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ISDN HOLDINGS LIMITED

億仕登控股有限公司

(Incorporated in the Republic of Singapore with limited liability)

(Hong Kong stock code: 1656)

(Singapore stock code: I07.SI)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2017	2016	% Change
	S\$'000	S\$'000	
	(unaudited)	(audited)	
Revenue	292,185	258,502	13.0%
Gross profit	73,831	64,999	13.6%
Profit for the period and attributable to owners of the Company	9,547	5,153	85.3%
Basic earnings per share	S\$2.43 cents	S\$1.45 cents	

The Board has resolved to declare final dividend of S\$0.6 cents for the year ended 31 December 2017. (2016 final: S\$0.3 cents)

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of ISDN Holdings Limited (the “**Company**”) hereby announces the consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2017, together with the comparative figures for the year ended 31 December 2016. The Group’s results for the year ended 31 December 2017 as in this preliminary announcement are unaudited, but have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 S\$'000 (unaudited)	2016 S\$'000 (audited)
REVENUE	5	292,185	258,502
Cost of sales		(218,354)	(193,503)
Gross profit		73,831	64,999
Other operating income	5	4,177	4,039
Distribution cost		(24,147)	(21,556)
Administrative expenses		(31,385)	(30,557)
Other operating expenses		(3,464)	(2,203)
Finance costs	6	(812)	(742)
Share of profit of associates		615	351
PROFIT BEFORE INCOME TAX	7	18,815	14,331
Income tax	8	(5,069)	(4,288)
PROFIT FOR THE YEAR		13,746	10,043
OTHER COMPREHENSIVE INCOME:			
<u>Items that may be subsequently reclassified to profit or loss</u>			
Exchange differences on translation of foreign operations			
- Loss on translation of foreign operations		(917)	(1,825)
Reclassification		-	(260)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		12,829	7,958

	<i>Note</i>	2017 <i>S\$'000</i> <i>(unaudited)</i>	2016 <i>S\$'000</i> <i>(audited)</i>
PROFIT FOR THE YEAR			
ATTRIBUTABLE TO:			
Equity holders of the Company		9,547	5,153
Non-controlling interests		4,199	4,890
		<u>13,746</u>	<u>10,043</u>
TOTAL COMPREHENSIVE INCOME FOR			
THE YEAR ATTRIBUTABLE TO:			
Equity holders of the Company		8,743	2,940
Non-controlling interests		4,086	5,018
		<u>12,829</u>	<u>7,958</u>
EARNINGS PER SHARE:			
Basic and diluted	10	S\$2.43 cents	S\$1.45 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

		31 December 2017	31 December 2016
	<i>Note</i>	S\$'000	<i>S\$'000</i>
		(unaudited)	(audited)
ASSETS			
Non-current assets			
Property, plant and equipment		27,326	27,682
Investment properties		504	522
Land use rights		1,338	1,376
Goodwill		11,686	11,686
Interests in associates		18,352	11,649
Deferred tax assets		316	59
Total non-current assets		59,522	52,974
Current assets			
Inventories		50,003	38,902
Trade and other receivables	<i>11</i>	89,164	86,288
Cash and bank balances		38,303	38,683
Total current assets		177,470	163,873
Total assets		236,992	216,847

	31 December 2017 <i>S\$'000</i> <i>(unaudited)</i>	31 December 2016 <i>S\$'000</i> <i>(audited)</i>
<i>Note</i>		
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	70,981	62,408
Warrants Issue	3,384	3,384
Reserves	62,313	55,425
	136,678	121,217
Non-controlling interests	15,214	14,927
Total equity	151,892	136,144
Non-current liabilities		
Bank borrowings	159	263
Finance leases	82	186
Deferred tax liabilities	266	-
Total non-current liabilities	507	449
Current liabilities		
Bank borrowings	14,302	13,052
Finance leases	160	150
Trade and other payables	68,694	65,478
Current tax liabilities	1,437	1,574
	84,593	80,254
Total liabilities	85,100	80,703
Total liabilities and equity	236,992	216,847

NOTES

1. GENERAL

The Company is a public limited liability company incorporated and domiciled in Singapore and is listed on the Mainboard of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) and the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The registered office of the Company is located at No. 10 Kaki Bukit Road 1, #01-30 KB Industrial Building, Singapore 416175.

The immediate and ultimate holding company is Assetraise Holdings Limited, a company incorporated in the British Virgin Islands. Assetraise Holdings Limited is beneficially owned by Mr Teo Cher Koon, our president and managing Director and his spouse, Ms Thang Yee Chin. The Company’s principal activities included the provision of technical consultancy, training services, and management services.

