution provider of precision machining and engineering services, with a primary focus on the aerospace industry. With over 30 years of operating history, we have built up a strong value chain to provide seamless manufacturing solutions to our clients. All of our operations are supported by an experienced and passionate workforce, strong networks of established customers and suppliers, and stringent quality systems.

The Group's main operating subsidiary, JEP Precision Engineering Pte Ltd ("JEPS"), was acquired by the Group in 2007. Accredited with AS9100, ISO 45001 and NADCAP. JEPS has built a track record as a reliable sub-contractor for aerospace components since beginning operations in 1990, and is now part of the global supply chain for the world's leading aircraft manufacturers.

The Group is headquartered in Singapore, and operates out of four facilities equipped with state of the art machinery for manufacturing and the provision of secondary processes related to engineering services. The Group also owns a large format precision engineering company, Dolphin Engineering Pte Ltd, and a trading business, JEP Industrades Pte Ltd, which markets cutting tools used in manufacturing activities for various industries such as aerospace, mould and die, and oil and gas.

The Group has been listed on SGX Catalist since 2004.

Vision

To be a leader in seamless manufacturing solution and be an integrated part of our customers' success.

Mission

To be the foremost strategic partner to our customers who demand the highest standards in terms of efficiency and effectiveness.

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This Annual Report has been prepared by the Company and its contents have been reviewed by the Company’s sponsor, RHT Capital Pte. Ltd. (the “**Sponsor**”), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) Listing Manual Section B: Rules of Catalist. The Sponsor has not independently verified the contents of this Annual Report. This Annual Report has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this Annual Report, including the correctness of any of the statements or opinions made, or reports contained in this Annual Report.

The contact person for the Sponsor is

Name : Mr Lay Shi Wei (Registered Professional, RHT Capital Pte.Ltd)
Address : 9 Raffles Place #29-01, Republic Plaza Tower 1, Singapore 048619
Telephone : 6381 6966

Chairman's Statement



Dear Valued Shareholders,

On behalf of the Board of Directors of JEP Holdings Limited, I am pleased to present the Annual Report of JEP Holdings Limited and its subsidiaries (the "Group") for the financial year ended 31 December 2019 ("FY2019").

When I was appointed as executive chairman and acting chief executive officer on 1 Jun 2018, I had a great determination to put the Group on a stronger growth path to exploit potentials in global aerospace sector and turn the business around within the next 18 months. With relentless support and hard work from team members, we restructured the business with proactive streamlining of its operations over the period, the Group posted S\$6.5 million profit after tax in FY2019. We have never achieved this kind of result in the past.

Diversification

To achieve sustainable growth, we diversified our revenue streams to have a healthy mix of recurring and variable incomes. The Group built a solid well-diversified customer base, services and products portfolios instead of overly-dependent on certain product portfolios. We aim to differentiate ourselves from our competitors by offering "one-stop shop" solutions instead of limiting ourselves to machining and metal fabrication. We intend to leverage on the expertise and knowledge of JEP with UMS Group.

Cost Management

The customers have only one key thing in mind, and that's the price. Today, we are facing competition across the globe. Cost management plays a vital part to keep the Group to stay ahead of competition. We need to achieve this without compromising on product quality and safety, and our supply chain. The Group has started to streamline its operations in the 4th quarter of year 2018 by moving more labour-intensive work from Singapore to Malaysia and conducted a string of cost cutting exercises. The Group achieved good results from these exercises with the Group's gross margin in FY2019 improved to 18% from 15% in FY2018.

New Technology

The Group continues to brand and market Singapore as its head office, with focus on high value-added work and as the support hub for marketing, servicing, logistics and engineering. The Group continues to make efforts to upgrade its state-of-art machinery for manufacturing, resilient engineering skills, process solutions, and technology advancement to compete globally and to put ourselves in a prime position to seize new business opportunities. The Group has also set aside a capital investment budget up to S\$5.0 million annually to modernize its plant facilities. This budget will explore acquisition of new technology and process solutions to enhance the Group's capabilities to offer additional complex process solutions to existing and potential customers.

Outlook and Prospect

The COVID-19 outbreak is exacerbating the already languishing economy on the back of economic and geopolitical uncertainties. The aviation industry is not spared from this environment. However, the Group believes it has strong fundamentals and financials to tide through the expected reduced economic activities and revenues. The economic downturn might be good time for the Group to expand and diversify its businesses through strategic acquisitions and collaboration.

“When I was appointed as executive chairman and acting chief executive officer on 1 Jun 2018, I had a great determination to put the Group on a stronger growth path to exploit potentials in global aerospace sector and turn the business around within the next 18 months.”

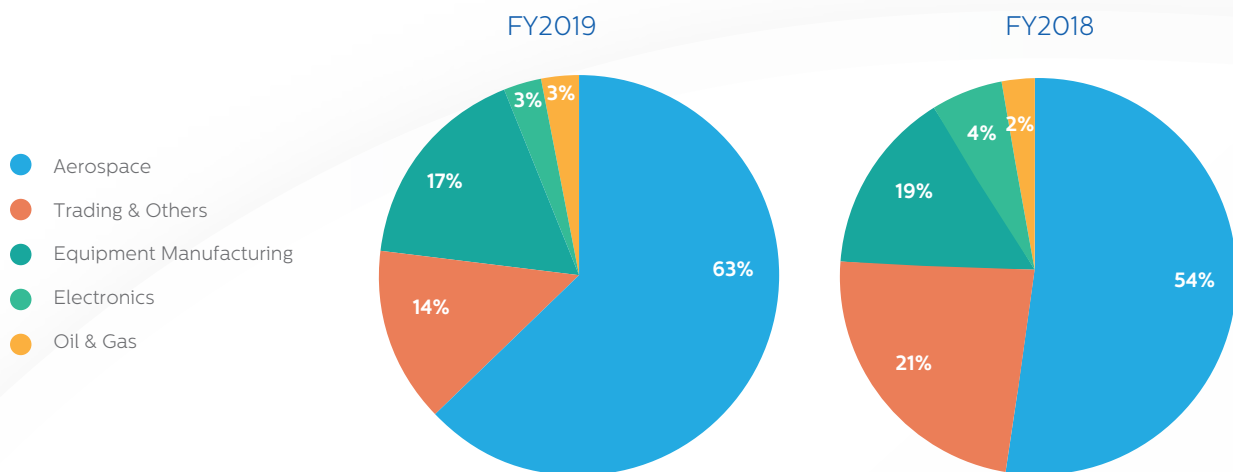
Andy Luong

*Executive Chairman and Chief Executive Officer
JEP Holdings Ltd*

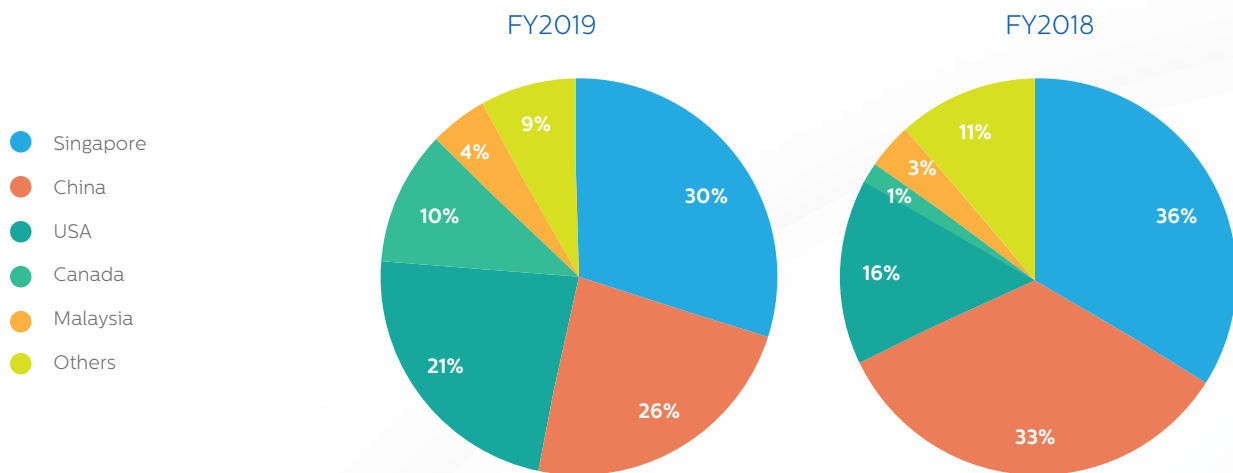


Business Highlights

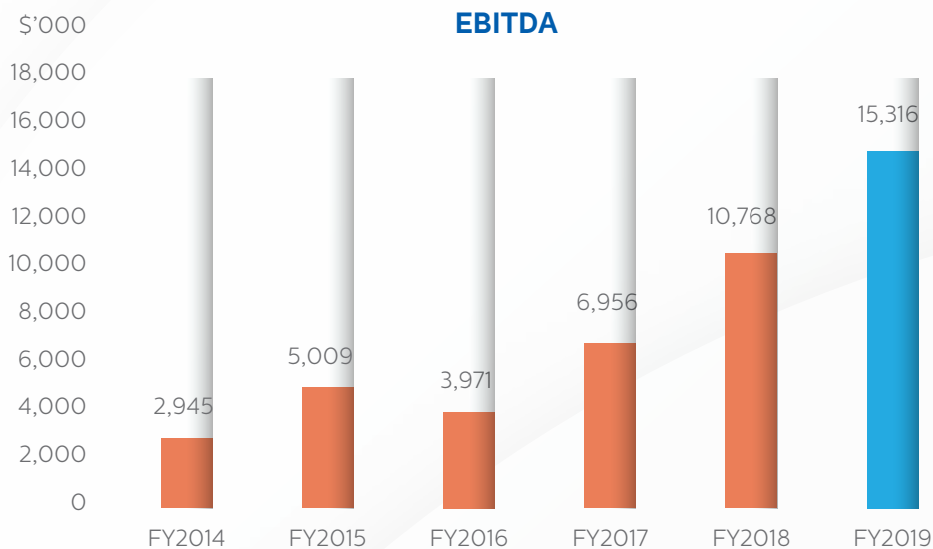
REVENUE BY INDUSTRY



REVENUE BY REGION



EBITDA



Financial Highlights



\$89 million
Revenue



\$15.3 million
EBITDA



1.61 cents
Earnings
Per Share



\$60 million
Group Total
Net Asset Value



14.5 cents
Net Asset Value
per Share



\$6.5 million
Profit to Equity
Owners

Operation Review

In FY2019, the Group posted a pre-tax profit of S\$6.9 million and revenue increased by 3% to S\$89.0 million from S\$85.9 million in FY2018.

Aerospace segment remains the key revenue for the Group, posted S\$51.6 million in FY2019 compared to S\$46.4 million in FY2018. The emerging markets, rapid urbanization and growth in world urban populations are bolstering air traffic demand, and are projected to maintain that growth into the new decade. With our long-term strategy of migrating to low cost region driving for cost competitiveness, our customers are enthusiastically engaging us with more enquiries with growing intention of outsourcing projects from their incumbent domestic sources to companies in this region.

The Group achieved positive revenue growth from oil and gas segment in FY2019, however, we do foresee some cut back in this segment in FY2020 primarily due to the recent oil price plunging amid disputes among oil producers and the falling demand for energy as global air traffic decline due to COVID-19. However, any disruption in oil and gas segment will not have a significant financial impact as this segment only represents a 3% contribution to the total Group revenue. The Group will continue to keep a close proximity with existing customers collaborating on cost reduction initiatives to sustain business buoyancy.

The outbreak of the COVID-19 has the potential to cause severe economic and market dislocation. Aligning to the local health authority's guidelines, the Group is taking every preventive measure seriously to ensure any affected employees are quarantined and the virus contained outside of our premises so that business can continue as usual with the least disruption.

Precision Machining

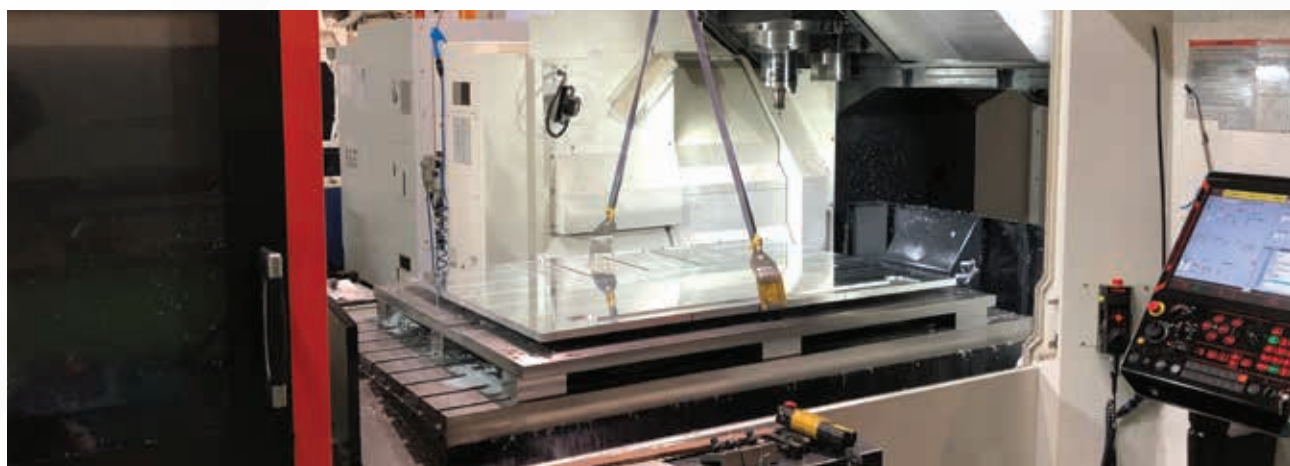
Precision Machining posted S\$61.6 million revenue in FY2019 compared to S\$51.2 million in FY2018. With our well-equipped facilities at Seletar Aerospace, some impressed Aerospace OEMs have expressed keen interest to collaborate with the Group on our long-term strategy of migrating to low cost region which will help alleviate cost pressures from their end-customers. High-level visits, meetings and communications, have started in the 2nd half of FY2019. Unfortunately, due to the grounding and suspension of the Boeing 737 Max, and the uncertainty about the China-US trade war, activities have slowed down. Potential customers are currently waiting and watching the development of the Boeing situation as well as the overall economic climate to decide on their next move. We will continue to follow up closely with the various potential customers and prepare ourselves for the strategic growth when the global economy recovers in the later part of 2020.

Equipment Manufacturing

The revenue in FY2019 contracted by 8% from S\$16.4 million in FY2018 to S\$15.1 million mainly attributed to soft demand in semiconductor equipment and contract manufacturing sectors globally. FY2020 outlook is remains positive on strong demand from semiconductor equipment as well as a new revenue stream from medical equipment sector. The Group has seamlessly moved most of the non-critical manufacturing activities to the low operation cost regions, which led to increasing local capacity to cope with the foreseeable rising demand.

Trading and Others

The revenue from cutting tools supplies in FY2019 decreased by 33% to S\$12.3 million compared to S\$18.3 million in FY2018 primarily due U.S-China trade war resulted in a softened demand from China. The Group will actively explore and develop new markets in the Middle Eastern, European and North American regions to diversify the trading segment's customer base & product range.



Financial Review



Financial Performance

For the full year of FY2019, the Group revenue increased by 3.6% to S\$89.0 million compared to FY2018 total revenue of S\$85.9 million. The higher revenue from Precision Manufacturing segment of S\$10.4 million were offset by lower sales from Equipment Manufacturing of S\$1.3 million and Trading and Others segment of S\$6.0 million.

Cost of sales for FY2019 and FY2018 were relatively same with S\$73.3 million for each financial year. The gross margin in FY2019 was improved by 3% to 18% from 15% in FY2018 primarily due to an initiative carried out to move some labour-intensive work to low operation cost region, effect of cost controlling initiatives and lesser provision of stock obsolescence in FY2019 compared to FY2018.

Other operating income for FY2019 was decreased by S\$0.2 million from S\$1.2 million to S\$1.0 million compared to FY2018. This was primarily caused by lower income generated from government grants and scrap income in FY2019.

Selling expenses mainly comprise staff costs of our sales and marketing staff, outward freight, travelling and marketing expenses, and other related expenses. Compared to FY2018, expenses for FY2019 was remained relatively constant at S\$2.1 million.

Administrative expenses mainly comprise of staff costs, Directors' fee and compensation, depreciation charge in relation to non-production assets, amortisation of intangible assets, professional fees, foreign exchange and other office expenses.

Administrative expenses decreased by S\$0.8 million or 12.4%, from S\$6.3 million in FY2018 to S\$5.5 million in FY2019, mainly attributed to the absence of one-time expenses of retirement packages of S\$0.5 million paid to the former executive chairman in FY2018.

Other operating expenses was S\$0.2 million in 2019 arose from forex exchange loss which primarily attributed to borrowings and lease liabilities denominated in United States Dollar ("USD") and Japanese Yen ("Yen").

Finance costs increased by S\$0.3 million from S\$1.5 million in FY2018 to S\$1.8 million in FY2019, mainly due to one-time break funding cost of S\$0.1 million in relation full settlement of hire purchases and term loan before maturity and recognition of S\$0.2 million interest in relation to an adoption of new accounting standards SFRS(I) 16: Leases.

The Group recorded a total income tax expense of S\$0.4 million in FY2019 compared to S\$0.8 million in FY2018 mainly due to tax expenses arising from the origination and reversal of temporary differences and recognition of tax credit arising from tax incentive.

Balance Sheet

Total non-current assets increased by S\$2.6 million mainly attributed to property, plant and equipment net additions of S\$2.5 million and an initial recognition of rights-of-use assets at S\$6.7 million, pursuant to an adoption of new accounting standard SFRS(I) 16: Leases before offset against amortisation and depreciation charge of S\$6.6 million in FY2019.

Trade and other receivables decreased by S\$1.8 million from S\$22.7 million as at 31 December 2018 to S\$20.9 million as at 31 December 2019. The decrease was mainly due to fluctuations arising from timing of payments made by customers.

Trade and other payables increased by S\$1.8 million, from S\$15.5 million as at 31 December 2018 to S\$17.3 million as at 31 December 2019. This reduction was mainly due to fluctuation arising from timing of payments made to creditors.

Lease liabilities increased S\$3.0 million from S\$6.6 million as at 31 December 2018 to S\$9.6 million as at 31 December 2019 mainly attributed to a lease liabilities of S\$6.4 million pursuant to the adoption of new accounting standard SFRS(I) 16: Leases and the addition lease liability of S\$1.5 million for new machinery purchase before offset against total repayment of S\$4.9 million in FY2019.

Loans and borrowings decreased S\$5.5 million from S\$36.6 million as at 31 December 2018 to S\$31.1 million as at 31 December 2019. This decrease was due to term loans repayment of S\$11.3 million which partially offset by addition term loans of S\$5.8 million in FY2019.

Deferred tax liabilities increased S\$0.3 million to S\$1.6 million in FY2019 from S\$1.3 million in FY2018 primarily due to deferred tax expenses arising from the origination and reversal of temporary differences.

Cash flows

Net cash generated from operating activities of S\$17.3 million in FY2019 was mainly due to the improvement in cash generated before movement in working capital by S\$7.4 million compared to FY2018.

Net cash used in financing activities amounted to S\$9.4 million in FY2019. This was attributed to bank borrowings and lease liabilities repayment of S\$16.6 million which was partially offset with addition term loans of S\$5.8 million and proceeds from issue of share capital of S\$1.4 million in FY2019.

Board of Directors



Mr. Andy Luong

Executive Chairman and Chief Executive Officer

Date of first appointment as a Director : 22 February 2018

Mr. Andy Luong was appointed as Executive Chairman and Chief Executive Officer of the Company on 22 February 2018 and 1 June 2018 respectively.

As the leader of the Group, he has more than 20 years of experience in manufacturing front-end semiconductor components. He acquired his machining skills through his experience in working in his family machining business in Vietnam. He emigrated to the USA from Vietnam in 1979 and shortly after college, started a precision business called Long's Manufacturing, Inc.

Currently, Mr. Andy Luong is also the Executive Chairman and Chief Executive Officer of the UMS Holdings Limited, a SGX Mainboard-listed company.



Mr. Zee Hoong Huay

Executive Director

Date of first appointment as a Director : 27 August 2015
Date of last re-election as a Director : 26 April 2016

Mr. Zee Hoong Huay, the co-founder and Managing Director of JEP Industrades Pte. Ltd. ("JEP") joined the Company as Executive Director on 27 August 2015.

Mr. Zee is a veteran and proven personnel in the metal tooling and precision engineering industries with over 30 years of industrial experience and capabilities. He co-founded JEP in 1986 as a trading company that markets cutting tools and spearheads its overall direction, sales and marketing strategies. JEP is now a leading distributor for cutting tool solutions and distributes its manufactured products to the aerospace, mould and die, and oil and gas segments across the Southeast Asia Pacific regions.

Mr. Zee holds a Diploma in Industrial Management, Manufacturing Engineering.

Board of Directors



Mr. Wong Gang
Lead Independent Director

Chairman of Remuneration Committee
Member of Nominating Committee
Member of Audit Committee

Date of first appointment as a Director : 1 November 2006
Date of last re-election as a Director : 23 April 2019

Graduated from the National University of Singapore in 1995 with Bachelor of Law (Hons) and was admitted as advocate and solicitor to the Supreme Court of Singapore in 1996. Mr. Wong Gang joined the Company as an Independent Director on 1 November 2006.

A partner since 2002 at Shook Lin & Bok LLP, a law firm in Singapore, with more than 20 years' experience advising on a wide range of corporate finance and securities transactions, stock market flotation, securities regulation, corporate governance and compliance for public listed companies, mergers and acquisitions, as well as general corporate legal advisory work.

Head of Shook Lin & Bok LLP's China practice group and has advised multinational corporations and Singapore companies on cross border transactions in China, as well as on public offerings of securities in Singapore by companies from China, Hong Kong and South-East Asia.

Currently, he is also an Independent Director of Tianjin Zhongxin Pharmaceutical Group Corporation Limited, a SGX Mainboard-listed company.



Mr. Kong Chee Keong
Independent Director

Chairman of Audit Committee
Member of Remuneration Committee
Member of Nominating Committee

Date of first appointment as a Director : 25 April 2018
Date of last re-election as a Director : 23 April 2019

Mr. Kong is a Chartered Accountant with more than 25 years of experience in corporate strategy development, private equity investment and financial accounting, having previously worked with Ernst & Young LLP and the private equity arm of ING Barings, and as CFO of several companies including SGX listed Top Global Limited. He is now the Managing Director of a boutique corporate advisory company serving both private and public listed companies in sectors such as healthcare and renewable energy. He manages the development of a portfolio of renewable energy assets and is a joint venture partner of Engie, a Euro Stoxx 50 component French multinational electric utility conglomerate.

Mr. Kong holds a Master of Business Administration from Manchester Business School and a Bachelor of Accountancy (Hons) from the National University of Singapore. He is a full member of the Institute of Singapore Chartered Accountants.



Ms. Lee Sook Wai, Irene
Independent Director

Chairperson of Nominating Committee
Member of Audit Committee
Member of Remuneration Committee

Date of first appointment as a Director : 8 July 2019

Ms. Irene Lee has a great and vast working experience in engineering and corporate operations strategy in multinational companies. Ms. Irene Lee was Senior Vice President, Global Operations and Chief Quality Officer of the Kulicke & Soffa Pte. Ltd. ("K&S") to drive the Company's global strategic quality initiative and deployment plan that covers overall quality management, business excellence, customer experience management and supplier management. Prior to joining K&S, she held various operational, engineering, and quality-related positions over her 24-year tenure spent at Seagate Technology International, Inc, a global data storage solutions company. In her last role as Vice President of Quality at Seagate Technology International, Inc.

Ms. Irene Lee graduated from Singapore Polytechnic in 1984 with Advanced Diploma in Mechanical Engineering, received her Masters of Business Administration from the University of Leeds in year 2000, and a certificate on Strategic Leadership from Harvard Business School in year 2007. She also served as a director for Musical Theatre Limited, an Arts Charity and an Institution of Public Character under the Ministry of Culture, Community and Youth, Singapore from 2012 to 2017.

Key Executives



Eddie Goh Kuan Teck

**General Manager
JEP Precision
Engineering Pte Ltd**

Mr Eddie Goh joined JEP Precision Engineering Pte Ltd, subsidiary of the Group in May 2013 as General Manager. Mr Eddie Goh's background is in precision machining, where he has more than 20 years' extensive experience, progressing from a craftsman to various managerial positions during his service in Singapore Aerospace Manufacturing Pte Ltd, a fully-owned subsidiary of Singapore Technology. His operational experience includes holding key roles in the shipping and logistics, supply chain management, production and engineering department within the organization. He led a project to redefine and implement the manufacturing processes of the aero-engine compressor vane and transferring the manufacturing technology to Suzhou in the late nineties as part of the group's expansion plan.

He holds a Bachelor of Science (Hons) in Business from University of London and a Diploma in Mechanical Engineering.



Darren Zee

**Managing Director
Dolphin Engineering
Pte Ltd**

Mr Zee joined JEP Industrades Pte Ltd, subsidiary of the Group in June 2011 as a Sales Engineer. He was promoted as Deputy Managing Director of Dolphin Engineering Pte.Ltd in March 2017 and re-designated as Managing Director in January 2019. Mr Zee background is in the cutting tools industry selling tools to the manufacturing industry with 6 years' experience. His operational experience includes holding key roles in the sales and operational department in the company. He has worked in Japan with Mitsubishi Materials and visited various Japanese manufacturing companies and understands how manufacturing is done in Japan.

He holds a Bachelor of Business Studies (Hons) in Business from University College Dublin and a Diploma in Mechatronics.



Ong Han Poh

**Financial Controller
JEP Holdings Ltd**

Mr Ong joined JEP Holdings Limited in April 2016 as Senior Finance Manager and re-designated as Financial Controller in July 2018. He is overseeing Finance and Corporate Affairs of the Group. He has more than 15 years of working experience in manufacturing and trading industries involved in treasury, internal controls and managing accounts and finances. He hold a profession qualification accredited by the Chartered Institute of Management Accountants. He is member of Institute of Singapore Chartered Accountants (CA Singapore), Malaysian Institute of Accountants (CA Malaysia) and an Associate member of Chartered Institute of Management Accountants.



Loh Wai Cheong

**VP, Operations
JEP Holdings Ltd**

Mr Loh joined JEP Holdings Ltd in March 2019 as the VP Operations focusing in strategic growth of the business. Mr Loh has more than 20 years of experiences in Aerospace manufacturing, progressing from an engineer to holding various leadership roles including General Manager and Chief Operating Officer in his career with Collins Aerospace, Singapore Aerospace Manufacturing, Smiths Aerospace, GE Aviation, and Barnes Aerospace. He has also started a Greenfield Aerospace company in Suzhou China to support GE Aviation in the manufacturing and assembly of complex Aerospace Components and modules.

Mr Loh holds a BSc (1st Class Hons) in Manufacturing Engineering from Bradley University and a MSC in Computer Integrated Manufacturing from Nanyang Technological University. He has also attended GE's Leadership Development Program in Crotonville Management Campus and is a certified Six Sigma Green Belt.

Corporate Information

Company Registration No. 199401749E

Board of Directors

Executive:

Andy Luong

(Executive Chairman and Chief Executive Officer)

Zee Hoong Huay

(Executive Director)

Non-Executive:

Wong Gang

(Lead Independent Director)

Kong Chee Keong

(Independent Director)

Lee Sook Wai, Irene

(Independent Director)

Audit Committee

Kong Chee Keong (Chairman)

Wong Gang

Lee Sook Wai, Irene

Nominating Committee

Lee Sook Wai, Irene (Chairperson)

Wong Gang

Kong Chee Keong

Remuneration Committee

Wong Gang (Chairman)

Kong Chee Keong

Lee Sook Wai, Irene

Company Secretary

Cho Form Po

Registered Office

16 Seletar Aerospace Crescent

Singapore 797567

Tel : +65 6545 4222

Fax : +65 6545 2823

Website : www.jep-holdings.com

Bankers

United Overseas Bank

Maybank

Share Registrar

Boardroom Corporate & Advisory Services Pte Ltd

50 Raffles Place

#32-01 Singapore Land Tower

Singapore 048623

Auditor

Moore Stephens LLP

10 Anson Road

International Plaza, #29-15

Singapore 079903

Partner-in-charge

Neo Keng Jin

(Date of appointment: 23 April 2019)

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Corporate Governance

Corporate Governance Statement

The Board of Directors of JEP Holdings Ltd (the “**Board**”) is committed in upholding high standards of corporate governance and practices throughout JEP Holdings Ltd. (the “**Company**”) and its subsidiaries (the “**Group**”), as a fundamental part of its responsibilities to protect shareholders’ interest, enhance shareholders’ value and the financial performance of the Group.

This report describes the Group’s corporate governance practices and structures with specific reference made to the principles and provisions of the Code of Corporate Governance 2018 (the “**Code**”) issued on 6 August 2018.

The Board confirms that the Company has adhered to all principles and provisions set out in the Code as set out in this report. Where there are deviations from the Code, appropriate explanations will be provided.

(A) BOARD MATTERS

The Board as at the date of this annual report comprises:

| | |
|---------------------|--|
| Andy Luong | (Executive Chairman and Chief Executive Officer) |
| Zee Hoong Huay | (Executive Director) |
| Wong Gang | (Lead Independent Non-Executive Director) |
| Kong Chee Keong | (Independent Non-Executive Director) |
| Lee Sook Wai, Irene | (Independent Non-Executive Director) |

The profiles of Directors, including the date of last re-election of each Director are set out under the “Board of Directors” section of this annual report.

Principle 1 – The Board’s Conduct of its Affairs

The Board oversees the Company’s business and its performance and is collectively responsible for the long-term success of the Company.

The Board has overall responsibility for establishing and maintaining a framework of good corporate governance in the Group, including the risk management system and internal control to safeguard shareholders’ interests and the Group’s assets and to take into account the interest of key stakeholder groups in its decision making.

All Board members bring their independent judgement, diversified knowledge and experience to bear on issues of strategy, performance, resources and standards of conduct and ethics. The Board regularly reviews the Group’s strategic business plans, the assessment of key risks by Management and the operational and financial performance of the Group to enable the Group to meet its objectives.

The Board objectively discharges its duties and responsibilities at all times and makes decisions in the interests of the Group. The Board has delegated specific responsibilities to three sub-committees, namely the Audit Committee (“**AC**”), the Nominating Committee (“**NC**”) and the Remuneration Committee (“**RC**”) (collectively known as the “**Board Committees**”) and the Board Committees will in turn be monitored by the Board. Specific written terms of reference for the Board Committees set out the authority and duties of the Board Committees, which are reviewed on a regular basis.

The Board of Directors is responsible for shaping the Company’s strategic direction and has decided to integrate sustainability components into all the Company’s business and operations. This integration involves the consideration of Environmental, Social and Governance (ESG) factors in the Company’s business and operations. The Board will work alongside the Management to advance sustainability efforts within the Company as such.

In year 2018, the Company set up a Sustainability Steering Team within the Group with members from senior management and across all business units to conducted a materiality assessment which allowed us to identify the Environmental, Social and Governance (ESG) factors which are significant and contribute to the Company’s performance, business activities and its stakeholders. Since then, the Company has been setting performance indicators and monitoring processes are in place. The company will be issuing its Sustainability Report by second quarter of 2020 on the Company’s website.

The Company has internal guidelines on matters which require Board’s approval, including but not limited to, the appointment of directors, the company secretary and the sponsor, as well as major transactions such as, inter alia, capital funding, acquisitions and disposals of assets and the release of the Group’s financial results announcements. All Directors are required to avoid situations where their own personal or business interests may conflict or appear to conflict with the interests of the Company. Where a Director has a conflict of interest, or it appears that the Director might have a conflict of interest in relation to any matter, the Director must immediately declare personal or business interest at the Board meeting or send a written notice to the Company containing details of personal or business interest in the matter and the actual or potential conflict, and the Director shall recuse from participating in any discussion or decision on the matter.

A formal letter is provided to each Director upon their appointment, setting out their relevant duties and obligations, to acquaint them with their responsibilities as directors of the Company.

Corporate Governance

The Company conducts orientation programme for new directors, and are briefed by Management to familiarise themselves with the Group's business and governance policies and practices. The orientation programme aims to provide the new directors with an understanding of the Group's businesses to enable them to assimilate into their new roles and to get acquainted with Management, thereby facilitating Board interaction and independent access to Management. The Company also provides training for first-time directors in areas such as accounting, legal and industry-specific knowledge as appropriate and where necessary, will arrange for them to undergo training in the roles and responsibilities of a director of a listed issuer organised by the Singapore Institute of Directors.

The Company's Constitution (the "**Constitution**") allows directors to participate in Board meetings by way of teleconference.

The number of Board and Board Committees meetings held in the financial year ended 31 December 2019 ("**FY2019**") and the attendance of Directors during these meetings are as follows:

| Name of Director | Board Meeting | | Audit Committee Meeting | | Nominating Committee Meeting | | Remuneration Committee Meeting | |
|------------------------------------|----------------------------|---------------------------|----------------------------|---------------------------|------------------------------|---------------------------|--------------------------------|---------------------------|
| | Number Held ⁽¹⁾ | Attendance ⁽¹⁾ | Number Held ⁽¹⁾ | Attendance ⁽¹⁾ | Number Held ⁽¹⁾ | Attendance ⁽¹⁾ | Number Held ⁽¹⁾ | Attendance ⁽¹⁾ |
| Andy Luong | 2 | 2 | - | - | - | - | - | - |
| Zee Hoong Huay | 2 | 2 | - | - | - | - | - | - |
| Wong Gang | 2 | 2 | 2 | 2 | 1 | 1 | 1 | 1 |
| Kong Chee Keong | 2 | 2 | 2 | 2 | 1 | 1 | 1 | 1 |
| Lee Sook Wai, Irene ⁽²⁾ | 2 | 1 | 2 | 1 | n/a | n/a | n/a | n/a |
| Chung Chi-Te ⁽³⁾ | 2 | 1 | 2 | 1 | 1 | 1 | 1 | 1 |

⁽¹⁾ Number of meetings held/attended during the financial year/period from 1 January 2019 (or from date of appointment/ resignation of Director, where applicable) to 31 December 2019

⁽²⁾ Ms Lee Sook Wai, Irene was appointed on 8 July 2019

⁽³⁾ Mr Chung Chi-Te ceased to be a Director as he passed away on 28 June 2019

To keep abreast with developments in the financial, legal and accounting sectors and to ensure that the Directors are kept informed of relevant new laws, regulations and changing commercial risks, the Company encourages its Directors to attend relevant instructional or training courses at the Company's expense. In particular, the Board is regularly kept informed and updated on courses and seminars offered by the Singapore Institute of Directors which are relevant to the training and professional development of the Directors. The Directors are also briefed on the new requirements of the SGX-ST, Companies Act and other regulatory requirements from time to time by the Company Secretary, the auditors and the Sponsor. The Company Secretary or his representative attends Board and Board Committees meetings.

Board Access to Information

The Company makes available to all Directors its half-year and full-year accounts and where required, other financial statements, budgets and forecasts, and other relevant information as necessary. Detailed reports and board papers are sent out to the Directors prior to Board meetings to enable the Directors to obtain a proper understanding of the issues. With regard to budgets whereby material variances exist between the actual and forecasted numbers, they are reviewed by the Board as well as disclosed and explained by the Management, where required by the Board.

The Directors are updated regularly on corporate governance requirements, changes in listing rules and regulations, and the performance of the Group. The Directors have separate and independent access to Management, including the CEO, the Group Financial Controller ("**GFC**") and other key management personnel, as well as the Group's internal and external auditors, at all times.

Role of the Company Secretary

The Company Secretary or his representative attends all Board meetings and ensures the Board procedures and the performance of the Group's compliance obligations pursuant to the relevant statutes and regulations are followed. Under the direction of the Executive Chairman and CEO, the Company Secretary ensures good information flows within the Board and Board Committees and between senior management and NEDs, as well as facilitating orientation and assisting with professional development, if required. The appointment and removal of the Company Secretary can only be taken by the Board as a whole.

Professional Advice taken by the Board

The Directors, either individually or as a group, in the furtherance of their duties, may take independent professional advice, if necessary, at the Company's expense.

Corporate Governance

Principle 2 – Board Composition and Guidance

Board Independence

The Board comprises five members, of which, three are independent non-executive directors (“INED”) i.e., they have no relationship with the Company, its related companies, its substantial shareholders, or their officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director’s independent business judgement in the best interests of the Group. No individual or small group of individuals dominates the Board’s decision making.

All Directors are required to disclose any relationships or appointments which would impair their independence to the Board as and when the need arises. Based on the evaluations conducted by the NC, the Board views that the INEDs of the Company are independent in character and judgement and that there are no relationships which are likely to affect or could appear to affect the Director’s judgement in the course of discharging his fiduciary duties.

As and when directors serve beyond nine years, the NC performs a particularly rigorous review to assess the independence of the relevant directors. None of the INEDs have served the Company for a period exceeding nine years, except for Mr Wong Gang. Based on the results of the rigorous review and assessment, the NC and the Board are of the view that Mr Wong Gang is considered independent, notwithstanding that he has been on the Board for more than nine years, because he has continued to demonstrate strong independence in character and judgement and has contributed effectively as the Lead Independent Director by providing impartial and autonomous views.

Board Composition and Size

The NC reviews the size and composition of the Board and Board Committees on an annual basis. The Board comprises business leaders and professionals with financial, legal and business management background. The Board, as a whole, has an appropriate balance and mix of skills with the necessary core competencies such as accounting or finance, business or management experience and industry knowledge, strategic planning experience and customer-based experience or knowledge, as well as other aspects of diversity such as gender diversity. This allows the Board to foster constructive debate and avoid groupthink. The Board Diversity Policy was established in February 2020 and sets out the approach to achieve diversity in the Company’s Board. The Company recognises and embraces the importance and benefits of having a diverse Board to enhance the quality of its performance. It is accordingly committed to promoting diversity of the Board.

In consideration of the current scope and nature of the operations of the Group’s operations, the Board is satisfied that the current composition and size of the Board is appropriate and allows for effective decision making at the Board and Board Committees meetings.

Role of non-executive Directors

Although all the Directors have an equal responsibility for the Group’s operations, the role of non-executive directors (“NED”) is particularly important in ensuring that the strategies proposed by Management are constructively challenged from an objective perspective, and at the same time take into account any constructive suggestions that will shape the Company’s policies. NEDs also aid in the review of Management’s performance and monitor Management’s reporting framework.

The NEDs meet regularly without the presence of Management.

Principle 3 – Chairman and Chief Executive Officer

Role of Chairman and Chief Executive Officer

The position of Chairman and Chief Executive Officer (“CEO”) are held by Mr Andy Luong. Although the roles and responsibilities for the Executive Chairman and CEO are vested in Mr Andy Luong, major decisions are made in consultation with the Board which comprises a majority of INEDs. The Board is of the view that there are adequate measures in place against any uneven concentration of power and authority in one individual.

As the Executive Chairman and CEO, Mr Andy Luong is responsible for leading the Board and ensuring that the Board is effective in all aspects of its role. He encourages constructive relations within the Board and between the Board and Management, and takes a lead role in promoting high standards of corporate governance. This includes setting the agenda for Board meetings, ensuring that adequate time is available for the discussion of all agenda items at Board meetings, promoting a culture of openness and debate at the Board and effective communication with shareholders, encouraging the NEDs to contribute effectively, and exercising control over the complete, adequate and timely information flow between the Board and Management. He also has full executive responsibilities over the business directions and operational decisions in the day-to-day management of the Group and is responsible in assisting the Board to develop corporate policies and strategies.

Lead Independent Director

Mr Wong Gang is the Lead Independent Director (“LID”) and is available to shareholders, where they have concerns and for which contact through the normal channels of the Executive Chairman and CEO or Management are inappropriate or inadequate.

Corporate Governance

All NEDs led by the LID, meet at least once annually without the presence of Executive Directors and Management to discuss matters of significance which are thereon reported to the Chairman accordingly.

Principle 4 – Board Membership

NC composition and Role

The NC comprises three members, all of whom are INEDs.

Lee Sook Wai, Irene (Chairperson)
Wong Gang
Kong Chee Keong

The principal role of the NC is to establish a formal and transparent process for appointments and reappointments to the Board and to review Board effectiveness, structure, size and composition. Other roles include reviewing the Board's succession plans as well as succession plans for Executive Chairman and CEO and Key Management Personnel, training needs and professional development programmes.

The NC is responsible for identifying and nominating candidates for the Board, determining annually, whether a Director is independent in accordance with the guidelines set out in the Code, filling board vacancies as well as to put in place plans for succession.

Directors' Time Commitments

The NC monitors and determines annually whether Directors who have multiple board representations and principal commitments, give sufficient time and attention to the affairs of the Company and adequately carry out his duties as a Director of the Company. The NC takes into account the results of the assessment of the effectiveness of the individual director and his actual conduct on the Board, in making this determination.

The NC has ascertained that for the period under review, where a Director had other listed company board representations and/or other principal commitments, the Director was able to carry out and had been adequately carrying out, his duties as a Director of the Company. The Directors have expressed that they are committed to carrying out their roles and responsibilities to their best of efforts. The NC concluded that there is no need to impose a limit on the number of board representations at this stage.

The Company does not have any alternate directors.

Re-nomination of Directors

The Constitution provides that at least one-third of the Board retires by rotation at every Annual General Meeting ("AGM"), and in accordance with the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Manual Section B: Rules of the Catalist ("Catalist Rules") all Directors will be required to submit themselves for re-nomination and re-election on a rotational basis and at least once every 3 years. All new Directors appointed by the Board during the year shall hold office until the next AGM, and are eligible for re-elect at the said AGM.

The Board has accepted NC's nomination of the retiring Directors, Mr Andy Luong, Mr Zee Hoong Huay and Ms Lee Sook Wai, Irene for re-election as directors at the forthcoming AGM ("2020 AGM").

Process for Nomination and Selection of New Directors

The process for selection and appointment of new directors will be led by the NC in the following order: (i) determining the desirable competencies for the appointment, and after consultation with the Management, (ii) assessing the suitability of the candidates and conducting an open dialogue to ensure that each candidate is aware of his role and obligations and (iii) submitting a final shortlist for recommendation to the Board.

The search and nomination process for new directors, led by the NC, is as follows:

- the NC evaluates the balance, skills, knowledge and experience of the existing Board and the requirements of the Group. In light of such evaluation, the NC determines the role and key attributes that an incoming director should have.
- after endorsement by the Board of the key attributes required, the NC taps on the networking resources of the existing Directors and seeks recommendations from them in relation to the potential candidates, and goes through a short listing process. If candidates identified from this process are not suitable, executive recruitment agencies are appointed to aid in the search process.
- the NC meets with the shortlisted candidate(s) to assess suitability and to ensure that the candidate(s) is/are aware of the expectations and the level of commitment required.
- the NC recommends the most suitable candidate to the Board for appointment as Director.

Corporate Governance

Principle 5 – Board Performance

Board Evaluation Process

Based on the recommendations by the NC, the Board has established processes and objective performance criteria for evaluating the effectiveness of the Board as a whole and its Board Committees and for assessing the contribution by the Executive Chairman and individual Directors to the effectiveness of the Board.

Board Evaluation Criteria

Part of the evaluation process is through the review of the appraisal and evaluation forms, which considered an assessment of the following key performance criteria:

- Board size and composition of the Board
- Board independence
- Board processes
- Board information and accountability
- Board performance in discharging principal functions
- Board Committee performance
- Board time commitment
- Board diversity
- Overall contribution

(B) REMUNERATION MATTERS

Principle 6 – Procedures for Developing Remuneration Policies

RC Composition and Role

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

Wong Gang (Chairman)
Kong Chee Keong
Lee Sook Wai, Irene

The RC is responsible for ensuring a formal and transparent procedure for developing policies on director and executive remuneration, and for determining the remuneration packages of individual Directors and Key Management Personnel.

The RC's principal responsibilities are:

- Reviewing and recommending to the Board for the endorsement, a general framework for computation of directors' fees of the Board and Key Management Personnel. For Executive Directors and Key Management Personnel, the framework covers all aspects of executive remuneration. Such remuneration packages include but are not limited to director's fees, salaries, allowances, bonuses and benefits in kind; and
- Reviewing and recommending the specific remuneration packages for each Director and the Company's Key Management Personnel.

The RC reviews the reasonableness of the contracts of service of Executive Directors and Key Management Personnel to ensure that their compensation commensurate with the responsibilities and risks involved in being a Director and that their remuneration packages are comparable within the industry and include a performance-related element with appropriate and meaningful measures of assessing performance. In 2019, no remuneration consultants were engaged by the Company.

Principle 7 – Level and Mix of Remuneration

Remuneration of Directors and key management personnel

The INEDs do not have any service agreements with the Company. Save for directors' fees, which have to be approved by the shareholders at every AGM, the INEDs do not receive any other remuneration from the Company. No Director or member of the RC is involved in deciding his own remuneration.

Based on the Remuneration Framework, the service contract for Executive Directors and Key Management Personnel comprises a fixed component (in the form of basic salary, fixed allowance and other benefits-in-kind) and variable components (in the form of annual performance bonus) which is based on the Group's and individual performance. The service contracts of Executive Directors provide for a fixed appointment period, after which they are subject to re-election.

The Company has in place a performance incentive scheme ("**Scheme**"). The Scheme is to motivate eligible participants towards better performance through increase dedication and loyalty.

Corporate Governance

Principle 8 – Disclosure on Remuneration

The remuneration of Directors and the top four Key Management Personnel of the Company for FY2019 are set out below:

| Name | Fees ⁽¹⁾ | Salary ⁽²⁾ | Bonus ⁽²⁾ | Others ⁽³⁾ | Total |
|------------------------------------|---------------------|-----------------------|----------------------|-----------------------|-------|
| Directors | | | | | |
| S\$250,000 – S\$499,999 | | | | | |
| Andy Luong | – | 55% | 45% | – | 100% |
| Zee Hoong Huay | – | 71% | 17% | 12% | 100% |
| Below S\$250,000 | | | | | |
| Wong Gang | 100% | – | – | – | 100% |
| Kong Chee Keong | 100% | – | – | – | 100% |
| Lee Sook Wai, Irene ⁽⁴⁾ | 100% | – | – | – | 100% |
| Chung Chi-Te ⁽⁵⁾ | 100% | – | – | – | 100% |

| Key Management Personnel | | | | | |
|---------------------------------|---|-----|-----|-----|------|
| Below S\$250,000 | | | | | |
| Eddie Goh Kuan Teck | – | 70% | 22% | 8% | 100% |
| Darren Zee Yu Liang | – | 61% | 22% | 17% | 100% |
| Ong Han Poh | – | 66% | 30% | 4% | 100% |
| Loh Wai Cheong | – | 80% | 7% | 13% | 100% |

Notes

- ⁽¹⁾ These fees were approved by shareholders at the last AGM held on 23 April 2019.
- ⁽²⁾ Salaries and bonuses include employer contributions to the Central Provident Fund. Bonuses also include performance-related incentives.
- ⁽³⁾ Allowances and fringe benefits (included benefits in kind).
- ⁽⁴⁾ Ms Lee Sook Wai, Irene was appointed as Independent Director, Chairperson of the Nominating Committee and members of the Audit Committee and Remuneration Committee on 8 July 2019.
- ⁽⁵⁾ Mr Chung Chi-Te ceased as Independent Director as he passed away on 28 June 2019.