The shares of the Company (the “**Share(s)**”) have been listed on the mainboard of SGX-ST and the Stock Exchange.

2. BASIS OF PREPARATION

The financial information have been prepared in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the “**Act**”), the Singapore Financial Reporting Standards (“**SFRS**”) including related interpretation of SFRS (“**INT SFRS**”) issued by the Singapore Accounting Standards Council and the Rules Governing the Listing of Securities (the “**Listing Rules**”) on the Stock Exchange.

The preparation of financial information in conformity with SFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

3. ADOPTION OF NEW OR AMENDED SFRS

In the current financial year, the Group has adopted all the new and revised SFRS that are relevant to its operations and effective for the current financial year.

Amendments to FRS 7	Statement of Cash Flows – Disclosure Initiative
Amendments to FRS 12	Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses
Improvements to FRSs (December 2016) FRS 112	Disclosure of Interest in Other Entities

The adoption of these new and revised SFRS does not result in any substantial changes to the Group’s accounting policies and has no material effect on the amounts reported for the current or prior periods.

4. SEGMENT INFORMATION

The business of the Group is organised into the following business segments:

- Provision of Engineering Solutions — Motion Control
- Other Specialised Engineering Solutions
- Industrial Computing Solutions

Segment results represent the profit earned by each segment without allocation of corporate expenses, rental income, share of profit of associates, interest income and finance costs, and income tax expense. Segment assets/liabilities are all operating assets/liabilities that are employed by a segment in its operating activities and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. This is the measure reported to management for the purposes of resource allocation and assessment of segment performance. Segment revenue includes transfer between operating segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar goods. The transfers are eliminated on consolidation. No operating segments have been aggregated to form the reportable segments above.

(a) Reportable operating segments

	Engineering Solutions - Motion Control		Other Specialised Engineering Solutions		Industrial Computing Solutions		Other		Elimination		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
Revenue												
External sales	223,811	202,767	62,180	49,670	6,101	6,065	93	-	-	-	292,185	258,502
Inter-segment sales	3,347	3,056	1,810	1,511	170	30	-	-	(5,327)	(4,597)	-	-
	227,158	205,823	63,990	51,181	6,271	6,095	93	-	(5,327)	(4,597)	292,185	258,502
Results												
Segment results	17,974	17,848	1,713	511	579	561	(194)	(1,122)	-	-	20,072	17,798
Share of profit/(loss) of associates	1,027	462	-	-	-	-	(412)	(111)	-	-	615	351
Corporate expenses											(1,833)	(3,941)
Rental income											586	598
Interest income											187	267
Finance costs											(812)	(742)
Profit before income tax											18,815	14,331
Income tax											(5,069)	(4,288)
Profit for the year ended 31 December											13,746	10,043
Assets												
Segment assets	124,406	109,573	38,666	29,945	2,942	2,746	8,922	15,461	(6,789)	(3,418)	168,147	154,307
Goodwill	2,178	2,178	9,508	9,508	-	-	-	-	-	-	11,686	11,686
Associates	4,688	4,261	-	-	-	-	13,664	7,388	-	-	18,352	11,649
Investment properties											504	522
Cash and bank balances											38,303	38,683
Consolidated total assets as at 31 December											236,992	216,847
Liabilities												
Segment liabilities	53,609	45,896	14,109	13,195	491	603	2,777	6,389	(6,789)	(3,418)	64,197	62,665
Bank borrowings and finance leases											14,703	13,651
Income tax liabilities											1,437	1,574
Others unallocated corporate liabilities											4,763	2,813
Consolidated total liabilities as at 31 December											85,100	80,703
Other information												
Capital expenditure on - property, plant and equipment	1,332	763	693	556	43	143	27	-	-	-	2,095	1,462
Depreciation of properties, plant and equipment	1,481	1,282	608	641	11	7	90	94	-	-	2,190	2,024
Depreciation of investment properties	40	17	-	-	-	-	-	-	-	-	40	17
Other non-cash expenses: - amortisation of land use rights	34	34	-	-	-	-	-	-	-	-	34	34
- trade receivables written off	71	134	47	-	-	-	38	15	-	-	156	149
- allowance for inventory obsolescence	641	681	668	376	-	-	-	-	-	-	1,309	1,057
- allowance for impairment of trade receivables	34	60	33	37	-	-	-	2	-	-	67	99
- property, plant and equipment written off	4	1	-	-	-	-	-	-	-	-	4	1
- inventories written off	124	215	14	25	-	-	-	-	-	-	138	240
- write back of allowance of trade receivables	(54)	(131)	-	-	-	-	-	-	-	-	(54)	(131)
- write back of allowance of inventory obsolescence	(5)	(11)	-	(66)	-	-	-	-	-	-	(5)	(77)

(b) Geographical information

The Group operates in three principal geographical areas — Singapore (country of domicile), the PRC, Hong Kong and Malaysia.