The Board is of the view that it is not in the interests of the Company to disclose the amount of remuneration of each individual Director and the CEO and the amount of the remuneration paid to the top four Key Management Personnel (who are not Directors or the CEO) in this report due to the sensitive and confidential nature of such information and disadvantages that this might bring.

There are no termination, retirement and post-employment benefits granted to Directors, the CEO and the top four key management personnel.

The table below shows annual remuneration (in incremental bands of S\$100,000) of employees who are immediate family members of a Director, the CEO or a substantial shareholder, and whose remuneration exceeds S\$100,000 during FY2019:

| Remuneration Band & Name of Executive |
|---------------------------------------|
| S\$200,000 – S\$299,999 |
| Darren Zee Yu Liang |

Mr Darren Zee Yu Liang, is the eldest son of Mr. Zee Hoong Huay, Executive Director and substantial shareholder of the Company.

(C) ACCOUNTABILITY AND AUDIT

Accountability of the Board and Management

The Board is collectively responsible for the success of the Company and works with the Management to achieve this. The Company reports its financial results half yearly.

Through these reports, the Board aims to provide shareholders with a balanced and understandable assessment of the Group's financial performance, position and prospects.

Corporate Governance

The Management provides all members of the Board with sufficient and timely information on its financial performance and potential issues before all Board and Board Committees meetings.

In line with the continuous disclosure obligations of the Company and in accordance with the Catalist Rules and the Companies Act, the Board adopts a policy whereby shareholders will be informed of all major developments of the Company.

Financial information and other price sensitive information are circulated in a timely manner to the shareholders through announcements via SGXNET, press releases, the Company's website, media and analysts' briefings. The Company's corporate information as well as annual reports are also available on the Company's website.

The Management makes available to all Directors its half-year and full-year management accounts and where required, such other necessary financial information for other periods, if applicable.

Principle 9 – Risk Management and Internal Controls

The Company does not have a risk management committee. The Board is overall responsible for the management of risk within the Group. It ensures that the Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the Company's assets, and determines the nature and extent of the significant risks which the Board is willing to take in achieving its strategic business objectives.

Virtus Assure Pte Ltd ("VA"), the Company's internal auditor conducted a major review of the Group's operations and business to identify and assess risks relevant to the Group with the objective of mitigating the risks, and allocating the Group's resources to create and preserve value aligned to the Group's strategy. VA performed a facilitative role in the risk assessment process and conducted an enterprise risk assessment with the Management and relevant employees to identify key risks that would impact the achievement of the Group's business objectives. The risk assessment exercise highlighted pertinent risks in strategic, operational, financial, regulatory compliance and information technology areas. Identified risks formed a basis of the Group's risk management framework and the Enterprise Risk Management ("ERM") manual.

The risk management framework and ERM manual developed provide the architecture for managing risks across the Group. Identification, evaluation and reporting of risks are conducted by an in-house risk management team on a continuing basis.

The Management is responsible for ensuring that the risks identified are relevant to the business environment and that controls or mitigating factors are in place. The Board reviews and approves policies and procedures for managing identified risks. The AC provides independent oversight to the effectiveness of the risk management process.

The internal auditors conduct annual reviews of the adequacy and effectiveness of the Group's key internal controls, including financial, operational, compliance and information technology controls and risk management systems. Any material non-compliances or lapses in internal controls and recommendation for improvement are reported to the AC. All required corrective and preventive measures, and steps for improvement are closely monitored. In addition to performing audit of the financial statements, the external auditors perform tests over operating effectiveness of certain controls that the auditors intend to rely on that are relevant to the Group's preparation of its financial statements. The external auditors also report any significant deficiencies in such internal controls to the Board and the AC.

The effectiveness of the Group's system of internal controls are in place to address the key financial, operational, compliance and information technology risks affecting the operations are reviewed by the AC, together with the Board.

In compliance with Rule 1204 (10) of the Catalist Rules, the Board, with the concurrence of the AC, is of the opinion that the Company has a robust and effective internal control system. The system of internal controls is sufficiently adequate and effective to address the information technology controls and risk management systems, as well as the financial, operational, compliance and information technology risks based on the internal controls established and maintained by the Group and reports from the internal auditors and external auditors.

The Board 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.

The Board had received assurance from the Chief Executive Officer, Executive Director and the GFC (who performs the role of a chief financial officer) and the internal auditors that: (i) the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances and (ii) the Company's risk management and internal control systems are adequate and effective.

Corporate Governance

Principle 10 – Audit Committee

Composition of the AC

The AC comprises three members who have recent and relevant accounting or related financial expertise or experience to discharge their responsibilities. It comprises three INEDs.

Kong Chee Keong (Chairman)
Wong Gang
Lee Sook Wai, Irene

None of the members of the AC is a former partner or director of the Company's external auditors, Moore Stephens LLP within a period of the past two years or has any financial interest in the audit firm.

The Board is of the view that all the members of the AC are appropriately qualified to discharge their responsibilities.

Roles and Responsibilities of the AC

The principal responsibilities of the AC are:

- a) to review with the external auditors their audit plan, audit report, management letter and the Management's response;
- b) to review the half-year and full-year financial statements on significant financial reporting issues and judgments before submission to the Board for approval;
- c) to review any formal announcements relating to the Company's financial performance;
- d) to discuss problems and concerns, if any, arising from the interim and final audits, in consultation with the external auditors;
- e) to meet with the internal and external auditors without the presence of the Management, at least annually, to discuss any problems and concerns they may have;
- f) to review the assistance given by the Management to external auditors;
- g) to review and evaluate the adequacy and effectiveness of the Company's internal controls, including financial, operational, compliance and information technology controls;
- h) to review the effectiveness of the Company's internal audit function;
- i) to review annually the scope and results of the external audit and its cost-effectiveness as well as the independence and objectivity of the external auditors;
- j) to review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters within its terms of reference or whistle-blowing reports;
- k) to report to the Board its findings from time to time on matters arising and requiring the attention of the AC;
- l) to review interested person transactions ("IPT") falling within the scope of the Catalyst Rules;
- m) to undertake such other reviews and projects as may be requested by the Board;
- n) to review the assurance from the Chief Executive Officer, Executive Director and the Group Financial Controller on the financial records and financial statements; and
- o) to consider the appointment/re-appointment of external auditors, the audit fee and matters relating to the resignation or dismissal of auditors.

The Company has put in place a whistle blowing policy, reviewed and endorsed by the AC, whereby the employees can, in confidence, raise concerns relating to financial reporting, unethical or improper conduct to the AC for investigation. The LID will lead in all queries as may be raised by the staff of the Company.

The AC assists the Board in discharging its responsibility to safeguard the Group's assets, maintain adequate accounting records and develop and maintain effective systems of internal control, with the overall objective of ensuring that the Management creates and maintains an effective control environment. The AC provides a channel of communication between the Board, the Management, and the internal and external auditors on audit matters.

The AC also has explicit authority to investigate any matter within its terms of reference, full access to and co-operation by the Management and full discretion to invite any Director to attend its meetings, and reasonable resources to enable it to discharge its functions properly. The AC meets with the internal and external auditors, without the presence of the Management, at least once a year.

Changes to accounting standards and issues which have a direct impact on financial statements will be highlighted to the AC from time to time by the external auditors. The external auditors will work with the Management to ensure that the Group complies with the new accounting standards, if applicable.

Corporate Governance

Financial Matters

In the review of the financial statements, the AC has discussed with Management the accounting principles that were applied and their judgement of items that might affect the integrity of the financial statements. The following significant matters impacting the financial statements were discussed with Management and the external auditor and were reviewed by the AC:

| Significant matters | How the AC reviewed these matters and what decision were made |
|-------------------------------|---|
| Impairment review of goodwill | <p>The AC considered the approach and methodology applied to the valuation model in goodwill impairment assessment. It reviewed the reasonableness of cash flow forecasts, the terminal growth rate, budgeted gross margins and discount rate.</p> <p>The impairment review was also an area of focus of the external auditor. The external auditor has included this item as a key audit matter in its audit report for the financial year ended 31 December 2019.</p> |
| Valuation of inventories | <p>The AC considered the approach and assessment applied in determining the allowance for inventory obsolescence and the net realisable value of the inventories.</p> <p>The assessment of the carrying amount of inventories was also an area of focus of the external auditor. The external auditor has included this item as a key audit matter in its audit report for the financial year ended 31 December 2019.</p> |

Interested Person Transactions (“IPT”)

The AC reviewed the Group’s IPT to ensure that the transactions were executed at normal commercial terms and did not prejudice the interests of the Group and its minority shareholders.

The Company obtained its shareholders’ mandate for IPTs between the Group and UMS Holdings Limited and its subsidiaries at an Extraordinary General Meeting held on 23 April 2019.

In line with the rules set out in Chapter 9 of the Catalist Rules, the aggregated value of transactions entered into by the Group with interested persons namely, UMS Group in FY2019 as shown in the table below, the aggregate value of all interested person transactions during the period was approximately 16.0% of the Group’s audited net tangible assets as at 31 December 2018.

| Name of interested person | Nature of Relationship | Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders’ mandate pursuant to Rule 920) | Aggregate value of all interested person transactions conducted under shareholders’ mandate pursuant to Rule 920 (excluding transactions less than S\$100,000) |
|---|--|--|--|
| | | 31 December 2019 | 31 December 2019 |
| UMS Holdings Limited & its subsidiaries | Controlling shareholder of the Company | S\$433,611 | S\$5,052,696 |

Save for the IPTs disclosed above, the AC is satisfied that there were no material contracts of the Company and its subsidiaries involving the interest of the Executive Chairman or any Director or controlling shareholder subsisted at the end of the financial year or had been entered into since the end of the previous financial year. In the event that a member of the AC is involved in any interested person transaction, he or she will abstain from reviewing that particular transaction.

The Group will seek shareholders’ approval on the renewal of the IPT General Mandate at the forthcoming Annual General Meeting.

External Auditor

In assessing independence of external auditor, Moore Stephens LLP, the AC reviewed the fees and expenses paid to the external auditor, including fees paid for non-audit services during the year. There were no non-audit services rendered by the external auditor for FY2019. The AC is of the opinion that the external auditor is independent and was adequate and effective in performing its audit.

| | S\$’000 | % of fees |
|----------------|------------|------------|
| Audit fees | 100 | 100 |
| Non-audit fees | – | – |
| Total fees | <u>100</u> | <u>100</u> |

The Group has also complied with Rules 712 and 715 of the Catalist Rules in relation to the engagement of its external auditors.

Corporate Governance

Internal Audit

The Internal Auditors, Virtus Assure Pte. Ltd. reports directly to the AC Chairman and administratively to the Executive Chairman and CEO. The main objective of the internal audit function is to assist the Group in evaluating and assessing the effectiveness of internal controls, and to highlight the areas where control weaknesses exist, if any. The Company continues to work with the internal auditor to identify other scope of work which will help to further enhance the robustness of the Company.

The internal auditor carried out its function according to the standards set by locally or internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

The AC has reviewed the independence, adequacy and effectiveness of the internal audit function at least annually and ensured that it is adequately resourced and has appropriate standing within the Company. Based on the review, the AC was of the view that the internal audit function is independent, effective and adequately resourced.

The AC approves the hiring, removal, evaluation and compensation of the internal auditor, who has unfettered access to all the Company's documents, records, properties and personnel, including access to the AC.

(D) SHAREHOLDER RIGHTS AND ENGAGEMENT

Principle 11 – Shareholder Rights and Conduct of General Meetings

Shareholder Rights

The Board is committed to being open and transparent in the conduct of the Company's affairs, while preserving the commercial interests of the Company. The Board is mindful of its obligations to provide timely and fair disclosure of material information in accordance with the Corporate Disclosure Policy of the SGX-ST financial results, annual reports and other material information are released via SGXNET. Announcements released via SGXNET are also uploaded promptly on the Company's corporate website. The Company's website: www.jep-holdings.com contains regular up to date information and corporate profile of the Group. All shareholders and the public can access for more information of the Company through this website.

The Company is in full support of shareholder participation at general meetings. For those who hold their shares through nominee or custodial services, they are allowed, upon prior request through their nominee, to attend the general meetings as observers without being constrained by the two-proxy rule.

The Company allows corporations which provide nominee or custodial services to appoint more than two proxies so that shareholders who hold shares through such corporations can attend and participate in general meetings as proxies.

All resolutions at general meetings are voted on by poll so as to better reflect shareholders' shareholding interests and ensure greater transparency. Shareholders are briefed by the appointed polling agent on the poll voting procedures at the general meetings. The appointed scrutineer will ensure that the poll process is properly carried out and the counting of the votes is verified by the scrutineer. The poll voting results, in addition to the proxy voting results, are presented to the audience and subsequently released via SGXNET.

Communication with Shareholders

Shareholders are informed of shareholders' meeting through notices published in the newspapers and reports, or circulars sent to all shareholders.

At general meetings, shareholders are given the opportunity to express their views and ask questions regarding the Group and its businesses. The Constitution allows a shareholder to appoint one or two proxies to attend and vote in place of the shareholder. The Constitution contains provision for any shareholder to vote in absentia.

Each item of special business in the notices of the shareholders' general meetings is accompanied, where appropriate, by an explanation for the proposed resolution. Separate resolutions are proposed for each distinct issue. All minutes of general meetings are available to shareholders upon request.

All Directors, including the Chairmen of the AC, NC and RC are in attendance at the general meeting to allow shareholders the opportunity to express their views and ask Directors questions regarding the Company. In addition, external auditors are also invited to attend AGMs to assist the Directors in answering any queries relating to the conduct of the audit and the contents of the auditors' report.

Corporate Governance

Principle 12 – Engagement with Shareholders

The Company has in place an Investor Relations (“IR”) policy outlining the principles and practices adopted in the course of its investor relations activities, including communication with shareholders and the investment community.

The IR policy reflects avenues for communication between shareholders and the Company, including shareholders’ meetings, the Company’s annual report and sustainability report, the information available on the Company’s website, results announcements, meetings with analysts and media, and describes how shareholders may contact the Company should they have questions. The policy thus allows for an ongoing exchange of views with shareholders, thereby promoting regular, effective and fair communication.

(E) MANAGING STAKEHOLDERS RELATIONSHIPS

Principle 13 – Engagement With Stakeholders

The Company’s key stakeholders are listed in its Sustainability Report. They are the Company’s shareholders, its employees and workers, its consumers, its suppliers and business partners, communities, government and regulators, and its financiers. The Sustainability Report also outlines how relationships with these key stakeholders are managed.

The Group’s policies including the Board Diversity Policy, the Investor Relations Policy and Whistle-blowing Policy facilitate the Group’s engagement with its key stakeholders. The Sustainability Report outlines the Group’s policies, practices, performance and targets in relation to its Economic and Environmental, Social and Governance activities. Developed in accordance with the Global Reporting Initiative Standards 2016 (Core option), the Group endeavours to communicate how sustainability is embedded in its business practices and value chain across its operations in the report.

Stakeholders may contact the Company through ‘Contact Us’ in the Company’s corporate website.

Dividend Policy

The Company does not have a fixed dividend policy. The form, frequency and amount of dividends will depend on the Company’s earnings, operational and capital requirements, cash flow and financial conditions, as well as general business conditions and other factors which the Board may deem appropriate. The Board endeavours to maintain a balance between meeting shareholder’s expectations and prudent capital management. The Board will review the dividend payment from time to time.

Additional Information Required by the Singapore Exchange Securities Trading Limited

1. Securities transactions

In compliance with Rule 1204 (19) of the Catalist Rules, the Company imposes a trading embargo on its Directors and employees from trading in its securities for the period of one month prior to the announcement of the half-year and full-year financial results, or when they are in possession of unpublished material price-sensitive information.

An internal memorandum was circulated informing all persons covered by the policy that they are prohibited from dealing in the securities of the Company during the ‘closed window’ period until after the release of the results. The Company’s internal memorandum includes the clause whereby an officer of the Company is prohibited from dealing in the Company’s securities on short-term considerations.

In view of the policy in place, the Board is of the opinion that the Company has complied with the recommended best practices on dealings in securities under Rule 1204 (19) of the Catalist Rules.

2. Sponsor

During the current financial year, there were no non-sponsor fees paid to the Sponsor.

3. Additional Information on Directors seeking re-appointment

Pursuant to Rule 720(5) of Catalist Rules, the information relating to the directors who are seeking re-appointment at the forthcoming Annual General Meeting of the Company, as set out in Appendix 7F to the Catalist Rules is set out below:

Corporate Governance

| | Mr. Andy Luong | Mr. Zee Hoong Huay | Ms. Lee Sook Wai, Irene |
|---|--|--|--|
| Date of appointment | 22 February 2018 | 27 August 2015 | 8 July 2019 |
| Date of last re-appointment | N/A | 26 April 2016 | N/A |
| Age | 60 | 63 | 60 |
| Country of principal residence | Singapore | Singapore | Singapore |
| The Board's comments on the re-appointment | Based on the recommendation of the Nominating Committee, the Board (save for Mr. Andy who abstain from deliberating his own re-election) propose to the Company's shareholders to approve the re-election of Mr. Andy as an director of the Company. | Based on the recommendation of the Nominating Committee, the Board (save for Mr. Zee who abstain from deliberating his own re-election) propose to the Company's shareholders to approve the re-election of Mr. Zee as an director of the Company. | Based on the recommendation of the Nominating Committee, the Board (save for Ms. Lee who abstain from deliberating her own re-election) propose to the Company's shareholders to approve the re-election of Ms. Lee as an independent director of the Company. |
| Whether the appointment is executive, and if so, the area of responsibility | Executive, responsible for overall management and operations of the Group, setting and executing the strategic directions and expansion plans for the sustainable growth and development of the Group, including a merger and acquisition opportunities. | Executive, responsible for overseeing the Group overall operations and strategies and developing new businesses for the Group and supervise an implementation of internal control for the Group. | Non-Executive |
| Job title (e.g. Lead ID, AC Chairman, AC Member etc.) | Executive Chairman and Chief Executive Officer | Executive Director | Independent Director, Chairperson of Nominating Committee and Members of the Audit Committee and Remuneration Committee |
| Working experience and occupation(s) in the past 10 years | <p><u>2018 – present</u> JEP Holdings Limited Executive Chairman and Chief Executive Officer</p> <p><u>2005-present</u> UMS Holdings Limited Chief Executive Officer</p> | <p><u>1986 – 2015</u> JEP Industrades Pte Ltd Co-founder and Managing Director</p> <p><u>2015 – present</u> JEP Holdings Limited Executive Director</p> | <p><u>2012-2018</u> Kulicke & Soffa Pte Ltd Senior Vice President Global Operations, Chief Quality Officer</p> <p><u>1987-2011</u> Seagate Technology Int'l Inc Vice President, Head of Asia Quality</p> |
| Shareholding interest in the listed issuer and its subsidiaries | <p>1,150,000 (direct interest)</p> <p>164,279,170 (deemed to have an interest in the shares held by UMS Holdings Ltd)</p> | <p>54,370,355 (direct interest)</p> <p>7,759,500 (deemed to have an interest in the shares held by his spouse, Ms. Lee Pui Rong)</p> | No |
| Any relationship (including immediate family relationships) with any existing director, existing executive director, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries | No | Zee Yu Liang Darren, Managing Director of Dolphin Engineering Pte. Ltd. is the eldest son. | No |
| Conflict of interest (including any competing business) | No | No | No |
| Undertaking (in the format set out in Appendix 7H) under Rule 720(1) has been submitted to the Company | Yes | Yes | Yes |

Corporate Governance

| | Mr. Andy Luong | Mr. Zee Hoong Huay | Ms. Lee Sook Wai, Irene |
|--|--|--|--|
| Other principal commitments including directorships | | | |
| Present | <p>Present Directorships:</p> <p><u>Listed company</u></p> <ul style="list-style-type: none"> • UMS Holdings Ltd <p>Group company of UMS Holdings Ltd:</p> <ul style="list-style-type: none"> • UMS Systems Pte Ltd • UMS International Pte Ltd • UMS Pte Ltd • UMS Solutions Pte Ltd • UMS Aerospace Pte Ltd • Integrated Manufacturing Technologies Pte Ltd • Kalf Engineering Pte Ltd • Starke Singapore Pte Ltd • Starke Asia Sdn Bhd • Ultimate Machining Solutions (M) Sdn Bhd • Ultimate Manufacturing Solutions (M) Sdn Bhd • 浙江凯富环境治理工程有限公司. • Integrated Manufacturing Technologies Inc. • Ultimate Mechanical System Sdn Bhd • Allstar Manufacturing Sdn Bhd <p><u>Non-listed companies</u></p> <ul style="list-style-type: none"> • JEP Precision Engineering Pte Ltd • Dolphin Engineering Pte Ltd • JEP Industrades Pte Ltd • Dolphin Manufacturing Solutions Sdn Bhd. • Universal Alloy Corporation Asia Pte Ltd • Full City Investments Ltd <p><u>Other commitments</u></p> <ul style="list-style-type: none"> • Questworld Investments LLP (Partner) | <p>Present Directorships</p> <p><u>Non-listed companies</u></p> <ul style="list-style-type: none"> • JEP Industrades Pte Ltd • JEP Precision Engineering Pte Ltd | Nil |
| Past (for the last 5 years) | <ul style="list-style-type: none"> • JEP China Holdings Pte Ltd (<i>Struck off</i>) • Kalf Technology Pte Ltd (<i>Struck off</i>) | <ul style="list-style-type: none"> • Oct Tooling Pte Ltd | <ul style="list-style-type: none"> • Senior Vice President Global Operations, Chief Quality Officer, Kulicke & Soffa Pte Ltd • Non-Executive Director, Musical Theatre Limited (IPC) |

Corporate Governance

| | | Mr. Andy Luong | Mr. Zee Hoong Huay | Ms. Lee Sook Wai, Irene |
|---|---|----------------|--------------------|-------------------------|
| Information required pursuant to Listing Rule 704(7) | | | | |
| a | Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner? | No | No | No |
| b | Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency? | No | No | No |
| c | Whether there is any unsatisfied judgment against him? | No | No | No |
| d | Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose? | No | No | No |
| e | Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach? | No | No | No |

Corporate Governance

| | | Mr. Andy Luong | Mr. Zee Hoong Huay | Ms. Lee Sook Wai, Irene |
|---|--|-----------------------|---------------------------|--------------------------------|
| f | Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part? | No | No | No |
| g | Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust? | No | No | No |
| h | Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust? | No | No | No |
| i | Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity? | No | No | No |

Corporate Governance

| | | Mr. Andy Luong | Mr. Zee Hoong Huay | Ms. Lee Sook Wai, Irene |
|---|---|-----------------------|---------------------------|--------------------------------|
| j | Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of: (i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or (ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or (iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or (iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust? | No | No | No |
| k | Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere? | No | No | No |

Directors' Statement

The directors present their statement together with the audited consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2019.

In the opinion of the directors:

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

1 Directors

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

Andy Luong
Zee Hoong Huay
Wong Gang
Kong Chee Keong
Lee Sook Wai, Irene (Appointed on 8 July 2019)

2 Arrangements to Enable Directors to Acquire Benefits by Means of the Acquisition of Shares and Debentures

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate.

3 Directors' Interests in Shares, Debentures and Warrants

The directors of the Company holding office at the end of the financial year had no interests in the share capital, debentures and warrants of the Company and related companies as recorded in the register of directors' shareholdings kept by the Company under Section 164 of the Singapore Companies Act except as follows:

| Names of directors and companies in which interests are held | Shareholdings registered in name of director | | | Shareholdings in which director is deemed to have an interest | | |
|--|--|------------------------|-----------------------|---|------------------------|-----------------------|
| | As at 1 January 2019 | As at 31 December 2019 | As at 21 January 2020 | As at 1 January 2019 | As at 31 December 2019 | As at 21 January 2020 |
| <u>The Company</u> | | | | | | |
| Andy Luong | | | | | | |
| - Ordinary shares | - | 1,150,000 | 1,150,000 | 111,466,075 | 160,149,170 | 164,279,170 |
| - Warrants | - | - | - | - | - | - |
| Zee Hoong Huay | | | | | | |
| - Ordinary shares | 50,778,855 | 55,353,855 | 51,353,855 | 6,401,000 | 7,759,500 | 7,759,500 |
| - Warrants | - | - | - | 4,233,500 | - | - |

By virtue of Section 7 of the Singapore Companies Act, Mr Andy Luong and Mr Zee Hoong Huay are deemed to have an interest in the shares of the Company and in all the related companies of the Company.

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

Directors' Statement

4 Share Options

- (a) Option to take up unissued shares

During the financial year, no option to take up unissued shares of the Company or any corporation in the Group was granted.

- (b) Option exercised

During the financial year, there were no shares of the Company or any corporation in the Group issued by virtue of the exercise of an option to take up unissued shares.

- (c) Unissued shares under option

At the end of the financial year, there were no unissued shares of the Company or any corporation in the Group under option.

5 Audit Committee

The Audit Committee comprises the following members:

| | |
|---------------------|-------------------------------------|
| Kong Chee Keong | (Chairman and Independent Director) |
| Wong Gang | (Lead Independent Director) |
| Lee Sook Wai, Irene | (Independent Director) |

The Audit Committee performs the functions set out in Section 201B (5) of the Companies Act, Cap. 50, the Listing Manual of the Singapore Exchange and the Code of Corporate Governance. In performing those functions, the Audit Committee:

- (i) reviewed the overall scope of both the internal and external audits and the assistance given by the Company's officers to the auditors. It met with the Company's internal and external auditors to discuss the results of their respective examinations and their evaluation of the Company's system of internal accounting controls;
- (ii) reviewed the audit plan of the Company's independent auditor and any recommendations on internal accounting controls arising from the statutory audit;
- (iii) reviewed the half yearly financial information and the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2019 as well as the independent auditor's report thereon;
- (iv) reviewed the effectiveness of the Group's key internal controls, including financial, operational, compliance controls and information technology controls and risk management systems via reviews carried out by the internal auditors;
- (v) met with the internal and external auditors, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the Audit Committee;
- (vi) 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;
- (vii) reviewed the cost effectiveness and the independence and objectivity of the external auditor;
- (viii) reviewed the nature and extent of non-audit services provided by the external auditor;
- (ix) 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;
- (x) reported actions and minutes of the Audit Committee to the Board of Directors with such recommendations as the Audit Committee considered appropriate; and
- (xi) reviewed the interested person transactions as defined in Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**").

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditor and reviews the level of audit and non-audit fees.

Directors' Statement

In performing its functions, the Audit Committee has also met with the Company's internal and external auditors, without the presence of the Company's management, at least once a year.

The Audit Committee has recommended to the Board of Directors the nomination of Moore Stephens LLP for re-appointment as external auditor of the Group at the forthcoming Annual General Meeting.

In appointing our auditors for the Company and its subsidiaries, the Group has complied with Rules 712 and 715 of the SGX Listing Manual.

6 Auditors

The independent auditors, Moore Stephens LLP, have expressed their willingness to accept re-appointment as auditors.

On behalf of the Board of Directors

.....
Andy Luong

.....
Zee Hoong Huay

23 March 2020

Independent Auditors' Report

Report on the Audit of the Financial Statements

Opinion

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

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)s") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the year ended on that date.

Basis for Opinion

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

Other Matter

The financial statements of the Group for the financial year ended 31 December 2018 were audited by another firm of auditors who expressed an unmodified opinion on these financial statements on 26 March 2019.

Key Audit Matters

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

Key Audit Matter

Our audit performed and responses thereon

Impairment review of goodwill

Our response

We refer to Note 2(i), Note 3(b) and Note 14(a) to the consolidated financial statements.

We designed and performed the following key procedures, among others:

Goodwill arises from the Group's acquisition of Dolphin Engineering Pte Ltd ("DEPL"), JEP Precision Engineering Pte Ltd ("JEPS") and JEP Industrades Pte Ltd ("JEPI"). As of 31 December 2019, the carrying amount of the Group's goodwill is S\$17,542,000.

- Conducted a detailed discussion with the Group's key management and finance key personnel and reviewed the impairment assessment process over the determination of the relevant cash generating units and estimates for forecasted revenues, growth rates, profit margin, tax rates and discount rates.

The Group is required to perform an impairment test on goodwill of the cash generating unit ("CGU") by comparing its carrying amount with its recoverable amount as at the current year end. The recoverable amount is determined based on value in use calculations which includes discounted cash flow projections of the CGU to which the goodwill is allocated to.

- Challenged management's estimates applied in the value-in-use models based on our knowledge of the Group's business activities and trends, and compared them against historical forecasts and performance, management plans and industry benchmarks.

The impairment test involves significant judgement in determining the allocation of goodwill to the relevant CGU and in estimating the underlying assumptions to be applied in the discounted cash flow projections. The recoverable amounts are highly sensitive to key assumptions applied in respect of gross margin, the long term growth rate and discount rate. A small change in the assumptions can have a significant impact to the estimation of the recoverable amounts.

- Evaluated the Group's planned strategies around revenue growth and cost controls and the sensitivity analysis of the possible increase or decrease in the estimated growth rates and discount rates used in the value-in-use models.

Independent Auditors' Report

Key Audit Matter

Impairment review of goodwill (cont'd)

Based on the impairment test performed by management, no impairment loss was required during the current financial year ended 31 December 2019.

Valuation of Inventories

We refer to Note 2(g), Note 3(b) and Note 11 to the consolidated financial statements.

The carrying value of inventories amounted to S\$15,005,000 which accounted for 13% of the Group's total assets as at 31 December 2019.

Inventories are carried in the consolidated financial statements at the lower of cost and net realisable value. The Group writes down the cost of inventories whenever the net realisable value of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Other Information

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

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

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

Our audit performed and responses thereon

Our findings

We concluded that the identification of cash generating units was appropriate.

Based on the procedures performed, we found the estimated future cash flows and the rates used to be reasonable.

Based on our procedures, we noted that management's analysis and assessment, including sensitivity analysis, on the recoverability of goodwill can be supported.

Furthermore, we evaluated the adequacy of the Group's disclosures regarding the impairment testing of goodwill. We found the disclosures included in Note 14(a) to the consolidated financial statements to be appropriate in describing the impairment assessment performed in relation to goodwill.

Our response

We focused on this area because of the high degree of management judgement required in determining the allowance for inventory obsolescence and the net realisable value of the inventories.

We designed and performed the following key procedures, among others:

- Evaluated the appropriateness of the Group's accounting policies on the valuation of its inventories.
- Checked and analysed the ageing of the inventories.
- Tested the unit cost of the inventories.
- Evaluated and tested management's assessment of inventories to state them at the lower of cost and net realisable value.
- Reviewed management's assessment of the allowance for inventory obsolescence, taking into consideration inventory ageing, physical condition of the inventories, past and expected future sales.

Our findings

We found the Group's inventories are recorded in accordance with the Group's accounting policies and management's assessment of inventory obsolescence is reasonable.

Independent Auditors' Report

Responsibilities of Management and Directors for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Independent **Auditors' Report**

Report on Other Legal and Regulatory Requirements

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Neo Keng Jin.

Moore Stephens LLP

Public Accountants and
Chartered Accountants

Singapore
23 March 2020

Consolidated Statement of Comprehensive Income

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

| | | Group | |
|---|------|-----------------|-----------------|
| | Note | 2019 S\$'000 | 2018 S\$'000 |
| Revenue | 4 | 88,962 | 85,865 |
| Cost of sales | | (73,269) | (73,274) |
| Gross profit | | <u>15,693</u> | <u>12,591</u> |
| Other operating income | 5 | 960 | 1,165 |
| Selling and distribution expenses | | (2,133) | (2,094) |
| Administrative expenses | | (5,495) | (6,270) |
| Other operating expenses | | (289) | (680) |
| Finance costs | 6 | (1,816) | (1,531) |
| Profit before tax | | <u>6,920</u> | <u>3,181</u> |
| Income tax expense | 7 | (402) | (886) |
| Profit for the year | 8 | <u>6,518</u> | <u>2,295</u> |
| Other comprehensive income | | | |
| <i>Item that may be reclassified subsequently to profit or loss</i> | | | |
| Currency translation differences | | – | 194 |
| Total comprehensive income for the year | | <u>6,518</u> | <u>2,489</u> |
| Profit attributable to: | | | |
| Owners of the Company | | 6,518 | 2,193 |
| Non-controlling interests | | – | 102 |
| | | <u>6,518</u> | <u>2,295</u> |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | 6,518 | 2,387 |
| Non-controlling interests | | – | 102 |
| | | <u>6,518</u> | <u>2,489</u> |
| Earnings per share (expressed in cents) | | | |
| Basic | 25 | <u>1.610</u> | <u>0.578</u> |
| Diluted | 25 | <u>1.574</u> | <u>0.530</u> |

Statements of Financial Position

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

| | Note | Group | | Company | |
|--|------|-----------------|-----------------|-----------------|-----------------|
| | | 2019 S\$'000 | 2018 S\$'000 | 2019 S\$'000 | 2018 S\$'000 |
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and bank balances | 9 | 11,943 | 4,541 | 388 | 556 |
| Trade and other receivables | 10 | 20,914 | 22,713 | 11 | 11 |
| Inventories | 11 | 15,005 | 15,741 | – | – |
| | | 47,862 | 42,995 | 399 | 567 |
| Assets of disposal group classified as held for sale | 12 | 68 | – | – | – |
| Total current assets | | 47,930 | 42,995 | 399 | 567 |
| Non-current assets | | | | | |
| Property, plant and equipment | 13 | 53,941 | 51,185 | 42 | 21 |
| Intangible assets | 14 | 17,746 | 17,869 | – | – |
| Subsidiaries | 15 | – | – | 64,040 | 64,040 |
| Deferred tax assets | 16 | 8 | 91 | 8 | 91 |
| Total non-current assets | | 71,695 | 69,145 | 64,090 | 64,152 |
| Total assets | | 119,625 | 112,140 | 64,489 | 64,719 |
| LIABILITIES AND EQUITY | | | | | |
| Current liabilities | | | | | |
| Bank loans | 17 | 5,808 | 11,105 | – | – |
| Trade and other payables | 18 | 17,278 | 15,487 | 862 | 571 |
| Amount due to subsidiary | 19 | – | – | – | 1,667 |
| Finance leases | 20 | – | 2,003 | – | – |
| Lease liabilities | 21 | 1,508 | – | – | – |
| Total current liabilities | | 24,594 | 28,595 | 862 | 2,238 |
| Non-current liabilities | | | | | |
| Bank loans | 17 | 25,260 | 25,551 | – | – |
| Amount due to subsidiary | 19 | – | – | – | 1,660 |
| Finance leases | 20 | – | 4,572 | – | – |
| Lease liabilities | 21 | 8,097 | – | – | – |
| Deferred tax liabilities | 16 | 1,614 | 1,295 | – | – |
| Total non-current liabilities | | 34,971 | 31,418 | – | 1,660 |
| Capital and reserves | | | | | |
| Share capital | 22 | 49,226 | 47,811 | 49,226 | 47,811 |
| Warrants reserve | 23 | – | 219 | – | 219 |
| Capital reserve | 23 | 772 | 553 | 870 | 651 |
| Retained earnings | | 10,062 | 3,544 | 13,531 | 12,140 |
| Total equity | | 60,060 | 52,127 | 63,627 | 60,821 |
| Total liabilities and equity | | 119,625 | 112,140 | 64,489 | 64,719 |

Statements of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

| | Note | Share Capital S\$'000 | Warrants Reserve S\$'000 | Capital Reserve S\$'000 | Retained Earnings S\$'000 | Total S\$'000 |
|---|------|-----------------------------|--------------------------------|-------------------------------|---------------------------------|------------------|
| Group | | | | | | |
| Balance as at 1 January 2019 | | 47,811 | 219 | 553 | 3,544 | 52,127 |
| Total comprehensive income for the year | | | | | | |
| Profit for the year | | – | – | – | 6,518 | 6,518 |
| Total | | – | – | – | 6,518 | 6,518 |
| Transactions with owners, recognised directly in equity | | | | | | |
| Issue of new ordinary shares | 22 | 1,415 | (219) | 219 | – | 1,415 |
| Total | | 1,415 | (219) | 219 | – | 1,415 |
| Balance as at 31 December 2019 | | 49,226 | – | 772 | 10,062 | 60,060 |

| | Note | Share Capital S\$'000 | Warrants Reserve S\$'000 | Capital Reserve S\$'000 | Translation Reserve S\$'000 | Retained Earnings S\$'000 | Equity attributable to owners of the Company S\$'000 | Non- controlling Interests S\$'000 | Total S\$'000 |
|--|------|-----------------------------|--------------------------------|-------------------------------|-----------------------------------|---------------------------------|---|---|------------------|
| Group | | | | | | | | | |
| Balance as at 1 January 2018 | | 45,218 | 618 | 252 | (194) | 1,351 | 47,245 | 1,600 | 48,845 |
| Total comprehensive income for the year | | | | | | | | | |
| Profit for the year | | – | – | – | 194 | 2,193 | 2,387 | 102 | 2,489 |
| Total | | – | – | – | 194 | 2,193 | 2,387 | 102 | 2,489 |
| Transactions with owners, recognised directly in equity | | | | | | | | | |
| Effects of acquiring non-controlling interests in a subsidiary | | – | – | (98) | – | – | (98) | (1,702) | (1,800) |
| Issue of new ordinary shares | 22 | 2,593 | (399) | 399 | – | – | 2,593 | – | 2,593 |
| Total | | 2,593 | (399) | 301 | – | – | 2,495 | (1,702) | 793 |
| Balance as at 31 December 2018 | | 47,811 | 219 | 553 | – | 3,544 | 52,127 | – | 52,127 |

Statements of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

| | Note | Share Capital S\$'000 | Warrants Reserve S\$'000 | Capital Reserve S\$'000 | Retained Earnings S\$'000 | Total S\$'000 |
|---|------|-----------------------------|--------------------------------|-------------------------------|---------------------------------|------------------|
| <u>Company</u> | | | | | | |
| Balance as at 1 January 2019 | | 47,811 | 219 | 651 | 12,140 | 60,821 |
| Total comprehensive income for the year | | | | | | |
| Profit for the year | | – | – | – | 1,391 | 1,391 |
| Total | | – | – | – | 1,391 | 1,391 |
| Transactions with owners, recognised directly in equity | | | | | | |
| Issue of new ordinary shares | 22 | 1,415 | (219) | 219 | – | 1,415 |
| Total | | 1,415 | (219) | 219 | – | 1,415 |
| Balance as at 31 December 2019 | | 49,226 | – | 870 | 13,531 | 63,627 |

| | Note | Share Capital S\$'000 | Warrants Reserve S\$'000 | Capital Reserve S\$'000 | Retained Earnings S\$'000 | Total S\$'000 |
|---|------|-----------------------------|--------------------------------|-------------------------------|---------------------------------|------------------|
| <u>Company</u> | | | | | | |
| Balance as at 1 January 2018 | | 45,218 | 618 | 252 | 10,254 | 56,342 |
| Total comprehensive income for the year | | | | | | |
| Profit for the year | | – | – | – | 1,886 | 1,886 |
| Total | | – | – | – | 1,886 | 1,886 |
| Transactions with owners, recognised directly in equity | | | | | | |
| Issue of new ordinary shares | 22 | 2,593 | (399) | 399 | – | 2,593 |
| Total | | 2,593 | (399) | 399 | – | 2,593 |
| Balance as at 31 December 2018 | | 47,811 | 219 | 651 | 12,140 | 60,821 |

Consolidated Statement of Cash Flows

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

| | Group | |
|--|---------|---------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| Operating activities | | |
| Profit before income tax | 6,920 | 3,181 |
| Adjustments for: | | |
| (Reversal of) Impairment loss recognised on trade receivables | (9) | 10 |
| Depreciation of property, plant and equipment | 6,457 | 5,933 |
| Amortisation of intangible assets | 123 | 123 |
| Gain on disposal of property, plant and equipment | (71) | (54) |
| Property, plant and equipment written off | 15 | 3 |
| Club membership written off | – | 48 |
| Unrealised exchange (gain) loss | (19) | 386 |
| Provision for inventory obsolescence | 310 | 1,354 |
| Impairment loss on asset held for sale | 73 | – |
| Interest income | (2) | (2) |
| Interest expense | 1,816 | 1,531 |
| Operating cash flows before movements in working capital | 15,613 | 12,513 |
| Inventories | 425 | (3,320) |
| Trade and other receivables | 1,219 | 2,734 |
| Trade and other payables | 1,885 | (269) |
| Cash generated from operations | 19,142 | 11,658 |
| Interest paid | (1,816) | (1,531) |
| Interest received | 2 | 2 |
| Income tax paid | * | – |
| Net cash generated from operating activities | 17,328 | 10,129 |
| Investing activities | | |
| Purchase of property, plant and equipment (Note A) | (972) | (3,475) |
| Proceeds from disposal of property, plant and equipment (Note B) | 468 | 77 |
| Payment of contingent consideration | – | (2,000) |
| Acquisition of non-controlling interests in subsidiary | – | (1,800) |
| Net cash used in investing activities | (504) | (7,198) |

Consolidated Statement of Cash Flows

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

| | Group | |
|---|---------|---------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| Financing activities | | |
| Proceeds from issue of ordinary shares | 1,415 | 2,593 |
| Repayment of finance leases | – | (1,966) |
| Repayment of lease liabilities | (5,222) | – |
| Proceeds from term loans | 3,400 | 766 |
| Repayments of term loans | (3,705) | (3,809) |
| Proceeds from trade financing loans | 2,447 | 7,619 |
| Repayments of trade financing loans | (7,619) | (8,592) |
| Net repayments of factoring loans | (138) | (1,235) |
| Net cash used in financing activities | (9,422) | (4,624) |
| Net increase (decrease) in cash and bank balances | 7,402 | (1,693) |
| Effect of exchange rate changes | * | * |
| Cash and bank balances at beginning of year | 4,541 | 6,234 |
| Cash and bank balances at end of year (Note 9) | 11,943 | 4,541 |

The reconciliation of purchase of property, plant and equipment and proceeds from disposal of property, plant equipment are presented below:

| | Group | |
|---|---------|---------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| Note A | | |
| Purchase of property, plant and equipment | | |
| Total additions (Note 13) | 2,591 | 3,577 |
| (Less): Acquired under lease liabilities | (1,581) | (738) |
| Movement in liability owing to suppliers of property, plant and equipment | (86) | 881 |
| Movement in downpayment to suppliers of property, plant and equipment | 48 | (364) |
| Others | – | 119 |
| Net cash outflow in the financial year | 972 | 3,475 |

Note B

Disposal of property, plant and equipment

| | | |
|--|-------|-------|
| Total net book value of disposal (Note 13) | 57 | 512 |
| Add: Gain on disposal of property, plant and equipment | 71 | 54 |
| Total sales proceeds | 128 | 566 |
| Movement in receivables arising from disposal of property, plant and equipment | 489 | (489) |
| (Less): Carrying value of assets held for sale (Note 12) | (141) | – |
| Others | (8) | – |
| Net cash inflow in the financial year | 468 | 77 |

* Denotes less than S\$1,000.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

1 General

The Company (Registration No. 199401749E) was incorporated in Singapore with its principal place of business and registered office at 16 Seletar Aerospace Crescent Singapore 797567. The Company is listed on the Singapore Exchange Securities Trading Limited. The financial statements are expressed in Singapore dollars.

The principal activities of the Company are that of investment holding and the provision of management services to its subsidiaries.

The principal activities of the subsidiaries are disclosed in Note 15 to the consolidated financial statements.

The consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the year ended 31 December 2019 were approved and authorised for issue in accordance with a resolution of the directors on the date of the Directors' Statement.

2 Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial statements have been prepared in accordance with the historical cost basis, except as disclosed in the accounting policies below, and are drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards (International) ("SFRS(I)s").

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of SFRS(I) 2 Share-based Payment, leasing transactions that are within the scope of SFRS(I)16 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in SFRS(I) 1-2 Inventories or value in use in SFRS(I) 1-36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

(b) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved where the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to any non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and any non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable SFRS(I)s). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under SFRS(I) 9, or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's financial statements, investments in subsidiaries carried at cost less any impairment in net recoverable value that has been recognised in profit or loss.

(c) Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the acquisition date fair values of assets given, liabilities incurred by the Group to the former owners of the acquiree, and equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified.

Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates at fair value, with changes in fair value recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under the SFRS(I) are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with SFRS(I) 1-12 Income Taxes and SFRS(I) 1-19 *Employee Benefits* respectively;
- Liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment awards transactions with share-based payment awards transactions of the acquirer in accordance with the method in SFRS(I) 2 Share-based Payment at the acquisition date; and

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

- Assets (or disposal groups) that are classified as held for sale in accordance with SFRS(I) 5 *Non-Current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction by transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another SFRS(I).

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of the acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year from acquisition date.

(d) Financial Instruments

Financial assets and financial liabilities are recognised on the statements of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial Assets

Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or fair value through other comprehensive income ("FVTOCI") criteria as measured at fair value through profit or loss ("FVTPL") if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate as at each reporting date. Specifically, for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the “other operating income” or “other operating expenses” line item.

Impairment of financial assets

The Group performs an assessment for loss allowance for expected credit losses (“ECL”) on investments in debt instruments that are measured at amortised cost or at FVTOCI, contract assets, as well as on loan commitments and financial guarantee contracts. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group performs an assessment for lifetime ECL for trade receivables, lease receivables, if any and contract assets, if any. The expected credit losses on these financial assets are estimated based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group performs an assessment for lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date. Refer to Note 10 for details of the Group’s assessment.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group’s debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group’s core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor’s ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor; and
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor’s ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group mainly transacts with high credit quality counterparties of at least an "A" rating by external credit rating companies, where the counterparties have AAA or AA credit ratings, are considered to have low credit risk for the purpose of impairment assessment.

For loan commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

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

Definition of default

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

- When there is a breach of financial covenants by the counterparty; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower; or
- a breach of contract, such as a default or past due event; or
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for loan commitments and financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

For a financial guarantee contract, as the Company is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Company expects to receive from the holder, the debtor or any other party.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables and amounts due from customers are each assessed as a separate group. Amounts due from subsidiaries are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors;
- Nature of collaterals for finance lease receivables; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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

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

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial Liabilities and Equity Instruments

Classification as debt or equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Financial guarantee contracts

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

Financial guarantee contracts issued by a Group entity are initially measured at their fair values and, if not designated as at FVTPL and do not arise from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with SFRS(I) 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the revenue recognition policies.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost as at each reporting date, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the “other operating income” (Note 5) or “other operating expenses” line item in profit or loss (Note 8) for financial liabilities that are not part of a designated hedging relationship.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

- (e) Leases

Accounting policies applicable from 1 January 2019

The Group as lessor

Each lease in which the Group acts as a lessor is classified as either an operating or a finance lease at lease inception. Leases that transfer substantially all of the risks and rewards incidental to ownership of the underlying assets are classified as finance leases. Other leases are classified as operating leases.