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

	Revenue from external customers		Non-current assets	
	2017 S\$'000	2016 S\$'000	2017 S\$'000	2016 S\$'000
Singapore	45,252	36,977	34,128	26,811
People Republic of China ("PRC")	207,632	180,790	22,891	23,024
Hong Kong	10,199	15,064	1,369	1,382
Malaysia	7,469	7,122	904	933
Others	21,633	18,549	230	824
	292,185	258,502	59,522	52,974

(c) Information about Major Customers

The Group's revenue from any single external customer is less than 10%.

5. REVENUE AND OTHER OPERATING INCOME

Revenue represents invoiced value of goods delivered less applicable goods and services/value-added tax and after eliminating sales within the Group.

An analysis of the Group's other operating income is as follows:

	2017 S\$'000	2016 S\$'000
Commission income	651	172
Gain on disposal of interest in a subsidiary	101	411
Gain on disposal of interest in an associate	—	64
Gain on disposal of property, plant and equipment	5	11
Finance income		
— Interest on bank deposits	30	197
— Interests on loan to an associate	78	70
Government grants	80	336
Operating lease rental income:		
— Investment properties	61	59
— Sub-let of office/warehouse premises	525	539
Property management income	301	308
Recovery of bad debts written off	—	3
Technical service income	982	743
Write back of allowance of inventory obsolescence	5	77
Write back of allowance of trade receivables	54	131
Miscellaneous income	1,304	918
	4,177	4,039

6. FINANCE COSTS

	2017 S\$'000	2016 S\$'000
Interest expense on:		
— Bank loans	761	697
— Trust receipts	32	26
— Finance leases	19	19
	812	742

7. PROFIT BEFORE INCOME TAX

	2017 S\$'000	2016 S\$'000
Profit before income tax has been arrived at after charging		
Amortisation of land use rights	34	34
Depreciation of property, plant and equipment		
— Recognised in cost of sales	395	202
— Recognised in distribution costs	207	260
— Recognised in administrative expenses	1,588	1,562
	2,190	2,024
Depreciation of investment properties	40	17
Other operating expenses included:		
— Trade receivables written off	156	149
— Allowance for inventory obsolescence	1,309	1,057
— Allowance for impairment of trade receivable	67	99
— Property, plant and equipment written off	4	1
— Inventories written off	138	240
— Foreign exchange losses, net	1,750	668
Operating lease rental expense	1,817	1,636

8. INCOME TAX

	2017 S\$'000	2016 S\$'000
Current income tax		
— Singapore	7	113
— The PRC	4,880	4,331
— Outside Singapore and the PRC	224	222
— Over provision in respect of prior year	(51)	(358)
Deferred Taxation		
— Withholding tax on the profits of the Group's subsidiaries	266	—
— Over provision in respect of prior year	(257)	(20)
	5,069	4,288

The corporate tax rate applicable to the Company and those entities of the Group incorporated in Singapore for the years ended 31 December 2017 and 2016 is 17%. The corporate tax rate applicable to those entities of the Group incorporated in Malaysia and Hong Kong for the years ended 31 December 2017 and 2016 is 25% and 16.5%, respectively.

For those entities of the Group operating in the People's Republic of China ("PRC"), the PRC income tax is calculated at the applicable tax rate in accordance with the relevant laws and regulations in the PRC. On 16 March 2007, the Enterprise Income Tax Law (the "new EIT Law") was passed at the Fifth Session of the Tenth National People's Congress of the PRC, in which the income tax rate for both domestic and foreign-investment enterprise was unified at 25% effective from 1 January 2008 (Order of the President [2007] No. 63).

The remaining entities of the Group operating in jurisdictions other than the above have either no taxable income or are not material.