Lessor – operating leases

Rental income earned from operating leases where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessees) is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred by the Group in negotiating and arranging operating leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease income. Contingent rents are recognised as income in profit or loss when earned.

The Group as lessee

At the inception of the contract, the Group assesses if the contract contains a lease. A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Reassessment is only required when the terms and conditions of the contract are changed.

The Group recognises right-of-use assets and lease liabilities at the date which the underlying assets become available for use. Right-of-use assets are measured at cost, which comprises the initial measurement of lease liabilities adjusted for any lease payments made at or before the commencement dates, plus any initial direct costs incurred and an estimate of restoration costs, less any lease incentives received. Any initial direct costs that would not have been incurred if the lease had not been obtained are added to the carrying amount of the right-of-use assets.

Right-of-use assets are subsequently depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the corresponding lease liabilities. The Group presents its right-of-use assets (except for those which meets the definition of an investment property) in “Property, plant and equipment” and “Lease liabilities” in the statements of financial position.

The initial measurement of lease liabilities is measured at the present value of the lease payments discounted using the implicit rate in the lease, if the rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate.

Notes to the Financial Statements

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Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivables;
- Variable lease payments that are based on an index or rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under residual value guarantees;
- The exercise price of a purchase option if it is reasonably certain to exercise the option; and
- Payment of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

For contracts that contain both lease and non-lease components, the Group allocates the consideration to each lease component on the basis of the relative stand-alone price of the lease and non-lease components. The Group has elected not to separate lease and non-lease components for property leases; instead, these are accounted for as one single lease component.

Lease liabilities are measured at amortised cost, and are remeasured when:

- There is a change in future lease payments arising from changes in an index or rate;
- There is a change in the Group's assessment of whether it will exercise lease extension and termination options;
- There is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- There is a modification to the lease term.

When lease liabilities are remeasured, corresponding adjustments are made against the right-of-use assets. If the carrying amounts of the right-of-use assets have been reduced to zero, the adjustments are recorded in profit or loss. The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have lease terms of 12 months or less, as well as leases of low value assets, except in the case of sub-lease arrangements. Lease payments relating to these leases are expensed to profit or loss on a straight-line basis over the lease term.

Variable lease payments that are based on an index or a rate are included in the measurement of the corresponding right-of-use assets and lease liabilities. Other variable lease payments are recognised in profit or loss when incurred.

Short-term lease and lease of low-value assets

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

Accounting policies applicable prior to 1 January 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as Lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

The Group as Lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(f) Non-Current Assets Held for Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(h) Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, on the following bases:

| | | |
|--|---|---------------------|
| Buildings on leasehold land | - | Over the lease term |
| Leasehold land | - | Over the lease term |
| Machinery and equipment | - | 5 to 12 years |
| Electrical installations and renovations | - | 3 to 10 years |
| Furniture, fittings and office equipment | - | 5 to 10 years |
| Computers | - | 1 to 3 years |
| Motor vehicles | - | 5 to 6 years |

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under lease liabilities are depreciated over their expected useful lives on the same basis as owned assets or, if there is no certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in profit or loss.

(i) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or the relevant cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(j) Intangible Assets

Intangible assets acquired in a business combination are identified and recognised separately from goodwill. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The intangible asset pertains to customer relationship acquired through acquisitions in prior years. The intangible asset is amortised on a straight-line basis over its useful life. Management has assessed the appropriate useful life to be 5 to 10 years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(k) Impairment of Tangible and Intangible Assets Excluding Goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(l) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

(m) Government Grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants related to assets shall be presented in the statements of financial position by deducting the grant in arriving at the carrying amount of the assets.

(n) Revenue Recognition

The Group recognises revenue from the following major sources:

- Sale of goods.
- Rendering of services.
- Rental income.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

Sale of goods

The Group sells precision engineering works, engineering parts and cutting tools. Revenue from the sale of goods is recognised at a point in time when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. It is considered highly probable that a significant reversal in the cumulative revenue recognised will not occur given the consistent level of returns over previous years.

Rendering of services

Revenue from precision engineering works and equipment fabrication services is recognised at a point in time when services are completed.

Rental income

The Group's policy for recognition of revenue from operating leases is described as per Note 2(e).

(o) Interest Income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(p) Dividend Income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(q) Management Fee

Management fee is recognised when services are rendered.

(r) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

(s) Retirement Benefit Costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered the services entitling them to the contributions. Payments made to state-managed retirement benefit schemes, such as the Singapore Central Provident Fund, are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

(t) Employee Leave Entitlement

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

(u) Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted in countries where the Company and subsidiaries operate by the end of the reporting period.

Deferred tax is recognised on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited outside profit or loss (either in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss (either in other comprehensive income or directly in equity, respectively), or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

(v) Foreign Currency Transactions and Translation

The individual financial statements of each Group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are presented in Singapore dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rate of exchange prevailing on the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Singapore dollars using exchange rates prevailing at the end of the reporting period. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity under the header of translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or loss of joint control over a jointly controlled entity that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income and accumulated in a separate component of equity under the header of translation reserve, if any.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(w) Cash and Bank Balances in the Statement of Cash Flows

Cash and bank balances in the consolidated statement of cash flows comprise cash on hand and bank balances that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(x) Related Parties

A related party is defined as follows:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to as the "reporting entity").

- a. A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b. An entity is related to a reporting entity if any of the following conditions applies:
 - i. the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - ii. one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - iii. both entities are joint ventures of the same third party;
 - iv. one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - v. the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
 - vi. the entity is controlled or jointly controlled by a person identified in (a);

Notes to the Financial Statements

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- vii. a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
- viii. the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

3 Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

(a) Critical Judgements in Applying the Group's Accounting Policies

The following is the critical judgement, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Dismantlement, removal or restoration costs for property, plant and equipment

The agreements with Jurong Town Corporation ("JTC") indicate that if JTC requires the Group to restore the buildings to its original condition, the Group is obligated to do so. The Group has assessed and determined that restoration cost is not required for two of its subsidiaries, JEP Precision Engineering Pte Ltd ("JEPS") and Dolphin Engineering Pte Ltd ("DEPL"), as based on the lease agreements with JTC, at the termination of lease agreements, JEPS and DEPL have to yield up the demised premises in good and tenantable condition. The Group has assessed the condition of the premises and concluded that it is not required to reinstate the premises and therefore has not provided for any cost of dismantlement, removal or restoration.

(b) Key Sources of Estimation Uncertainty

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

Impairment review of property, plant and equipment

Where there are indications of impairment of its assets, the management estimates the recoverable amounts of these assets to determine the extent of the impairment loss, if any. The recoverable amounts of these assets are determined based on the higher of fair value less cost to sell and value-in-use. The carrying amounts of the property, plant and equipment of the Group and the Company at the end of the reporting period are disclosed in Note 13 to the consolidated financial statements.

Useful lives of property, plant and equipment

Management exercises their judgement in estimating the useful lives of the depreciable assets which takes into consideration the physical conditions of the assets and their useful lives. Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method. The carrying amounts of the property, plant and equipment of the Group and the Company at the end of the reporting period are disclosed in Note 13 to the consolidated financial statements.

Impairment review of goodwill

Goodwill arises from the Group's acquisition of Dolphin Engineering Pte Ltd ("DEPL"), JEP Precision Engineering Pte Ltd ("JEPS") and JEP Industrades Pte Ltd ("JEPI"). Goodwill is required to be tested annually for impairment or more frequently if there are indications that goodwill might be impaired. Value-in-use is estimated based on management's forecast of future cash flows discounted to present value using a discount rate. Significant estimates and assumptions such as discount rate and terminal growth rate are required in determining value-in-use. The key assumptions of the impairment test, the sensitivity of changes in these assumptions to the risk of impairment and the carrying amount of the goodwill at the end of the reporting period are disclosed in Note 14 to the consolidated financial statements.

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Allowance for inventories

Management reviews the aging analysis of inventories at the end of each reporting period, and makes allowance for inventory items that are identified as obsolete and slow-moving, which have a market price that is lower than its carrying amount. Management estimates the net realisable value for finished goods based primarily on the latest selling prices and current market conditions. The carrying amounts of inventories for the Group is disclosed in Note 11 to the consolidated financial statements.

4 Revenue

The Group derives its revenue from the transfer of goods and services at a point in time in the following major product lines. This is consistent with the revenue information that is disclosed for each reportable segment under SFRS(I) 8 (Note 30).

| | <u>Group</u> | |
|-------------------------|---------------|---------------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| <u>Segment revenue</u> | | |
| Precision machining | 61,568 | 51,204 |
| Trading and others | 12,302 | 18,294 |
| Equipment manufacturing | 15,092 | 16,367 |
| | <u>88,962</u> | <u>85,865</u> |

5 Other Operating Income

| | <u>Group</u> | |
|---|--------------|--------------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| Gain on disposal of property, plant and equipment | 71 | 54 |
| Government grant | 181 | 333 |
| Sales of scrap waste metal | 14 | 101 |
| Dormitory occupancy fee | 414 | 434 |
| Rental income | 60 | 72 |
| Interest income | 2 | 2 |
| Bad debts recovered | – | 2 |
| Engineering services | 184 | – |
| Cash surrender value of insurance policies | – | 102 |
| Others | 34 | 65 |
| | <u>960</u> | <u>1,165</u> |

6 Finance Costs

| | <u>Group</u> | |
|-------------------|--------------|--------------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| Interest expense: | | |
| bank term loans | 1,308 | 1,314 |
| finance leases | – | 210 |
| lease liabilities | 507 | – |
| bank overdraft | 1 | 7 |
| | <u>1,816</u> | <u>1,531</u> |

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7 Income Tax

| | <u>Group</u> | |
|--|--------------|------------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| (Over) Under provision for deferred tax in prior years | (169) | 421 |
| Deferred tax | 571 | 465 |
| Income tax expense for the year (Note 16) | <u>402</u> | <u>886</u> |

Domestic income tax is calculated at 17% (2018: 17%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The total tax charge for the year can be reconciled to the accounting profit as follows:

| | <u>Group</u> | |
|--|--------------|--------------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| Profit before tax | <u>6,920</u> | <u>3,181</u> |
| Income tax expense at statutory rate | 1,176 | 541 |
| Effect of expenses that are not deductible for tax purpose | 297 | 516 |
| Effect of tax exempt income | (140) | (56) |
| Effect of tax incentives | (774) | (506) |
| (Over) Under provision for deferred tax in prior years | (169) | 421 |
| Others | 12 | (30) |
| Total income tax charge | <u>402</u> | <u>886</u> |

Subject to the agreement by the tax authorities, at the end of the reporting period, the Group has unutilised tax losses of S\$47,000 (2018: S\$547,000) available for offset against future profits. A deferred tax asset of S\$8,000 (2018: S\$93,000) has been recognised in respect of such losses.

The realisation of the future income tax benefits from tax losses carry forward is available for an unlimited future period subject to the conditions imposed by the tax regulations.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

8 Profit for the Year

Profit for the year has been arrived at after charging (crediting):

| | <u>Group</u> | |
|---|--------------|---------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| (Reversal of) Impairment loss recognised on trade receivables (Note 10) | (9) | 10 |
| Amortisation of intangible assets (Note 14) | 123 | 123 |
| Club membership written off | – | 48 |
| Depreciation of property, plant and equipment (Note 13) | 6,457 | 5,933 |
| Property, plant and equipment written off (Note 13) | 15 | 3 |
| Foreign exchange loss | 289 | 487 |
| Gain on disposal of property, plant and equipment | (71) | (54) |
| Provision for inventory obsolescence (Note 11) | 310 | 1,354 |
| Impairment loss on asset held for sale (Note 12) | 73 | – |
| Directors' fees: | | |
| – of the Company | 147 | 155 |
| – of the subsidiaries | – | 30 |
| Employee benefits expense (including directors' remuneration): | | |
| – salaries, bonus and other staff benefits | 15,243 | 16,895 |
| – employer's contribution to Central Provident Fund | 1,065 | 1,185 |
| | 16,308 | 18,080 |
| Audit fees paid/payable to auditors of the Company | 100 | 183 |
| Non-audit fees paid/payable to auditors of the Company | – | 33 |

Employee benefit expenses for the year was included in the following line items of the profit and loss:

| | <u>Group</u> | |
|------------------------------------|--------------|---------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| Employee benefit costs charged to: | | |
| Cost of sales | 11,620 | 13,108 |
| Selling and distribution expenses | 1,531 | 1,433 |
| Administrative expenses | 3,157 | 3,539 |
| | 16,308 | 18,080 |

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

9 Cash and Bank Balances

| | <u>Group</u> | | <u>Company</u> | |
|------------------------|--------------|---------|----------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| Cash on hand | 10 | 8 | 3 | 1 |
| Cash at banks | 11,933 | 4,533 | 385 | 555 |
| Cash and bank balances | 11,943 | 4,541 | 388 | 556 |

10 Trade and Other Receivables

| | <u>Group</u> | | <u>Company</u> | |
|-----------------------|--------------|---------|----------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| Trade receivables: | | | | |
| related parties | 79 | 141 | – | – |
| outside parties | 18,997 | 19,741 | – | – |
| | 19,076 | 19,882 | – | – |
| Less: Loss allowance | (55) | (64) | – | – |
| Net trade receivables | 19,021 | 19,818 | – | – |

Other receivables

| | | | | |
|---|--------|--------|----|----|
| Deposits | 144 | 154 | – | – |
| Advance payment to suppliers | 71 | 25 | – | – |
| Downpayment to suppliers of property, plant and equipment | 58 | 10 | – | – |
| Receivable arising from disposal of property, plant and equipment | – | 489 | – | – |
| Prepayments | 226 | 220 | 11 | 11 |
| GST input tax | 980 | 1,020 | – | – |
| Recoverable from customer | – | 43 | – | – |
| Government grant | 139 | 879 | – | – |
| Other receivables | 275 | 55 | – | – |
| | 1,893 | 2,895 | 11 | 11 |
| | 20,914 | 22,713 | 11 | 11 |

GST input tax pertains to GST receivables as at year end and the Group is in the midst of settlement with the tax authority on the recoverability of this amount.

Trade receivables

The general credit period on sale of goods is 30 to 150 days (2018: 30 to 150 days). No interest is charged on the overdue trade receivables. The Group assesses the potential customer's credit quality and determines credit limits to be allowed before accepting any new customer. Credit limits granted to customers are reviewed regularly.

Trade receivables amounting to S\$702,000 (2018: S\$834,000) are assigned to secure the factoring loan facilities (Note 17).

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Loss allowance for trade receivables are measured at an amount equal to lifetime expected credit losses (ECL). The ECL on trade receivables are estimated by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at reporting date.

A trade receivable is written off when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. None of the trade receivables that have been written off is subject to enforcement activities.

The Group has performed a risk profile of trade receivables based on the Group's credit risk grading framework, and has determined that the trade receivables are subject to immaterial credit loss, other than specific debts past due more than 90 days.

The table below is an analysis of trade receivables:

| | Group | | | | | |
|--|-----------------------------------|----------|------------------|------------------|----------------------|---------------|
| | Trade receivables – days past due | | | | | |
| | Not past due | <30 days | 31 to 60 days | 61 to 90 days | More than 90 days | Total |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| <u>31 December, 2019</u> | | | | | | |
| Estimated total gross carrying amount at default | 15,091 | 2,624 | 686 | 242 | 433 | 19,076 |
| Lifetime ECL | – | – | – | – | (55) | (55) |
| | | | | | | <u>19,021</u> |

| | Group | | | | | |
|--|-----------------------------------|----------|------------------|------------------|----------------------|---------------|
| | Trade receivables – days past due | | | | | |
| | Not past due | <30 days | 31 to 60 days | 61 to 90 days | More than 90 days | Total |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| <u>31 December, 2018</u> | | | | | | |
| Estimated total gross carrying amount at default | 14,030 | 4,093 | 910 | 426 | 423 | 19,882 |
| Lifetime ECL | – | – | – | – | (64) | (64) |
| | | | | | | <u>19,818</u> |

The table below shows the movement in lifetime ECL that has been recognised for trade receivables in accordance with the simplified approach set out in SFRS(I) 9:

| | Group | |
|---|-----------|-----------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| Balance as at 1 January | 64 | 54 |
| (Reversal of) Change in loss allowance recognised on trade receivables (Note 8) | (9) | 10 |
| Balance as at 31 December | <u>55</u> | <u>64</u> |

Other receivables

Loss allowance for other receivables are measured at an amount equal to 12-months ECL. For purpose of impairment assessment, other receivables are considered to have low credit risk as they are not due for payment at the end of the reporting period and there has been no significant increase in the risk of default on the receivables since initial recognition. The Group has determined that the other receivables are subject to immaterial credit loss.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

11 Inventories

| | <u>Group</u> | |
|---|---------------|---------------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| Raw materials | 2,490 | 3,674 |
| Work-in-progress | 7,571 | 7,391 |
| Finished goods | 4,602 | 5,155 |
| Consumables | 1,157 | 1,180 |
| Goods-in-transit | 1,264 | 110 |
| | <u>17,084</u> | <u>17,510</u> |
| Less: Allowance for inventory | (2,079) | (1,769) |
| | <u>15,005</u> | <u>15,741</u> |
| Cost of inventories included in cost of sales | <u>73,269</u> | <u>73,274</u> |

Movement in the allowance for inventory:

| | <u>Allowance for inventory</u> | |
|---|--------------------------------|--------------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| <u>Group</u> | | |
| Balance as at 1 January | 1,769 | 415 |
| Increase in allowance recognised in profit or loss (Note 8) | 310 | 1,354 |
| Balance as at 31 December | <u>2,079</u> | <u>1,769</u> |

12 Assets of Disposal Group Classified as Held for Sale

On 14 October 2019, the management resolved to dispose of its ageing equipment and anticipated that the disposal will be completed on 31 March 2020. The proceeds of disposal are expected to be lower than the net carrying amount of the relevant assets and impairment loss of S\$73,000 has been recognised on the classification of these equipment as held for sale.

Statements of financial position disclosures

The net carrying amount of equipment at the end of the reporting period is as follows:

| | <u>Group</u> | |
|--|--------------|----------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| Net carrying amount of assets | 141 | – |
| Impairment loss on assets held for sale (Note 8) | (73) | – |
| Balance as at 31 December | <u>68</u> | <u>–</u> |

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

13 Property, Plant and Equipment

| | Buildings on leasehold land | Leasehold land ⁽¹⁾ | Machinery and equipment ⁽¹⁾ | Electrical installations and renovations | Furniture, fittings and office equipment ⁽¹⁾ | Computers | Motor vehicles ⁽¹⁾ | Total |
|----------------------------------|-----------------------------------|----------------------------------|--|---|--|-----------|----------------------------------|--------|
| Group | SS'000 | SS'000 | SS'000 | SS'000 | SS'000 | SS'000 | SS'000 | SS'000 |
| <u>2019</u> | | | | | | | | |
| <u>Cost:</u> | | | | | | | | |
| At 1 January | 29,125 | – | 54,299 | 3,658 | 927 | 1,624 | 588 | 90,221 |
| Adoption of SFRS(I) 16 | – | 6,560 | – | – | 134 | – | – | 6,694 |
| Additions | – | – | 2,396 | 25 | 27 | 87 | 56 | 2,591 |
| Disposals | – | – | (536) | – | (8) | – | (41) | (585) |
| Written off | – | – | (16) | (52) | (6) | (39) | – | (113) |
| At 31 December | 29,125 | 6,560 | 56,143 | 3,631 | 1,074 | 1,672 | 603 | 98,808 |
| <u>Accumulated depreciation:</u> | | | | | | | | |
| At 1 January | 3,311 | – | 32,552 | 1,094 | 453 | 1,205 | 421 | 39,036 |
| Depreciation for the year | 1,090 | 395 | 4,051 | 399 | 192 | 259 | 71 | 6,457 |
| Disposals | – | – | (484) | – | (4) | – | (40) | (528) |
| Written off | – | – | (13) | (40) | (6) | (39) | – | (98) |
| At 31 December | 4,401 | 395 | 36,106 | 1,453 | 635 | 1,425 | 452 | 44,867 |
| <u>Carrying amount:</u> | | | | | | | | |
| At 31 December | 24,724 | 6,165 | 20,037 | 2,178 | 439 | 247 | 151 | 53,941 |

⁽¹⁾ Right-of-use assets arising from leasehold land, office equipment, machinery and equipment and motor vehicles are recognised pursuant to adoption of SFRS(I) 16 Leases on 1 January 2019. Please refer Note 21 for more information.

| | Buildings on leasehold land | Machinery and equipment | Electrical installations and renovations | Furniture, fittings and office equipment | Computers | Motor vehicles | Total |
|----------------------------------|-----------------------------------|-------------------------------|---|---|-----------|-------------------|---------|
| Group | SS'000 | SS'000 | SS'000 | SS'000 | SS'000 | SS'000 | SS'000 |
| <u>2018</u> | | | | | | | |
| <u>Cost:</u> | | | | | | | |
| At 1 January | 29,123 | 53,060 | 3,848 | 925 | 1,461 | 588 | 89,005 |
| Additions | 2 | 3,285 | 87 | 25 | 178 | – | 3,577 |
| Disposals | – | (1,933) | – | (22) | – | – | (1,955) |
| Written off | – | (113) | (277) | (1) | (15) | – | (406) |
| At 31 December | 29,125 | 54,299 | 3,658 | 927 | 1,624 | 588 | 90,221 |
| <u>Accumulated depreciation:</u> | | | | | | | |
| At 1 January | 2,212 | 30,188 | 973 | 303 | 936 | 337 | 34,949 |
| Depreciation for the year | 1,099 | 3,908 | 398 | 160 | 284 | 84 | 5,933 |
| Disposals | – | (1,434) | – | (9) | – | – | (1,443) |
| Written off | – | (110) | (277) | (1) | (15) | – | (403) |
| At 31 December | 3,311 | 32,552 | 1,094 | 453 | 1,205 | 421 | 39,036 |
| <u>Carrying amount:</u> | | | | | | | |
| At 31 December | 25,814 | 21,747 | 2,564 | 474 | 419 | 167 | 51,185 |

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

| <u>Company</u> | Furniture, fittings and office equipment | Computers | Total |
|----------------------------------|---|-----------|---------|
| | S\$'000 | S\$'000 | S\$'000 |
| <u>Cost</u> | | | |
| At 1 January 2018 | 5 | 59 | 64 |
| Additions | – | 5 | 5 |
| At 31 December 2018 | 5 | 64 | 69 |
| Additions | 27 | 3 | 30 |
| At 31 December 2019 | 32 | 67 | 99 |
| <u>Accumulated depreciation:</u> | | | |
| At 1 January 2018 | 5 | 37 | 42 |
| Depreciation for the year | – | 6 | 6 |
| At 31 December 2018 | 5 | 43 | 48 |
| Depreciation for the year | 2 | 7 | 9 |
| At 31 December 2019 | 7 | 50 | 57 |
| <u>Carrying amount:</u> | | | |
| At 31 December 2019 | 25 | 17 | 42 |
| At 31 December 2018 | – | 21 | 21 |

Right-of-use assets

Right-of-use of assets acquired under leasing arrangements are presented together with the owned assets of the same class. The details of such leased assets are disclosed in Note 21.

Leased property, plant and equipment

As at 31 December 2019, the net carrying amount of machinery and equipment and motor vehicles acquired under lease liabilities of the Group amounted to S\$5,180,000 (2018: S\$9,876,000) and S\$82,000 (2018: S\$128,000) respectively.

As at 31 December 2019, the buildings on leasehold land comprise:

| Location | Description | Tenure | Carrying amount | |
|--|--|---|-----------------|-----------------|
| | | | 2019 S\$'000 | 2018 S\$'000 |
| No. 16 Seletar Aerospace Crescent Singapore 797567 | Leasehold land with an erected 4-storey single-user industrial development factory | 30 years commencing 1 February 2015 | 18,395 | 19,128 |
| No. 2 Loyang Way 4 Singapore 507098 | Leasehold land with an erected single-storey factory with a mezzanine level and a single-storey rear extension | 30 years commencing 1 June 2007 | 3,569 | 3,773 |
| | Leasehold land with an erected 4-storey factory building with provision of secondary workers' dormitory | 23 years 10 months commencing 1 August 2013 | 2,760 | 2,760 |
| | | | 24,724 | 25,814 |

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Security

As at 31 December 2019, the Group's factory buildings and machinery with carrying amounts of S\$24,724,000 (2018: S\$25,814,000) and S\$4,378,000 (2018: S\$4,302,000) respectively are pledged as security to certain banking facilities granted to the Group (Note 17).

14 Intangible Assets

| <u>Group</u> | Goodwill on consolidation | Customer relationship | Total |
|---|------------------------------|--------------------------|---------|
| | S\$'000 | S\$'000 | S\$'000 |
| <u>Cost</u> | | | |
| Balance as at 1 January 2018, 31 December 2018 and 31 December 2019 | 18,812 | 12,915 | 31,727 |
| <u>Accumulated amortisation:</u> | | | |
| At 1 January 2018 | – | 12,465 | 12,465 |
| Amortisation for the year | – | 123 | 123 |
| At 31 December 2018 | – | 12,588 | 12,588 |
| Amortisation for the year | – | 123 | 123 |
| At 31 December 2019 | – | 12,711 | 12,711 |
| <u>Impairment:</u> | | | |
| Balance as at 1 January 2018, 31 December 2018 and 31 December 2019 | 1,270 | – | 1,270 |
| <u>Carrying amount:</u> | | | |
| Balance as at 31 December 2019 | 17,542 | 204 | 17,746 |
| Balance as at 31 December 2018 | 17,542 | 327 | 17,869 |
| (a) Goodwill on consolidation | | | |

Impairment tests for goodwill

The aggregate carrying amount of goodwill is allocated to the Group's cash-generating units ("CGU") identified as follows:

| | <u>Group</u> | |
|-------------------------|--------------|---------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| Precision machining | 11,450 | 11,450 |
| Trading and others | 814 | 814 |
| Equipment manufacturing | 5,278 | 5,278 |
| | 17,542 | 17,542 |

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using post-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. The selling prices and direct costs are expected to remain consistent with the current financial year except for inflationary adjustments.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and thereafter budget a perpetual growth rate of 2% (2018: 2%). This rate does not exceed the average long term growth rate for the relevant markets.

The assumptions used to discount the forecast cash flows is as follows:

| | Gross margin | | Discount rate | |
|-------------------------|--------------|------|---------------|--------|
| | 2019 | 2018 | 2019 | 2018 |
| <u>Group</u> | | | | |
| Precision machining | 13% | 9% | 9.63% | 10.17% |
| Trading and Others | 20% | 20% | 9.92% | 12.41% |
| Equipment manufacturing | 21% | 18% | 10.05% | 12.70% |

As at 31 December 2019, any reasonably possible change to the key assumptions applied not likely to cause the recoverable amounts to be below the carrying amounts of the CGUs.

(b) Customer relationship

JEP Precision Engineering Pte Ltd

This relates to customer relationship arising from the acquisition of JEP Precision Engineering Pte Ltd. The amortisation of customer relationship had been fully amortised in the prior reporting period and was included in the "Administrative expenses" line item in the consolidated statement of comprehensive income.

JEP Industrades Pte Ltd

This relates to customer relationship arising from the acquisition of JEP Industrades Pte Ltd. The remaining amortisation period of the customer is 2 years (2018: 3 years). The amortisation of customer relationship is included in the "Administrative expenses" line item in the consolidated statement of comprehensive income. In the opinion of the directors of the Group, there is no indication that the recorded book value cannot be recovered from the business operations in the future periods.

15 Subsidiaries

| | Company | |
|--------------------------------------|---------|---------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| Unquoted equity investments, at cost | 64,040 | 64,040 |

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The details of the Group's subsidiaries at the end of the reporting period are set out below:

| Name of subsidiary | Country of incorporation (or residence) | Proportion of ownership interest and voting rights held by the Group | | Principal activities |
|--|---|--|------|--|
| | | 2019 | 2018 | |
| | | | | |
| Held by the Company | | | | |
| | | | | |
| JEP Precision Engineering Pte Ltd ⁽¹⁾ | Singapore | 100 | 100 | Precision engineering works for parts used mainly in the aerospace, oil and gas industries, and other general engineering and machinery works. |
| JEP Industrades Pte Ltd ⁽¹⁾ | Singapore | 100 | 100 | Manufacturer, importers and exporters, traders, agents, repairs of precision machineries, carbide cutting tools, hardware, industrial equipment and engineering works. |
| Dolphin Engineering Pte Ltd ⁽¹⁾ | Singapore | 100 | 100 | Large format precision engineering and equipment fabrication service. |
| Dolphin Manufacturing Solutions Sdn Bhd ⁽²⁾ | Malaysia | 100 | – | Steel structure fabrication and high precision machining for aerospace, semiconductor and oil and gas industries. |
| JEP China Holdings Pte Ltd ⁽³⁾ | Singapore | – | 100 | Dormant. |

⁽¹⁾ Audited by Moore Stephens LLP, Singapore in 2019 and Deloitte & Touche LLP, Singapore in 2018.

⁽²⁾ Incorporated during the financial year and inactive.

⁽³⁾ JEP China Holdings Pte Ltd was struck off on 4 February 2019.

On 20 December 2018, the Group acquired the remaining 15% shares in JEP Precision Engineering Pte Ltd from the non-controlling shareholder. As at 31 December 2018, JEP Precision Engineering Pte Ltd is a wholly-owned subsidiary of the Company.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The following subsidiary had non-controlling interests (“NCI”) that were material to the Group:

| Name of subsidiary | Country of incorporation of residence | Profit allocated to non-controlling interest | Accumulated non-controlling interest |
|--|---------------------------------------|--|--------------------------------------|
| | | 31 December 2018 | 31 December 2018 |
| | | S\$'000 | S\$'000 |
| <u>Held by the Company</u> | | | |
| JEP Precision Engineering Pte Ltd (“JEPS”) | Singapore | 102 | – |

Non-controlling interests

The following summarises the financial results of JEPS as at 31 December 2018. The financial information presented below represented amounts before inter-company eliminations with other companies within the Group.

Summarised statement of comprehensive income

| | 2018 |
|---------------------|------------|
| | S\$'000 |
| Revenue | 51,955 |
| Expenses | (51,656) |
| Profit for the year | <u>299</u> |

16 Deferred Tax Assets and Deferred Tax Liabilities

The following are the major deferred tax liabilities and assets recognised by the Group and the Company, and the movements thereon, during the current and prior reporting periods:

| | Accelerated tax depreciation | Fair value adjustment on acquisitions of subsidiaries | Others | Tax losses | Total |
|------------------------------------|------------------------------|---|--------------|------------|--------------|
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| <u>Group</u> | | | | | |
| Balance as at 1 January 2018 | 450 | 83 | (53) | (162) | 318 |
| Charged to profit or loss (Note 7) | 905 | 39 | (127) | 69 | 886 |
| Balance as at 31 December 2018 | 1,355 | 122 | (180) | (93) | 1,204 |
| Charged to profit or loss (Note 7) | 915 | (86) | (512) | 85 | 402 |
| Balance as at 31 December 2019 | <u>2,270</u> | <u>36</u> | <u>(692)</u> | <u>(8)</u> | <u>1,606</u> |
| <u>Company</u> | | | | | |
| Balance as at 1 January 2018 | 2 | – | – | (162) | (160) |
| Charged to profit or loss | – | – | – | 69 | 69 |
| Balance as at 31 December 2018 | 2 | – | – | (93) | (91) |
| Charged to profit or loss | (2) | – | – | 85 | 83 |
| Balance as at 31 December 2019 | <u>–</u> | <u>–</u> | <u>–</u> | <u>(8)</u> | <u>(8)</u> |

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Certain deferred tax liabilities and assets have been offset in accordance with the Group's and Company's accounting policy. The following is the analysis of the deferred tax balances for statements of financial position purposes:

| | <u>Group</u> | | <u>Company</u> | |
|--------------------------|--------------|--------------|----------------|-------------|
| | 2019 | 2018 | 2019 | 2018 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| Deferred tax liabilities | 1,614 | 1,295 | – | – |
| Deferred tax assets | (8) | (91) | (8) | (91) |
| | <u>1,606</u> | <u>1,204</u> | <u>(8)</u> | <u>(91)</u> |

17 Bank Loans

| | <u>Group</u> | |
|--|---------------|---------------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| Secured - at amortised cost: | | |
| Term loans | 27,944 | 28,249 |
| Accounts receivable factoring (Note A) | 702 | 834 |
| Trust receipts | 2,422 | 7,573 |
| | <u>31,068</u> | <u>36,656</u> |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | (5,808) | (11,105) |
| Amount due for settlement after 12 months | <u>25,260</u> | <u>25,551</u> |

The management estimate the fair value of the Group's long-term bank loan to approximate the carrying amount as the effective interest rates approximate current market interest rates on or near the end of the reporting period.

Note A

The accounts receivable factoring with recourse relates to credit facilities granted by the financial institution for approved trade receivables.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Terms and conditions of outstanding borrowings are as follows:

| | Currency | Nominal interest rate | 31 December 2019 | | 31 December 2018 | |
|--|----------|---------------------------|---------------------|--------------------|---------------------|--------------------|
| | | | Principal amount | Carrying amount | Principal amount | Carrying amount |
| | | % | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| <u>Group</u> | | | | | | |
| <u>Secured</u> | | | | | | |
| 4-year term loan I Seletar Aerospace Park | SGD | COF ⁽¹⁾ +1.75% | 3,140 | – | 3,140 | 1,177 |
| (SAP) term loan | SGD | COF ⁽¹⁾ +1.75% | 20,000 | 17,743 | 20,000 | 18,919 |
| 4-year term loan II | SGD | Flat 1.80% | 3,400 | 2,935 | – | – |
| 3-year term loan | SGD | COF ⁽¹⁾ +1.75% | 264 | – | 264 | 243 |
| 10-year term loan | SGD | COF ⁽¹⁾ +1.50% | 4,000 | 2,779 | 4,000 | 3,045 |
| 15-year term loan | SGD | COF ⁽¹⁾ +1.50% | 6,400 | 4,487 | 6,400 | 4,865 |
| Accounts receivable factoring | USD | COF ⁽¹⁾ +1.50% | 702 | 702 | 834 | 834 |
| Trust receipts | USD | COF ⁽¹⁾ +1.50% | 2,120 | 2,120 | 6,869 | 6,869 |
| Trust receipts | EUR | COF ⁽¹⁾ +1.50% | 302 | 302 | 704 | 704 |
| | | | 40,328 | 31,068 | 42,211 | 36,656 |

⁽¹⁾ COF refers to bank's cost of fund for interest period of 1, 2 or 3 months.

The weighted average effective interest rates of total borrowings at the end of the reporting period are as follows:

| | <u>Group</u> | |
|-------------------------------|--------------|-------|
| | 2019 | 2018 |
| 4-year term loan I | – | 3.55% |
| SAP term loan | 3.53% | 3.52% |
| 4-year term loan II | 3.45% | – |
| 3-year term loan | – | 3.72% |
| 10-year term loan | 3.27% | 3.43% |
| 15-year term loan | 3.34% | 3.18% |
| Accounts receivable factoring | 3.64% | 4.60% |
| Trust receipts | 3.39% | 4.00% |

- (a) A 4-year term loan I was granted to a subsidiary in 2016. The secured term loan granted to the subsidiary is repayable by 16 quarterly instalments of amount S\$196,000 each and was fully settled during the year.
- (b) A term loan was granted to a subsidiary in 2015 for the construction of Seletar Aerospace Park building. The secured term loan granted to the subsidiary is repayable over 83 fixed monthly principal instalments of S\$98,000 and a final principal instalment of S\$11,862,000.
- (c) A 4-year term loan II was granted to a subsidiary in 2019. The secured term loan granted to the subsidiary is repayable over 48 monthly instalments over a period of 4 years.
- (d) A 3-year term loan was granted to a subsidiary in 2018. The secured term loan granted to the subsidiary is repayable over 36 monthly instalments over a period of 3 years. Early full repayment of the secured term loan was made during the year.
- (e) A 10-year term loan was granted to a subsidiary in 2015. The secured term loan granted to the subsidiary is repayable over 119 monthly principal instalments of S\$22,200 each and a final fixed principal instalment of S\$1,358,200.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

- (f) The 15-year secured term loan granted to a subsidiary in 2014 is repayable over 180 monthly instalments over a period of 15 years.
- (g) The factored receivables is repayable up to 31 January 2020 (2018: 31 January 2019).
- (h) The secured trust receipts granted to a subsidiary by a bank is repayable on various dates between 13 February 2020 (2018: 10 January 2019), being the earliest date and 16 March 2020 (2018: 28 May 2019), being the latest date.

Secured term loans

The SAP term loan, 10-year and 15-year secured term loans are secured over buildings on leasehold land with carrying amount of S\$24,724,000 (2018: S\$25,814,000).

The 4-year secured term loan II is secured over machinery and equipment with carrying amount of S\$4,378,000.

Secured bank facilities

The accounts receivable factoring, trust receipts and certain term loans are secured by a corporate guarantee provided by the Company (Note 29).

The Group has financial covenants attached to the above term loans and facilities which relates to restriction of limits imposed on the maintenance of the Group's certain ratios. As at the end of the reporting period, the Group has observed these financial covenants accordingly.

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | 1 January 2019 | Financing cash flows ⁽¹⁾ | Non-cash changes | | 31 December 2019 |
|-------------------------------------|----------------|-------------------------------------|--|---------------------------|------------------|
| | | | Purchase of property, plant and equipment ⁽²⁾ | Foreign exchange movement | |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| <u>Group</u> | | | | | |
| Bank loans (Note 17) | 36,656 | (5,615) | – | 27 | 31,068 |
| Lease liabilities (Notes 21 and 31) | 13,269 | (5,222) | 1,581 | (23) | 9,605 |
| | 49,925 | (10,837) | 1,581 | 4 | 40,673 |

| | 1 January 2018 | Financing cash flows ⁽¹⁾ | Non-cash changes | | 31 December 2018 |
|--------------------------|----------------|-------------------------------------|--|---------------------------|------------------|
| | | | Purchase of property, plant and equipment ⁽²⁾ | Foreign exchange movement | |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| <u>Group</u> | | | | | |
| Bank loans (Note 17) | 41,821 | (5,251) | – | 86 | 36,656 |
| Finance leases (Note 20) | 7,556 | (1,966) | 738 | 247 | 6,575 |
| | 49,377 | (7,217) | 738 | 333 | 43,231 |

⁽¹⁾ The cash flows make up the net amount of proceeds and repayments of borrowings, lease liabilities and finance leases in the consolidated statement of cash flows.

⁽²⁾ Purchase of property, plant and equipment by means of leasing arrangement.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

18 Trade and Other Payables

| | <u>Group</u> | | <u>Company</u> | |
|---|--------------|---------|----------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| <u>Trade payables</u> | | | | |
| Related party | 680 | 42 | – | – |
| Outside parties | 10,948 | 10,563 | – | – |
| | 11,628 | 10,605 | – | – |
| <u>Other payables</u> | | | | |
| Outside parties | 805 | 612 | 6 | 2 |
| Liability owing to suppliers of property, plant and equipment | 179 | 93 | – | – |
| Accrued personnel costs | 3,279 | 2,113 | 674 | 338 |
| Other accrued operating expenses | 879 | 1,387 | 89 | 143 |
| Accruals for purchases | 163 | 310 | – | – |
| GST output tax | 123 | 124 | 18 | 15 |
| Deposits received | 147 | 140 | – | – |
| Provision for directors' fees | 75 | 103 | 75 | 73 |
| | 5,650 | 4,882 | 862 | 571 |
| | 17,278 | 15,487 | 862 | 571 |

19 Amount due to Subsidiary

| | <u>Company</u> | |
|---|----------------|---------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| Loan from a subsidiary (Note A) | – | 3,327 |
| Less: Non-current portion | | |
| Amount due to subsidiary | – | (1,660) |
| Amount due to subsidiary presented as current liabilities | – | 1,667 |

Note A

Loan from a subsidiary was unsecured with interest rates ranging from 3.18% to 3.53% per annum (2018: 3.18% to 3.43% per annum). This loan had been fully settled during the year.

The fair value of the amount due to subsidiary approximated its carrying amount.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

20 Finance leases

| | Minimum lease payments 2018 | Present value of minimum lease payments 2018 |
|--|-----------------------------------|--|
| | S\$'000 | S\$'000 |
| <u>Group</u> | | |
| Amounts payable under finance leases: | | |
| Within one year | 2,175 | 2,003 |
| In the second to fifth years inclusive | 4,751 | 4,572 |
| After five years | – | – |
| | <u>6,926</u> | <u>6,575</u> |
| Less: Future finance charges | (351) | – |
| Present value of lease obligations | <u>6,575</u> | <u>6,575</u> |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | | (2,003) |
| Amount due for settlement after 12 months | | <u>4,572</u> |

It is the Group's policy to lease certain of its plant and equipment under finance leases. The average lease term is 4 to 5 years. In 2018, the average effective borrowing rate was 2.8% to 5.8% per annum. All leases were on a fixed repayment basis and no arrangements had been entered into for contingent rental payments.

The management estimated the fair value of the Group's long-term finance leases to approximate the carrying amount as the effective interest rates approximated current market interest rates on or near the end of the reporting period.

The Group's obligations under finance leases were secured by the lessor's title to the leased assets (Note 13) and a corporate guarantee by the Company (Note 29).

Finance lease liabilities were reclassified to lease liabilities on 1 January 2019 arising from the adoption of SFRS(I) 16. The impact is disclosed in Note 31.

21 Lease liabilities

The Group as Lessee

(a) Nature of the Group's leasing activities

The Group has entered into leases contract for its leasehold land, machinery and equipment, office equipment and motor vehicles. The Group has the option to terminate the lease contract but is unlikely to exercise the option. The lease contract does not include the option to extend the lease term. These right-of-use assets are recognised within property, plant and equipment (Note 13).

(b) Addition of right-of-use assets classified within property, plant and equipment

| | 2019 |
|-------------------------|--------------|
| | S\$'000 |
| Machinery and equipment | 1,581 |
| | <u>1,581</u> |

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

- (c) Carrying amount of right-of-use assets classified within property, plant and equipment

| | 31 December 2019 | 1 January 2019 |
|-------------------------|------------------|----------------|
| | S\$'000 | S\$'000 |
| Leasehold land | 6,165 | 6,560 |
| Office equipment | 97 | 134 |
| Machinery and equipment | 5,180 | 9,876 |
| Motor vehicles | 82 | 128 |
| | <u>11,524</u> | <u>16,698</u> |

- (d) Depreciation of right-of-use assets classified within property, plant and equipment

| | 2019 |
|-------------------------|--------------|
| | S\$'000 |
| Leasehold land | 395 |
| Office equipment | 37 |
| Machinery and equipment | 697 |
| Motor Vehicles | 45 |
| | <u>1,174</u> |

- (e) Amounts recognised in profit or loss

| | 2019 |
|---------------------------------------|--------------|
| | S\$'000 |
| Depreciation of right-of-use assets | 1,174 |
| Interest expense on lease liabilities | 507 |
| | <u>1,681</u> |

- (f) Other disclosures

| | 2019 |
|-------------------------------|--------------|
| | S\$'000 |
| Total cash outflow for leases | <u>5,222</u> |

- (g) Carrying amount of lease liabilities

| | <u>Group</u> | | <u>Company</u> | |
|--|---------------|---------|----------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| Minimum lease payments due: | | | | |
| Not later than 1 year | 1,814 | – | – | – |
| Later than 1 year but within 5 years | 3,782 | – | – | – |
| Later than 5 years | 6,983 | – | – | – |
| | <u>12,579</u> | – | – | – |
| Less: | | | | |
| Future finance charges | (2,974) | – | – | – |
| Present value of financial lease liabilities | <u>9,605</u> | – | – | – |

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The present value of lease liabilities is analysed as follows:

| | <u>Group</u> | | <u>Company</u> | |
|--------------------------------------|--------------|----------|----------------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| Not later than 1 year | 1,508 | – | – | – |
| Later than 1 year but within 5 years | 2,924 | – | – | – |
| Later than 5 years | 5,173 | – | – | – |
| | <u>9,605</u> | <u>–</u> | <u>–</u> | <u>–</u> |

The Group as Lessor

Nature of the Group's leasing activities

The Group leased out its factory space as a dormitory under operating leases with lease term of 3 years. The lessee does not have an option to purchase the property at the expiry of the lease period. This lease is classified as an operating lease because the risk and rewards incidental to ownership of the assets are not substantially transferred.

Dormitory occupancy fee from the operating lease is disclosed in Note 5.

Undiscounted lease payments from the operating leases to be received after the end of the reporting period are as follows:

| | 2019 | 2018 |
|--------------------|------------|--------------|
| | S\$'000 | S\$'000 |
| Less than one year | 414 | 414 |
| One to two years | 345 | 414 |
| Two to three years | – | 345 |
| | <u>759</u> | <u>1,173</u> |

22 Share capital

| | 2019 | | 2018 | |
|---|------------------------|---------------|---------------------------|---------------|
| | No. of ordinary shares | S\$'000 | No. of ordinary shares | S\$'000 |
| <u>Group and Company</u> | | | | |
| Issued and paid-up: | | | | |
| At the beginning of the year | 396,256,066 | 47,811 | 1,455,358,471 | 45,218 |
| Issued for cash ⁽²⁾ | – | – | 63,228,237 | 1,264 |
| Effect of shares consolidation ⁽¹⁾ | – | – | (1,138,940,053) | – |
| Issued for cash | 17,688,655 | 1,415 | 16,609,411 ⁽³⁾ | 1,329 |
| At the end of the year | <u>413,944,721</u> | <u>49,226</u> | <u>396,256,066</u> | <u>47,811</u> |

⁽¹⁾ On 21 May 2018 due to share consolidation exercise, four (4) existing ordinary shares have been consolidated into one (1) ordinary share.

⁽²⁾ Prior to share consolidation exercise on 21 May 2018.

⁽³⁾ Subsequent to share consolidation exercise on 21 May 2018.

Fully paid ordinary shares, which have no par value, carry one vote per share and a right to dividends as and when declared by the Company.

Notes to the Financial Statements

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Issue of ordinary shares

In 2016, the Company issued 404,784,605 new ordinary shares in the capital of the Company at S\$0.020 each and 202,392,299 free detachable warrants ("Rights cum Warrants Issue"). Each warrant carries a right to subscribe to one new ordinary share at an exercise price of S\$0.020, exercisable during a three-year period from the date of issue. The warrants have expired on 20 December 2019 after which time, any subscription rights comprised in the Warrants which have not been exercised have lapsed and the Warrants have ceased to be valid for any purpose whatsoever.

During the current reporting period, 17,688,655 warrants were exercised at S\$0.08 pursuant to the Rights cum Warrants Issue subsequent to the share consolidation and warrant adjustment exercise on 21 May 2018. As at 20 December 2019, a total of 92,784 warrants remained unexercised and rights to subscribe for ordinary shares have lapsed and ceased to be valid.