9. DIVIDENDS PAID

	2017 S\$'000	2016 S\$'000
Paid during the financial period:		
Tax exempt (one-tier) final dividend of Singapore		
0.3 cents per share (2016:0.4 cents) in respect of the previous year	1,282	1,419

Subsequent to the year ended 31 December 2017, the Board proposed a final tax-exempt dividend[#] of S\$0.3 cents (2016: S\$0.4 cents) per ordinary share, amounting to S\$1,282,000 (2016: S\$1,419,000) under the exempt-1-tier system. The proposed final dividends had not been recognized as a liability at the end of reporting period.

[#] With effect from 1 January 2003, Singapore has adopted a one-tier corporate tax system under which tax paid by a resident company on its chargeable income is a final tax. All dividends paid are tax exempt in the hands of its shareholders. There is no withholding tax on dividend payments to all shareholders.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

	2017 S\$'000	2016 S\$'000
Earnings for the purpose of basic and diluted earnings per share, being profit for the year attributable to owners of the Company	9,547	5,153
Weighted average number of ordinary shares for the purpose of basic earnings per share	393,479,471	354,684,950

The weighted average number of shares takes into account the weighted average effect of changes in treasury shares during the years ended 31 December 2017 and 2016.

The outstanding warrants did not have dilutive effect on the Group's earnings per share for the years ended 31 December 2017 and 2016 respectively, because their exercise price is higher than the average share price during the years.

11. TRADE AND OTHER RECEIVABLES

	2017	2016
	S\$'000	S\$'000
Trade receivables, net of impairment		
— Note receivables	6,247	6,147
— Third parties	58,119	59,707
— Associates	2,490	2,237
— Related parties	1,597	1,340
	68,453	69,431
<u>Other receivables:</u>		
Funding to investee company	4,532	4,476
Amount due from investor	3,536	3,072
Advances to		
— Suppliers	5,158	2,756
— Associates	122	113
— Related parties	138	24
Deposits	530	673
Loan to associates	817	1,313
Sundry debtors	5,411	3,731
	20,244	16,158
Prepayment	467	699
	89,164	86,288

The aging analysis of trade receivables based on invoice date is as follows:

	2017	2016
	S\$'000	S\$'000
Within 30 days	32,942	32,701
31-90 days	20,053	19,711
Over 90 days	15,458	17,019
	68,453	69,431

Trade receivables are non-interest bearing and are usually due within 30 — 90 days term. Included in trade receivables as at 31 December 2017 were trade receivables from third parties amounting to S\$734,000 (2016: S\$792,000), under account receivables bulk factoring arrangement via a bank facility agreement entered by a subsidiary of the Company to sell its trade receivables to banks. These factored trade receivables was included in trade receivables as the subsidiary still retained the risk and rewards associated with the delay and default in payment by customers.

12. SHARE CAPITAL

	No. of ordinary shares		Issued and fully paid Amount	
	2017	2016	2017 S\$'000	2016 S\$'000
At the beginning of year	354,684,950	361,049,950	62,408	63,925
Add: Share offers	40,000,000	—	8,573	—
Less: Cancellation of treasury shares	—	(6,365,000)	—	(1,517)
At the end of year	394,684,950	354,684,950	70,981	62,408

Ordinary shares of the Company do not have any par value. The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and rank equally with respect to the Company's residual assets.

13. TRADE AND OTHER PAYABLES

	2017 S\$'000	2016 S\$'000
Trade payables		
— Note payables	1	2,083
— Third parties	30,935	27,641
— Associates	48	125
— Related parties	4,712	7,417
	35,696	37,266
Other payables:		
Advances received from customers	9,125	6,449
Accrued operating expenses	15,982	13,600
Amount owing to related parties	92	—
Amount owing to an associate	1,280	3,784
Others	6,519	4,379
	32,998	28,212
	68,694	65,478

The aging analysis of trade payables based on invoice date is as follows:

	2017 S\$'000	2016 S\$'000
Within 90 days	32,269	29,105
90-180 days	2,601	5,046
Over 180 days	826	3,115
	35,696	37,266

Trade payables are non-interest bearing and are usually settled within 30 – 90 days term.

14. EVENT AFTER THE REPORTING PERIOD

No major subsequent event has occurred since the end of the financial year ended 31 December 2017 up to the date of this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the financial year ended 31 December 2017 (“FY2017”), revenue increased by approximately S\$33.7 million, or 13.0% from S\$258.5 million for financial year ended 31 December 2016 (“FY2016”) to S\$292.2 million for FY2017. This was mainly attributable to the adoption of automated manufacturing, which increases the demand for industrial robots driven by motion control.

For the FY2017, gross profit has increased by S\$8.8 million, or 13.6%, to S\$73.8 million in FY2017.