23 Reserves

The reserves of the Group and the Company comprise the following balances:

| | <u>Group</u> | | <u>Company</u> | |
|------------------|--------------|------------|----------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| Warrants reserve | – | 219 | – | 219 |
| Capital reserve | 772 | 553 | 870 | 651 |
| | <u>772</u> | <u>772</u> | <u>870</u> | <u>870</u> |

Warrants reserve

The warrants reserve represented the assigned fair value of the warrants issued by the Company, net of issue expenses. Each warrant carried the right to subscribe to one new ordinary share at an exercise price of S\$0.020 prior to the share consolidation and warrant adjustment exercise on 21 May 2018 and S\$0.080 subsequent to share consolidation and warrant adjustment on 21 May 2018 for each new share within the period disclosed in Note 22. As and when the warrants are exercised, the related balance is transferred to the share capital account. As the warrants have expired, the balance in the warrants reserve is transferred to capital reserve.

Capital reserve

The capital reserve pertains to a gain on reissuance of treasury shares in 2012 and acquisition of non-controlling interest in a subsidiary in 2018. Capital reserve is non-distributable.

24 Dividends

There is no dividend declared in respect of the current financial year.

25 Earnings Per Share

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

Diluted earnings per share is calculated by dividing the profit for the year 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 reflects the income and share data used in the basic and diluted earnings per share computation for the financial year ended 31 December:

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| | <u>Group</u> | |
|--|---------------|---------------|
| | 2019 | 2018 |
| Profit for the year attributable to owners of the Company | S\$ 6,518,000 | S\$ 2,193,000 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 404,944,665 | 379,346,652 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 414,037,505 | 414,037,505 |
| Basic earnings per share (Singapore cents) | 1.610 | 0.578 |
| Diluted earnings per share (Singapore cents) | 1.574 | 0.530 |

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the date of these financial statements.

26 Related Party Transactions

Some of the Group's transactions and arrangements are with related parties and the effect of these on the basis determined between the parties are reflected in these financial statements. The balances are unsecured, interest-free and repayable on demand unless otherwise stated.

Significant related party transactions as follows:

| | <u>Group</u> | |
|---|--------------|---------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| <u>Subsidiary of the non-controlling shareholder</u> ⁽¹⁾ | | |
| Sale of goods | – | 5,067 |
| <u>Related parties</u> ⁽²⁾ | | |
| Sale of goods | 850 | 739 |
| Purchase of goods | 2,495 | 140 |
| Purchase of machinery | 1,942 | – |
| Rental of machinery | 199 | – |

⁽¹⁾ On 20 December 2018, the Group purchased the remaining 15% stake of JEP Precision Engineering Pte Ltd from the non-controlling shareholder and hence this company has ceased to be a related party of the Group. Amount disclosed pertains to transactions for the period from 1 January 2018 to 19 December 2018.

⁽²⁾ The transactions with the related parties are with one of the Group's controlling shareholder and its subsidiaries.

Key Management Compensation

Key management personnel are directors and those persons having authority and responsibility for planning, directing and controlling the activities of the company, directly or indirectly. The below amounts are key management compensation:

| | <u>Group</u> | |
|--|--------------|---------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| Salaries, bonuses and related benefits | 1,436 | 2,097 |
| Defined contribution plans | 86 | 102 |
| | 1,522 | 2,199 |

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27 Capital Commitments

| | <u>Group</u> | |
|--|--------------|---------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| Commitments for the acquisition of property, plant and equipment | 1,591 | 21 |

28 Financial Instruments

(a) Categories of financial instruments

The following table sets out the financial instruments as at the end of the reporting period:

| | <u>Group</u> | | <u>Company</u> | |
|------------------------------|--------------|---------|----------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| <u>Financial assets</u> | | | | |
| At amortised cost: | | | | |
| Cash and bank balances | 11,943 | 4,541 | 388 | 556 |
| Trade receivables | 19,021 | 19,818 | – | – |
| Other receivables | 558 | 1,620 | – | – |
| Total | 31,522 | 25,979 | 388 | 556 |
| <u>Financial liabilities</u> | | | | |
| At amortised cost: | | | | |
| Bank loans | 31,068 | 36,656 | – | – |
| Trade and other payables | 17,155 | 15,363 | 844 | 556 |
| Amount due to subsidiary | – | – | – | 3,327 |
| Finance leases | – | 6,575 | – | – |
| Leases liabilities | 9,605 | – | – | – |
| Total | 57,828 | 58,594 | 844 | 3,883 |

(b) Financial risk management policies and objectives

The Group's activities expose it to a variety of financial risks, such as market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risk. Market risk exposures are measured using sensitivity analysis indicated below.

(i) Foreign exchange risk management

The Group transacts business in various foreign currencies, including the United States Dollar ("USD"), Japanese Yen ("JPY"), Chinese Yuan ("CNY") and Euro ("EUR") and therefore is exposed to foreign exchange risk.

At the end of the reporting period, the carrying amounts of monetary assets and monetary liabilities denominated in currencies other than the respective Group entities' functional currencies are as follows:

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| <u>Group</u> | <u>Liabilities</u> | | <u>Assets</u> | |
|--------------|--------------------|---------|---------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| USD | 10,640 | 12,848 | 21,108 | 13,823 |
| JPY | 2,666 | 8,878 | 2,260 | 1,428 |
| CNY | – | – | 1,781 | 3,365 |
| EUR | 485 | 1,366 | 702 | 251 |

| <u>Company</u> | <u>Liabilities</u> | | <u>Assets</u> | |
|----------------|--------------------|---------|---------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| USD | – | – | 30 | 37 |

Foreign currency sensitivity

The following table details the sensitivity to a 5% (2018: 5%) increase and decrease in the relevant foreign currencies against the functional currency of each Group entity. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. The sensitivity analysis includes external loans where they gave rise to an impact on the Group's profit or loss.

If the relevant foreign currencies strengthen by 5% (2018: 5%) against the functional currency of each Group entity, profit or loss will increase (decrease) by:

| <u>Impact arising from</u> | <u>Group</u> | | <u>Company</u> | |
|----------------------------|--------------|---------|----------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| USD | 523 | 49 | 2 | 2 |
| JPY | (20) | (373) | – | – |
| CNY | 89 | 168 | – | – |
| EUR | 11 | (56) | – | – |

If the relevant foreign currencies weaken by 5% (2018: 5%) against the functional currency of each Group entity, profit or loss will be vice versa.

(ii) Interest rate risk management

The Group has exposure to interest rate risk through the impact of floating interest rate on borrowings. The Group obtained financing through bank loans and the details of the Group's interest rate exposure are disclosed in Note 17.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Notes to the Financial Statements

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If interest rate had been 50 basis points higher or lower and all other variables were held constant, the Group's profit before tax for the year ended 31 December 2019 would increase or decrease by S\$141,000 (2018: S\$183,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

If interest rate had been 50 basis points higher or lower and all other variables were held constant, the Company's profit before tax for the year ended 31 December 2019 would increase or decrease by Nil (2018: S\$17,000). This is mainly attributable to the Company's exposure to interest rates on its loan due to a subsidiary, which was settled during the year.

(iii) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by the counterparty limits that are reviewed and approved by the management regularly.

The Group develops and maintains its credit risk gradings to categorise exposures according to their degree of risk of default. The Group uses its trading records to rate its major customers and other debtors. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group's current credit risk grading framework comprises the following categories:

| Category | Description | Basis for recognising expected credit losses (ECL) |
|------------------|---|--|
| Performing | The counterparty has a low risk of default and does not have any past-due amounts. | 12-month ECL |
| Under-performing | Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition. | Lifetime ECL - not credit-impaired |
| Non-performing | Amount is >90 days past due or there is evidence indicating the asset is credit-impaired. | Lifetime ECL - credit-impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery. | Amount is written off |

Further details of credit risks on trade and other receivables are disclosed in Note 10 to the financial statements.

The tables below detail the credit quality of the Group's financial assets, as well as maximum exposure to credit risk by credit rating grades:

| | Note | External credit rating | Internal credit rating | 12-month or Lifetime ECL | Gross carrying amount S\$'000 | Loss allowance S\$'000 | Net carrying amount S\$'000 |
|-------------------|------|------------------------|------------------------|------------------------------------|----------------------------------|---------------------------|--------------------------------|
| <u>Group</u> | | | | | | | |
| <u>2019</u> | | | | | | | |
| Trade receivables | 10 | n.a | (i) | Lifetime ECL (simplified approach) | 19,076 | (55) | 19,021 |
| Other receivables | 10 | n.a | Performing | 12-month ECL | 558 | – | 558 |
| | | | | | <u>19,634</u> | <u>(55)</u> | <u>19,579</u> |

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

| | Note | External credit rating | Internal credit rating | 12-month or Lifetime ECL | Gross carrying amount S\$'000 | Loss allowance S\$'000 | Net carrying amount S\$'000 |
|-------------------|------|------------------------|------------------------|------------------------------------|----------------------------------|---------------------------|--------------------------------|
| Group | | | | | | | |
| 2018 | | | | | | | |
| Trade receivables | 10 | n.a | (i) | Lifetime ECL (simplified approach) | 19,882 | (64) | 19,818 |
| Other receivables | 10 | n.a | Performing | 12-month ECL | 1,620 | – | 1,620 |
| | | | | | <u>21,502</u> | <u>(64)</u> | <u>21,438</u> |

- (i) For trade receivables, the Group has applied the simplified approach in SFRS(I) 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items estimated based on historical credit loss experience based on past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Note 10 includes further details on the loss allowance for these receivables.

The carrying amount of financial assets recorded in the financial statements, grossed up for any allowances for losses, represents the Group's maximum exposure to credit risk without taking into account of the value of any collateral obtained.

The credit risk for trade receivables based on the information provided to key management is as follows:.

| | 2019 S\$'000 | 2019 % of total | 2018 S\$'000 | 2018 % of total |
|-----------------------------|-----------------|--------------------|-----------------|--------------------|
| By country: | | | | |
| Singapore | 6,152 | 33% | 6,988 | 35% |
| People's Republic of China* | 5,384 | 28% | 6,390 | 32% |
| Malaysia | 813 | 4% | 390 | 2% |
| United States | 4,384 | 23% | 4,600 | 23% |
| Canada | 522 | 3% | 479 | 2% |
| Others** | 1,766 | 9% | 971 | 6% |
| | <u>19,021</u> | <u>100%</u> | <u>19,818</u> | <u>100%</u> |
| | | | | |
| | 2019 S\$'000 | 2019 % of total | 2018 S\$'000 | 2018 % of total |
| By industry sectors: | | | | |
| Aerospace | 9,316 | 49% | 8,407 | 42% |
| Oil and gas | 526 | 3% | 346 | 2% |
| Electronics | 809 | 4% | 448 | 2% |
| Trading and others | 4,064 | 21% | 6,333 | 32% |
| Equipment manufacturing | 4,306 | 23% | 4,284 | 22% |
| | <u>19,021</u> | <u>100%</u> | <u>19,818</u> | <u>100%</u> |

* People's Republic of China includes Hong Kong.

** Others include countries such as India, Switzerland, France, Norway, Middle East countries and Southeast Asia.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Other than 4 major customers amounting to S\$10,627,000 (2018: 6 major customers amounting to S\$13,124,000) that individually represented more than 5% of the Group's gross monetary assets, the Group does not have any significant credit risk exposure to any other single counterparty or any other group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities or if they operate within the same industry. There is no significant concentration of credit risk except for the credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

As at year end, the maximum amount the Company could be forced to settle under the financial guarantee contract in Note 29, if the full guaranteed amount is claimed by the counterparty to the guarantee is S\$34,305,000 (2018: S\$43,231,000). Based on expectations at the end of the reporting period, the Company considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses. Management has performed an assessment and has determined that the financial guarantee contract are subject to immaterial loss allowance.

(iv) Liquidity risk management

The Group finances its operations by a combination of bank borrowings and internally generated cash flows. The Group minimises liquidity risk by keeping committed credit lines available.

Liquidity and interest risk analyses

Non-derivative financial assets

The Group's non-derivative financial assets of S\$31,522,000 (2018: S\$25,979,000) are either repayable on demand or due within one year from the end of the reporting period. All the Group's non-derivative financial assets are non-interest bearing.

The Company's non-derivative financial assets of S\$388,000 (2018: S\$556,000) are either repayable on demand or due within one year from the end of the reporting period and non-interest bearing.

Non-derivative financial liabilities

The following tables detail the remaining contractual maturity for non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which is not included in the carrying amount of the financial liabilities on the statements of financial position.

| | Weighted average effective interest rate | On demand or within 1 year | Within 5 years | Over 5 years | Undiscounted cash flows | Adjustment | Total |
|--|--|-------------------------------------|-------------------|-----------------|----------------------------|------------|---------|
| | % p.a. | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| <u>Group</u> | | | | | | | |
| <u>2019</u> | | | | | | | |
| Non-interest bearing | – | 17,155 | – | – | 17,155 | – | 17,155 |
| Lease liabilities (incremental borrowing rate) | 3.53% | 506 | 1,694 | 6,983 | 9,183 | (2,816) | 6,367 |
| Lease liabilities (fixed rate) | 3.44% | 1,308 | 2,088 | – | 3,396 | (158) | 3,238 |
| Fixed interest rate instruments | 3.45% | 932 | 2,175 | – | 3,107 | (172) | 2,935 |
| Variable interest rate instruments | 3.46% | 5,789 | 21,648 | 4,057 | 31,494 | (3,361) | 28,133 |
| | | 25,690 | 27,605 | 11,040 | 64,335 | (6,507) | 57,828 |

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

| | Weighted average effective interest rate | On demand or within 1 year | Within 5 years | Over 5 years | Undiscounted cash flows | Adjustment | Total |
|--|--|-------------------------------------|-------------------|-----------------|----------------------------|------------|---------|
| | % p.a. | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| <u>Group</u> | | | | | | | |
| <u>2018</u> | | | | | | | |
| Non-interest bearing | – | 15,363 | – | – | 15,363 | – | 15,363 |
| Finance lease liabilities (fixed rate) | 3.10% | 2,175 | 4,751 | – | 6,926 | (351) | 6,575 |
| Variable interest rate instruments | 3.59% | 12,155 | 10,936 | 18,385 | 41,476 | (4,820) | 36,656 |
| | | 29,693 | 15,687 | 18,385 | 63,765 | (5,171) | 58,594 |

The Company's non-derivative financial liabilities of S\$844,000 is due within 1 year (2018: S\$556,000) and non-interest bearing. The amount due to subsidiary of S\$3,327,000 as at 31 December 2018 carried interest ranging from 3.18% to 3.43% per annum and fully settled during the year.

Fair value of financial assets and financial liabilities

The carrying amounts of cash and bank balances (Note 9), trade and other receivables (Note 10), asset of disposal group classified as held for sale (Note 12), bank loans (Note 17), trade and other payables (Note 18), amount due to subsidiary (Note 19), finance leases (Note 20) and lease liabilities (Note 21) approximate their respective fair values due to the relatively short-term maturity of these financial instruments, except for bank loans (Note 17), finance leases (Note 20) and lease liabilities (Note 21). The fair values of the financial assets and liabilities are disclosed in the respective notes to the financial statements.

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

(c) Capital management policies and objectives

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2018.

The capital structure of the Group consists of debt, which includes the bank loans, finance leases and lease liabilities as disclosed in Notes 17, 20 and 21 to the consolidated financial statements respectively and equity attributable to owners of the parent, comprising issued capital, reserves and retained earnings. The Group is required to maintain the required gearing in order to comply with covenants in loan agreements with banks and financial institutions.

Management also ensures that the Group maintains certain security ratios of outstanding term loans over the value of the properties in order to comply with the loan covenants imposed by banks and financial institutions.

29 Corporate Guarantees

Intra-group financial guarantee comprises a guarantee given by the Company to a bank in respect of banking and leasing facilities amounting to S\$62,162,000 (2018: S\$64,894,000) granted to its subsidiaries. The fair value of the corporate guarantees were assessed by management to be insignificant as the banking and leasing facilities were secured by property, plant and equipment.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

30 Segment Information

Operating segments are aggregated into a single operating segment if they have similar economic characteristics. The Group's reportable operating segments under SFRS(I) 8 are as follows:

- 1 The precision machining segment is a provider of precision machining services for aerospace, oil and gas, electronics and automotive industry.
- 2 The trading and other segment is a provider of machine sales and customised cutting tools for our customers.
- 3 The equipment manufacturing segment is a provider of large format precision engineering and equipment fabrication service.

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

Management monitors the operating results of its reporting segments for the purpose of making decisions in order to assess the respective reporting segments' performances. This is evaluated based on operating profit or loss which in certain respects, as explained in the table below and is measured differently from operating profit or loss in the consolidated statement of comprehensive income. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to reporting units.

Allocation basis and transfer pricing

Segment results include items directly attributable to reporting segments as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly other operating income and expenses, interest income, finance costs and income tax expense.

The allocation of the Group assets and liabilities as well as the revenues and profits and other material reporting segments item thereon attributable to individual reporting segments is not presented.

Transfer prices between reporting segments are at terms agreed between the parties.

(a) By Business

| | Precision machining | | Trading and others | | Equipment manufacturing | | Group | |
|-------------------------------------|---------------------|---------|--------------------|---------|-------------------------|---------|---------|---------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| <u>REVENUE:</u> | | | | | | | | |
| Total revenue | 61,594 | 51,955 | 13,147 | 20,512 | 15,093 | 16,430 | 89,834 | 88,897 |
| Inter-reporting unit sales | (26) | (751) | (845) | (2,218) | (1) | (63) | (872) | (3,032) |
| External customers | 61,568 | 51,204 | 12,302 | 18,294 | 15,092 | 16,367 | 88,962 | 85,865 |
| <u>Results</u> | | | | | | | | |
| Segment results | 6,679 | 1,991 | 1,035 | 1,980 | 1,985 | 2,177 | 9,699 | 6,148 |
| <u>Unallocated expenses:</u> | | | | | | | | |
| Unallocated corporate expenses | | | | | | | (963) | (1,436) |
| | | | | | | | 8,736 | 4,712 |
| Finance costs | | | | | | | (1,816) | (1,531) |
| Profit before tax | | | | | | | 6,920 | 3,181 |
| Income tax expense | | | | | | | (402) | (886) |
| Net profit for the year, net of tax | | | | | | | 6,518 | 2,295 |

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

| | Precision machining | | Trading and others | | Equipment manufacturing | | Group | |
|---|---------------------|---------|--------------------|---------|-------------------------|---------|---------|---------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| OTHER INFORMATION: | | | | | | | | |
| Capital expenditure | 2,272 | 2,108 | 89 | 67 | 230 | 1,402 | 2,591 | 3,577 |
| Depreciation of property, plant and equipment | 5,166 | 4,868 | 95 | 81 | 1,196 | 984 | 6,457 | 5,933 |
| Amortisation of intangible assets | – | – | 123 | 123 | – | – | 123 | 123 |

The adoption of the new leasing standard resulting in the recognition of right-of-use assets and lease liabilities as at 31 December 2019 as follows:

| | Segment assets | Segment liabilities |
|-------------------------|----------------|---------------------|
| | S\$'000 | S\$'000 |
| Precision machining | 8,040 | 6,684 |
| Trading and others | – | – |
| Equipment manufacturing | 3,484 | 2,921 |
| | <u>11,524</u> | <u>9,605</u> |

The recognition of right-of-use assets and lease liabilities on the statements of financial position resulted in an increase in depreciation and interest expenses in the consolidated statement of comprehensive income in the current year as follows:

| | Depreciation | Interest expenses |
|-------------------------|--------------|-------------------|
| | S\$'000 | S\$'000 |
| Precision machining | 624 | 396 |
| Trading and others | – | 1 |
| Equipment manufacturing | 550 | 110 |
| | <u>1,174</u> | <u>507</u> |

Comparative segment information has not been restated. As a consequence, the segment information disclosed for the items above is not entirely comparable to the information disclosed for the prior year.

(b) Geographical information

Revenue is based on the location of customers regardless of where the goods are produced. Non-current assets (exclude deferred tax assets) are based on the location of those assets.

| | Revenue | | Non-current assets | |
|-----------------------------|---------------|---------------|--------------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| Singapore | 26,554 | 31,224 | 71,599 | 68,989 |
| People's Republic of China* | 23,062 | 28,221 | – | – |
| Malaysia | 3,601 | 2,522 | 88 | 65 |
| USA | 19,076 | 13,575 | – | – |
| Canada | 8,934 | 866 | – | – |
| Others** | 7,735 | 9,457 | – | – |
| | <u>88,962</u> | <u>85,865</u> | <u>71,687</u> | <u>69,054</u> |

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The following table shows the carrying amount of the segment assets and segment liabilities by geographical areas in which the assets and liabilities are located:

| | Segment assets | | Segment liabilities | |
|-----------|----------------|---------|---------------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| | S\$'000 | S\$'000 | S\$'000 | S\$'000 |
| Singapore | 118,442 | 110,920 | 57,828 | 58,594 |
| Malaysia | 195 | 109 | – | – |
| | 118,637 | 111,029 | 57,828 | 58,594 |

* People's Republic of China includes Hong Kong.

** Others include countries such as Canada, Switzerland, France, Norway, Middle East countries and Southeast Asia.

(c) Reconciliation of Segments Total Assets and Total Liabilities

| | Group | |
|--|---------|---------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |

Reportable segments' assets are reconciled to total assets as follows:

| | | |
|---------------------|---------|---------|
| Segment assets | 118,637 | 111,029 |
| GST input tax | 980 | 1,020 |
| Deferred tax assets | 8 | 91 |
| Total assets | 119,625 | 112,140 |

Reportable segments' liabilities are reconciled to total liabilities as follows:

| | Group | |
|--------------------------|---------|---------|
| | 2019 | 2018 |
| | S\$'000 | S\$'000 |
| Segment liabilities | 57,828 | 58,594 |
| GST output tax | 123 | 124 |
| Deferred tax liabilities | 1,614 | 1,295 |
| Total liabilities | 59,565 | 60,013 |

Information about major customers

Revenue from transactions with two external customers accounted to S\$47,900,000 (2018: S\$35,321,000), where each individual external customer contributes to 10% or more of the Group's revenue.

31 Adoption of New and Revised Singapore Financial Reporting Standards (International) ("SFRS(I)")

Adoption of New and Revised SFRS(I) issued which are effective

On 1 January 2019, the Group has adopted the new or amended SFRS(I) and SFRS(I) Interpretations ("SFRS(I) INTs") that are mandatory for application for the financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective SFRS(I) and SFRS(I) INTs. The adoption of these new or amended SFRS(I) and SFRS(I) INTs did not result in substantial changes to the Group's accounting policies and had no material effect on the amounts reported for the current or prior financial years except for the adoption of SFRS(I) 16 Leases:

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

SFRS(I) 16 Leases

Prior to the adoption of SFRS(I) 16, non-cancellable operating lease payments were not recognised as liabilities in the statement of financial position. These payments were recognised as rental expenses over the lease term on a straight-line basis.

SFRS(I) 16 sets out a revised framework for the recognition, measurement, presentation and disclosure of leases, and replaces SFRS(I) 1-17 *Leases*, SFRS(I) INT 4 *Determining whether an Arrangement contains a Lease*, SFRS(I) INT 1-15 *Operating Leases – Incentives*; and SFRS(I) INT 1-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. SFRS(I) 16 requires lessees to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, except where the underlying asset is of low value. The right-of-use asset is depreciated and interest expense is recognised on the lease liability. Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities. Right-of-use assets are tested for impairment in accordance with SFRS(I) 1-36 *Impairment of Assets*. The accounting requirements for lessors have not been changed substantially, and continue to be based on classification as operating and finance leases. Disclosure requirements have been enhanced for both lessors and lessees.

On 1 January 2019, the Group has applied a modified retrospective approach that does not restate comparative information, but recognises the cumulative effect of initially applying SFRS(I) 16 as an adjustment to the opening balance of retained earnings on 1 January 2019. Under the modified retrospective approach, the Group has elected to apply the following practical expedients under SFRS(I) 16:

- a) For all contracts entered into before 1 January 2019 and that were previously identified as leases under SFRS(I) 1-17 and SFRS(I) INT 4, the Group is exempted from having to reassess whether pre-existing contracts contain a lease. Accordingly, the definition of a lease in accordance with SFRS(I) 1-17 and SFRS(I) INT 4 will continue to be applied to leases entered or modified before 1 January 2019.
- b) The Group has, on a lease-by-lease basis:
 - applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
 - relied on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
 - excluded initial direct costs in the measurement of the right-of-use (“ROU”) asset at the date of initial application; and
 - used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

There were no onerous contracts as at 1 January 2019.

- c) For leases previously classified as operating leases on 1 January 2019, the Group has applied the following transition provisions:
 - (i) On a lease-by-lease basis, the Group chose to measure its right-of-use assets at a carrying amount as if SFRS(I) 16 had been applied since the commencement of the lease but discounted using the incremental borrowing rate at 1 January 2019;
 - (ii) Recognised its lease liabilities by discounting the remaining lease payments as at 1 January 2019 using the incremental borrowing rate for each individual lease; and
 - (iii) The difference between the carrying amounts of the right-of-use assets and lease liabilities as at 1 January 2019 (if any) is adjusted directly to opening retained profits. Comparative information is not restated.
- d) The Group has elected not to recognise ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Impact on lessee accounting

For leases previously classified as operating leases, the Group chose to measure its ROU assets at a carrying amount as if SFRS(I) 16 had been applied since the commencement of the lease but discounted using the incremental borrowing rate at 1 January 2019. The Group recognised its lease liabilities by discounting the remaining lease payments as at 1 January 2019 using the incremental borrowing rate for each individual lease or, if applicable, the incremental borrowing rate for each portfolio of leases with reasonably similar characteristics. The difference between the carrying amounts of the ROU assets and lease liabilities as at 1 January 2019 (if any) is adjusted directly to opening retained earnings. Comparative information is not restated.

Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

For leases previously classified as finance leases, the carrying amount of the leased asset and finance lease liability as at 1 January 2019 are determined as the carrying amount of the ROU assets and lease liabilities.

Impact on lessor accounting

There are no significant changes to the accounting by the Group as a lessor.

Financial impact of adoption of SFRS(I) 16

On 1 January 2019, the Group:

- (i) Recognised right-of-use assets and lease liabilities of S\$6,694,000 respectively.
- (ii) Property, plant and equipment of S\$6,575,000, previously accounted for being acquired under finance leases under SFRS(I) 1-17 prior to 1 January 2019, are regarded as right-of-use assets under SFRS(I) 16.
- (iii) Reclassified finance lease liabilities of S\$6,575,000 to lease liabilities.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 3.53%.

The differences between the operating lease commitments disclosed applying SFRS(I) 1-17 in the Group's financial statements as at 31 December 2018 and the lease liabilities recognised in the statements of financial position as at 1 January 2019 are presented below:

| | S\$'000 |
|---|----------------------|
| Operating lease commitment disclosed as at 31 December 2018 | 10,022 |
| Less: | |
| Discounted using the incremental borrowing rate at 1 January 2019 | (3,047) |
| Short-term leases | (273) |
| Leases of low-value assets | (8) |
| | <u>6,694</u> |
| Add: | |
| Finance lease liabilities reclassified to lease liabilities at 1 January 2019 (Note 20) | <u>6,575</u> |
| Lease liabilities recognised at 1 January 2019 | <u><u>13,269</u></u> |

Adoption of New and Revised SFRS(I) issued but not yet effective

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

| | Effective for annual financial periods beginning on or after |
|-----------------------------|--|
| | 1 January 2020 |
| SFRS(I) 3 | 1 January 2020 |
| SFRS(I) 1-1 and SFRS(I) 1-8 | 1 January 2020 |
| SFRS(I) 10 and SFRS(I) 1-28 | Deferred indefinitely, early application is still permitted |

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

32 Subsequent Event

On 13 January 2020, a writ of summon and statement of claim had been issued to a subsidiary for a claim amount of US\$219,284.

Management declared that the subsidiary and the plaintiff have entered into Settlement Agreement on 11 February 2020 and the plaintiff has on 14 February 2020 filed a notice in the High Court of Singapore for the discontinuance and withdrawal of all claims with no order as to costs. Hence, there is no admission of liabilities at 31 December 2019.

Statistics of Shareholdings

as at 23 March 2020

SHARE CAPITAL

| | | |
|----------------------------------|---|---------------------------------|
| Issued and fully paid up capital | : | S\$ 49,226,092 |
| Number of Shares | : | 413,944,721 |
| Class of Shares | : | Ordinary shares |
| Voting Rights | : | One (1) vote per ordinary share |
| Treasury Shares | : | Nil |
| Number of subsidiaries holdings | : | Nil |

DISTRIBUTION OF SHAREHOLDINGS

| SIZE OF SHAREHOLDINGS | NO. OF SHAREHOLDERS | % | NO. OF SHARES | % |
|-----------------------|---------------------|---------------|--------------------|---------------|
| 1 - 99 | 58 | 2.77 | 2,198 | # |
| 100 - 1,000 | 126 | 6.01 | 46,610 | 0.01 |
| 1,001 - 10,000 | 790 | 37.69 | 3,904,032 | 0.94 |
| 10,001 - 1,000,000 | 1,085 | 51.77 | 83,295,777 | 20.12 |
| 1,000,001 AND ABOVE | 37 | 1.76 | 326,696,104 | 78.93 |
| TOTAL | 2,096 | 100.00 | 413,944,721 | 100.00 |

Denotes less than 0.01%

SUBSTANTIAL SHAREHOLDERS

| NAME OF SHAREHOLDERS | DIRECT INTEREST | | DEEMED INTEREST | |
|---------------------------------|-----------------|-------|-----------------|-------|
| | NO. OF SHARES | % | NO. OF SHARES | % |
| Andy Luong ⁽¹⁾ | 1,150,000 | 0.28 | 164,279,170 | 39.69 |
| UMS Holdings Ltd ⁽¹⁾ | 164,279,170 | 39.69 | – | – |
| Zee Hoong Huay ⁽²⁾ | 54,370,355 | 13.13 | 7,759,500 | 1.87 |

Notes:

⁽¹⁾ Mr Andy Luong holds 20.75% of the issued shares capital of UMS Holdings Ltd, which in turns holds 39.69% of the issued share capital of the Company. Mr Andy Luong is therefore deemed to be interested in all the Shares held by UMS Holdings Ltd in the Company.

⁽²⁾ Mr Zee Hoong Huay is deemed to be interested in all the Shares held by his spouse, Ms Lee Pui Rong.

Statistics of Shareholdings

as at 23 March 2020

TWENTY LARGEST SHAREHOLDERS

| NO. | NAME OF SHAREHOLDERS | NO OF SHARES | % |
|-----|------------------------------------|--------------------|---------------|
| 1 | UMS HOLDINGS LIMITED | 164,279,170 | 39.69% |
| 2 | ZEE HOONG HUAY | 54,370,355 | 13.13% |
| 3 | SEVEN CREEK PTE LTD | 15,400,000 | 3.72% |
| 4 | LEE PUI RONG | 7,759,500 | 1.87% |
| 5 | DBS NOMINEES PTE LTD | 7,328,725 | 1.77% |
| 6 | OCBC SECURITIES PRIVATE LTD | 6,033,937 | 1.46% |
| 7 | WONG HIN YET OR LEE KENG LAN | 5,210,000 | 1.26% |
| 8 | NG QI SIANG | 5,145,000 | 1.24% |
| 9 | TAN TAI SIM | 4,686,500 | 1.13% |
| 10 | SAN TAI CONSTRUCTION (S) PTE LTD | 3,700,000 | 0.89% |
| 11 | LEE NAI MING | 3,510,475 | 0.85% |
| 12 | HENG YONG SENG | 3,205,000 | 0.77% |
| 13 | PHILLIP SECURITIES PTE LTD | 3,036,655 | 0.73% |
| 14 | QUEK JIAN LIANG | 2,803,525 | 0.68% |
| 15 | CITIBANK NOMS SPORE PTE LTD | 2,781,275 | 0.67% |
| 16 | MAYBANK KIM ENG SECURITIES PTE.LTD | 2,654,925 | 0.64% |
| 17 | UNITED OVERSEAS BANK NOMINEES P L | 2,560,950 | 0.62% |
| 18 | NEO KOK LIANG | 2,374,500 | 0.57% |
| 19 | HSBC (SINGAPORE) NOMINEES PTE LTD | 2,338,500 | 0.56% |
| 20 | SOH CHEE SIONG | 2,200,750 | 0.53% |
| | TOTAL | 301,379,742 | 72.81% |

PERCENTAGE OF SHAREHOLDINGS HELD BY PUBLIC

Based on the information available to the Company as at 23 March 2020, approximately 45.03% of the total issued ordinary shares of the Company are held by public and therefore, Rule 723 of Catalyst Rules has been complied with.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of JEP Holdings Ltd. (the “**Company**”) will be held at Carlton Hotel Singapore, Level 2, Empress Ballroom 2, 76 Bras Basah Road, Singapore 189558 on Monday, 22 June 2020 at 10:00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors’ Statement and the audited Financial Statements for the financial year ended 31 December 2019 together with the Auditor’s Report thereon. **(Resolution 1)**

2. To re-elect the following Directors of the Company retiring pursuant to the Constitution of the Company:

| | | |
|-------------------------|--------------|-----------------------|
| Mr. Andy Luong | – Article 91 | (Resolution 2) |
| Mr. Zee Hoong Huay | – Article 91 | (Resolution 3) |
| Ms. Lee Sook Wai, Irene | – Article 97 | (Resolution 4) |

Mr. Andy Luong will, upon re-election as Director, remain as Executive Chairman of the Board.

Mr. Zee Hoong Huay will, upon re-election as Director, remain as Executive Director.

Ms. Lee Sook Wai, Irene will, upon re-election as Director, remain as Chairperson of the Nominating Committee and members of the Audit Committee and Remuneration Committee, and will be considered independent for the purposes of Rule 704(7) of the Listing Manual Section B: Rules of Catalist of the Singapore Exchange Securities Trading Limited.

3. To approve the payment of Directors’ fees of up to S\$200,000 for the financial year ending 31 December 2020, to be paid half yearly in arrears. (2019: S\$200,000). **(Resolution 5)**

4. To re-appoint Moore Stephens LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 6)**

5. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

6. Authority to issue shares

That pursuant to Section 161 of the Companies Act (“**Act**”), Cap. 50 of Singapore and Rule 806 of the Listing Manual Section B: Rules of Catalist of the Singapore Exchange Securities (“**Catalist Rules**”), the Directors of the Company be authorised and empowered to:

- (a)
 - (i) issue shares in the capital of the Company (“**Shares**”) whether by way of rights, bonus or otherwise; and/or
 - (ii) make or grant offers, agreements or options (collectively, “**Instruments**”) that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into Shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and

- (b) notwithstanding that the authority conferred by this Resolution may have ceased to be in force, issue Shares in pursuance of any Instruments made or granted by the Directors of the Company while this Resolution was in force,

provided that:

- (1) the aggregate number of Shares (including Shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution), to be issued pursuant to this Resolution shall not exceed one hundred per centum (100%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of Shares to be issued other than on a pro-rata basis to existing shareholders of the Company shall not exceed fifty per centum (50%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);
- (2) (subject to such calculation as may be prescribed by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) for the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (1) above, the percentage of total number of issued Shares (excluding treasury shares and subsidiary holdings) shall be based on the total number of issued Shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

Notice of Annual General Meeting

- (a) new Shares arising from the conversion or exercise of any Instruments or any convertible securities;
 - (b) new Shares arising from exercising of share options or vesting of share awards; and
 - (c) any subsequent bonus issue, consolidation or subdivision of Shares;
- (3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Catalist Rules for the time being in force (unless such compliance has been waived by the SGX-ST), all applicable legal requirements under the Act and the Constitution for the time being of the Company; and
- (4) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (i)]

(Resolution 7)

7. Proposed Renewal of Share Buy-Back Mandate

That:

- (a) for the purposes of Sections 76C and 76E of the Companies Act, the exercise by the Directors of all the powers of the Company to purchase or otherwise acquire issued ordinary shares in the capital of the Company (“**Shares**”) not exceeding, in aggregate, the Maximum Percentage (as hereafter defined), at such price or prices as may be determined by the Directors from time to time up to the Maximum Price (as hereafter defined), whether by way of:
- (i) on-market purchase(s) transacted on the SGX-ST through the SGX-ST’s trading system or, as the case may be, any other stock exchange on which the Shares may, for the time being be listed and quoted, through one or more duly licensed stockbrokers appointed by the Company for the purpose; and/or
 - (ii) off-market purchase(s) (if effected otherwise than on the SGX-ST) in accordance with an equal access scheme(s) as may be determined or formulated by the Directors as they may consider fit, which scheme(s) shall satisfy all the conditions prescribed by the Companies Act and the Catalist Rules,

on the terms set out in the Appendix to the Annual Report, be and is hereby authorized and approved generally and unconditionally (the “**Share Buy-Back Mandate**”);

- (b) unless varied or revoked by the Company in general meeting, the authority conferred on the Directors pursuant to the Share Buy-Back Mandate may be exercised by the Directors at any time and from time to time during the period commencing from the date of the passing of this Resolution and expiring on the earlier of:
- (i) the date on which the next AGM is held or required by law to be held; and
 - (ii) the date on which the share buybacks are carried out to the full extent mandated;

- (c) in this Resolution:

“**Average Closing Price**” means the average of the closing market prices of a Share over the last five market days on which Shares are transacted on the SGX-ST or, as the case may be, such securities exchange on which the Shares are listed and quoted, immediately preceding the date of the market purchase or, as the case may be, the date of the making of the offer pursuant to the off-market purchase, and deemed to be adjusted for any corporate action that occurs during the relevant five day period;

“**date of the making of the offer**” means the day on which the Company makes an offer for the purchase or acquisition of Shares from shareholders, stating the purchase price (which shall not be more than the Maximum Price calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the off-market purchase;

“**Maximum Percentage**” means that number of issued Shares representing ten per cent (10%) of the total number of issued Shares as at the date of the passing of this Resolution (excluding any Shares which are held as treasury shares and subsidiary holding as at that date); and

Notice of Annual General Meeting

“**Maximum Price**” in relation to a Share to be purchased or acquired, means the purchase price (excluding brokerage, commission, applicable goods and services tax and other related expenses) which shall not exceed:

- (i) in the case of a market purchase of a Share, one hundred and five per cent (105%) of the Average Closing Price of the Shares; and
 - (ii) in the case of an off-market purchase of a Share pursuant to an equal access scheme, one hundred and twenty per cent (120%) of the Average Closing Price of the Shares; and
- (d) any Director be and is hereby authorized to complete and do all such acts and things (including executing such documents as may be required) as he may consider expedient or necessary to give effect to the transactions contemplated and/or authorized by this Resolution.

[See Explanatory Note (ii)]

(Resolution 8)

8. Proposed Renewal of the Shareholders’ Mandate for Interested Person Transactions

“That:

approval be and is hereby given for the purposes of Chapter 9 of the Catalist Rules, for the Company and/or its subsidiaries and associated companies which are entities at risk as defined under Chapter 9 of the Listing Manual, or any of them, to enter into any of the transactions falling within the types of Interested Person Transactions, particulars of which are set out in the Appendix to the Annual Report, with any person who is of the class of Interested Persons described in the Letter to Shareholders, provided that such transactions are made on normal commercial terms, are not prejudicial to the interests of the Company and its minority shareholders and are in accordance with the review procedures for the Interested Person Transactions as set out in the Appendix;

the approval given in sub-paragraph (a) above (the “**Mandate**”) shall, unless revoked or varied by the Company in general meeting, continue in force until the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is held or is required by law to be held, whichever is earlier; and

the Directors be and are hereby authorised, jointly or severally, to take such steps, approve all matters and enter into all such transactions, arrangements and agreements and execute all such documents and notices as may be necessary or expedient for the purposes of giving effect to the proposed adoption of the IPT General Mandate as such Directors or any of them may deem fit or expedient or to give effect to this Resolution.”

[See Explanatory Note (iii)]

(Resolution 9)

By Order of the Board

Kevin Cho
Company Secretary
Singapore, 13 April 2020

Explanatory Notes:

- (i) The Ordinary Resolution 7 in item 6 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant Instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding, in total, 100% of the total number of issued shares (excluding treasury shares and subsidiary holding) in the capital of the Company, of which up to 50% may be issued other than on a pro-rata basis to shareholders.

For determining the aggregate number of shares that may be issued, the total number of issued shares (excluding treasury shares and subsidiary holding) will be calculated based on the total number of issued shares (excluding treasury shares and subsidiary holding) in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.

Notice of Annual General Meeting

- (ii) The Ordinary Resolution 8 in item 7 above, if passed, renews the Share Buy-Back Mandate and will authorise the Directors of the Company, from time to time, to purchase Shares subject to and in accordance with the Constitution of the Company, the Catalyst Rules and such other laws and regulations as may for the time being be applicable. The Company may use internal sources of funds, external borrowings, or a combination of both to finance the Company's purchase or acquisition of the Shares.

The amount of funding required for the Company to purchase or acquire the Shares, and the impact on the Company's financial position, cannot be ascertained as at the date of this Notice as these will depend on, inter alia, the number of Shares to be purchased or acquired, the price at which such Shares are to be purchased or acquired, and whether the Shares to be purchased or acquired are cancelled or held as treasury shares. Based on certain assumptions, an illustration on the financial impact of a purchase or acquisition of Shares by the Company pursuant to the Share Buy-Back Mandate on the audited financial statements of the Company for the financial year ended 31 December 2019 is set out in Section 6 of the Appendix dated 13 April 2020, which is enclosed together with the Company's Annual Report.

- (iii) The Ordinary Resolution 9 in item 8 above, if passed, renews the IPT General Mandate and empower the Company, its subsidiaries and associated companies, to enter into the Interested Person Transactions as described in the Section 2.4 of the Appendix dated 13 April 2020, which is enclosed together with the Company's Annual Report. The authority under the renewed IPT General Mandate will, unless revoked or varied by the Company in general meeting, expire at the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting is required to be held, whichever is the earlier.

Notes

1. (a) A member who is not a relevant intermediary, is entitled to appoint one or two proxies to attend and vote at the AGM. Where such member's form appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.

(b) A member who is a relevant intermediary is entitled to appoint more than two proxies to attend and vote at the AGM, but each proxy must be appointed to exercise the rights attached to a different Share or Shares held by such member. Where such member's form of proxy appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

"**Relevant intermediary**" has the meaning ascribed to it in Section 181 of the Companies Act, Cap. 50.

2. A proxy need not be a Member of the Company.
3. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 16 Seletar Aerospace Crescent, Singapore 797567 not less than forty-eight (48) hours before the time appointed for holding the AGM.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM 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 AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (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.

This Notice of AGM has been prepared by the Company and its contents have been reviewed by the Company's Sponsor, RHT Capital Pte. Ltd. (the "**Sponsor**"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") Listing Manual Section B: Rules of Catalyst. The Sponsor has not independently verified the contents of this Notice of AGM. This Notice of AGM has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this Notice of AGM including the correctness of any of the statements or opinions made or reports contained in this Notice of AGM.

The details of the contact person for the Sponsor is:

Name: Mr. Lay Shi Wei (Registered Professional, RHT Capital Pte. Ltd.)

Address: 9 Raffles Place #29-01, Republic Plaza Tower 1, Singapore 048619

Telephone: 6381 6966

JEP HOLDINGS LTD.

Company Registration No. 199401749E

(Incorporated in the Republic of Singapore)

PROXY FORM

(Please see notes overleaf before completing this Form)

IMPORTANT:

1. A relevant intermediary may appoint more than two proxies to attend the Annual General Meeting and vote (please see note 4 for the definition of "Relevant Intermediary").
2. For investors who have used their CPF monies to buy JEP Holdings Ltd's shares, this Report is forwarded to them at the request of the CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
3. The proxy form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

I/We*,

of

being a member/members* of **JEP Holdings Ltd.** (the "**Company**"), hereby appoint:

| Name | NRIC/Passport No. | Proportion of Shareholdings | |
|---------|-------------------|-----------------------------|---|
| | | No. of Shares | % |
| Address | | | |

and/or*

| Name | NRIC/Passport No. | Proportion of Shareholdings | |
|---------|-------------------|-----------------------------|---|
| | | No. of Shares | % |
| Address | | | |

or failing the person, or either or both of the persons, referred to above, the Chairman of the Meeting as my/our* proxy/proxies* to vote for me/us* on my/our* behalf at the Annual General Meeting (the "Meeting") of the Company to be held at Carlton Hotel Singapore, Level 2, Empress Ballroom 2, 76 Bras Basah Road, Singapore 189558 on Monday, 22 June 2020 at 10:00 a.m. and at any adjournment thereof. I/We* direct my/our* proxy/proxies* to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies* will vote or abstain from voting at his/her* discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

(If you wish to exercise all your vote "For" or "Against" or "Abstain", please tick [✓] within the box provided. Alternatively, please indicate the number of votes as appropriate.)

| No. | Resolutions relating to: | For | Against | Abstain |
|-----|---|-----|---------|---------|
| 1 | Directors' Statement and Audited Financial Statements for the financial year ended 31 December 2019 | | | |
| 2 | Re-election of Mr. Andy Luong as a Director | | | |
| 3 | Re-election of Mr. Zee Hoong Huay as a Director | | | |
| 4 | Re-election of Ms. Lee Sook Wai, Irene as a Director | | | |
| 5 | Approval of Directors' fees of up to S\$200,000 for the financial year ending 31 December 2020, to be paid half yearly in arrears | | | |
| 6 | Re-appointment of auditor | | | |
| 7 | Authority to issue shares | | | |
| 8 | Proposed Renewal of Share Buy-Back Mandate | | | |
| 9 | Proposed Renewal of IPT General Mandate | | | |

Dated this _____ day of _____ 2020

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

| | |
|----------------------------|---------------|
| Total number of Shares in: | No. of Shares |
| (a) CDP Register | |
| (b) Register of Members | |

*Delete where inapplicable



Notes:

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
4. A member who is a relevant intermediary entitled to attend the meeting and vote is entitled to appoint more than two proxies to attend and vote instead of the member, 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 proxies, the appointments shall be invalid unless the member specifies the number of Shares in relation to which each proxy has been appointed.

“Relevant intermediary” means:

- (a) a banking corporation licensed under the Banking Act, Chapter 19 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;
 - (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act, Chapter 289 and who holds shares in that capacity; or
 - (c) the Central Provident Fund Board established by the Central Provident Fund Act, Chapter 36, 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 Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.
5. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.
 6. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 16 Seletar Aerospace Crescent, Singapore 797567 not less than forty-eight (48) hours before the time appointed for the Meeting.
 7. The instrument appointing a proxy or proxies must be under the hand of the appointor 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 either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.
 8. 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, Chapter 50 of Singapore.

PERSONAL DATA PRIVACY:

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 13 April 2020.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at Seventy-two (72) hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.



JEP Holdings Limited
16 Seletar Aerospace Crescent
Singapore 797567
Tel : (65) 6545 4222
Fax: (65) 6545 2823
www.jep-holdings.com