Our business focus continues to be predominantly in the PRC, contributing approximately 71.1% in FY2017 (FY2016: 71.1%), with Singapore, Hong Kong and Malaysia as other major contributors to our revenue, accounting for 15.5%, 3.5% and 2.6% of our Group’s revenue in FY2017, respectively (FY2016: 14.3%, 5.8% and 2.8%). We have achieved growth in overall revenue in PRC and Singapore in 2017.

The increase in our Group’s revenue and gross profit were attributable to a stronger demand for our motion control solutions and other specialised engineering solutions from existing customers as well as new customers, particularly in the PRC and Hong Kong markets.

On hindsight, the upcoming smartphones releases by the major market players have increased the order size from original equipment manufacturers (“OEM”) in the past few months. Moreover, the increasing trend of global smartphones penetration rate continues to show demand for smartphones. Our customers, several of them are main OEMs to these market players benefit from riding the waves, and in turn contributed to the growth of our revenue and gross profit.

Our Group continues to serve customers in a wide range of industries in FY2017. The diversity of our customer base across various sectors provides us with a stable revenue stream in the face of cyclical ups and downs of the individual industries.

FUTURE PROSPECTS

The outlook for our core Motion Control and Other Specialized Engineering Solutions businesses is expected to remain positive, as China, our key market, continues to upgrade its industrial environment from one that has traditionally been labour-intensive, to one that is technologically advanced and automated. In addition, China's official purchasing managers' index (PMI) and Caixin/Markit PMI in January 2018 show that the activity in the manufacturing sector is still expanding and this is encouraging.

We are able to offer a comprehensive range of motion control systems and specialized engineering solutions for our customers in a wide range of industries due to our extensive and diverse supplier base across the globe, as well as our ability to customize the solutions to meet customers' specific demands and requirements.

Notwithstanding that the industry we operate in is very competitive, we will continue to build on that competitive edge and expand our market share by ramping up our sales and marketing efforts this year. Our sales efforts will focus on certain fast growing industries supported by government policies and high market demand. For instance, we will continue to expand our market presence in industries related to the "Industrial 4.0" concepts, which are part of the industrial development policies of many governments around the world. In China, one such policy being promulgated by the Chinese government is the "Made in China 2025". Such policies will boost the development and use of robotics and the technological upgrades of manufacturing processes, which benefits the motion control solutions and other specialized engineering solutions industries as a whole.

Our focus will still be the China and Singapore markets, which accounted for more than 86% of our revenue in FY2017. One of the fastest growing industries that we serve in these two markets is the manufacturing of components for smartphones. Some of our major customers are OEM of smartphones, who are still riding the wave of increasing smartphone penetration globally. We continue to monitor the order size that they receive from major smartphone players as it is expected to impact our sales in the next 12 months. Other contributing markets to our revenue include Hong Kong and Malaysia, which together accounted for 6% of our revenue in FY2017. Nevertheless, we will also continue to expand our business in other parts of South-east Asia. We gained foothold in Vietnam and Thailand, and our expansion into these markets had accelerated in FY2017.

Going forward, we will continue to explore other growth opportunities in the renewable energy sectors through strategic partnerships and other forms of collaboration. For instance, we are exploring opportunities to collaborate with Comtec Solar System Group Limited, a listed company on the Main Board of The Stock Exchange of Hong Kong Limited, to introduce our integrated engineering solutions to renewable energy sectors in order to strengthen our core engineering competencies.

FINANCIAL REVIEW

Revenue and Gross Profit Margin

For FY2017, the Group recorded an increase in total revenue by approximately S\$33.7 million, or 13.0% from S\$258.5 million for FY2016 to S\$292.2 million for FY17.

The gross profit for the FY2017 increased by S\$8.8 million, or 13.6%, to S\$73.8 million in FY2017. Gross profit margin remained stable at 25.3% in FY2017, as compared to 25.1% in FY2016.

The Group has harnessed on the growth momentum of global market which is mainly driven by the adoption of advanced and automated processes for factory automation, increasing demand for industrial robots in manufacturing processes, and ease of use and integration of components within motion control systems. The revenue generated from motion control and other specialised solutions was not only attributed by ever stronger demand from existing customers, but also from the expansion of customer base especially in the PRC and Singapore market. These factors contributed to the increase in revenue and gross profit for FY2017.

Other operating income

Other operating income for FY2017 remained relatively stable with that for FY2016.

Distribution costs

Distribution costs increased S\$2.6 million, or 12.0% to S\$24.1 million in FY2017. The increase was mainly due to higher variable staff costs and marketing expenses incurred.

Administrative expenses

Administrative expenses increased by S\$0.8 million, or 2.7% to S\$31.4 million for FY2017 respectively, which was mainly due to the recognition of Listing expenses approximately S\$1.1 million (2016: S\$3.5 million) and one-off expenditure on our 30th anniversary celebration approximately S\$0.5 million (FY2016: NIL). Excluding the impact of the Listing expenses and one-off expenditure totally of S\$1.6 million for FY2017 (FY2016: S\$3.5 million). The administrative expenses would have been S\$29.8 million (FY2016: S\$27.1 million) for FY2017, S\$2.7 million or 9.9% higher than FY2016. The increase was mainly due to the increase in staff costs as a result of pay rise and general expenses.

Other operating expenses

Other operating expenses increased S\$1.3 million, or 57.2% to S\$3.5 million in FY2017, which was mainly due to lower net exchange loss recognised in FY2016 and lesser allowances provided for impairment of trade receivables and inventories in FY2016.

Finance costs

Finance costs increased by S\$0.1 million, or 9.4% to S\$0.8 million for FY2017, which was mainly due to increase in borrowings.

Income tax expense

The income tax expense for FY2017 increased by S\$0.8 million, or 18.2% to S\$5.1 million. The increase was mainly due to higher chargeable income in FY2017. The Group's effective tax rate was 26.9% for FY2017 (FY2016: 29.9%), due to utilisation of tax losses in prior years; tax credit to offset the chargeable tax income and the provision of withholding tax on the profits of the Group's overseas subsidiaries.

Property, plant and equipment

Property, plant and equipment decreased by S\$0.4 million, or 1.3% from S\$27.7 million as at 31 December 2016 to S\$27.3 million as at 31 December 2017 was mainly due to (i) depreciation of S\$2.3 million; (ii) downward exchange translation adjustment of S\$0.2 million as a result of the depreciation of RMB against SGD; and (iii) partly offset by capital expenditures of S\$2.1 million recognized in FY2017.

Interests in associates

Interests in associates increased by S\$6.7 million, or 57.5% to S\$18.4 million as at 31 December 2017 was mainly due to approximately S\$6.6 million quasi-equity loan to associate companies.

Inventories

Inventories increased by S\$11.1 million, or 28.5% to S\$50.0 million as at 31 December 2017 was primarily due to the growth of revenue for FY2017 as compared to FY2016. In addition, the increase is to cater increased orders scheduled for delivery after FY2017.

Trade and other receivables

Trade and other receivables increased by S\$2.9 million, or 3.3% to S\$89.2 million as at 31 December 2017, which was mainly due to the increase in advances to suppliers and sundry debtors.

Trade and other payables

Trade and other payables increased by S\$3.2 million, or 4.9% to S\$68.7 million as at 31 December 2017, which was mainly due to higher advance receipts from customers, which is in line with higher order books subsequent to FY2017.

Bank borrowings

Bank borrowings increased by S\$1.1 million, or 8.6% to S\$14.5 million as at 31 December 2017. The increase was mainly due to proceeds of bank borrowings of S\$16.2 million, partially offset by repayment of bank borrowings amounted to S\$15.1 million.

MATERIAL ACQUISITION AND DISPOSAL AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Apart from those disclosed in the prospectus of the Company dated 30 December 2016 (the “Prospectus”), there were no material acquisitions and disposals in FY2017.

LIQUIDITY AND FINANCIAL RESOURCES

During the financial year ended 31 December 2017, the Group’s working capital was financed by both internal resources and bank borrowings. As at 31 December 2017, cash and cash balances amounted to approximately S\$38.1 million, which increased by approximately 2.0% as compared to approximately S\$37.2 million as at 31 December 2016. The quick ratio of the Group was approximately 1.5 times (31 December 2016: 1.6 times).

As at 31 December 2017, the Group has long and short term bank borrowings of approximately S\$14.5 million. Among the borrowings, the bank borrowings due within one year amounted to approximately S\$14.3 million (31 December 2016: S\$13.1 million) while the bank borrowings due after one year amounted to approximately S\$0.2 million (31 December 2016: S\$0.3 million).

As at 31 December 2017, the weighted average effective interest rates on bank borrowings is 5.25% (31 December 2016: 4.69%) per annum. The Group does not have fixed rate bank borrowings as at 31 December 2017 and 31 December 2016. Together with the obligation under finance leases of approximately S\$0.2 million (31 December 2016: S\$0.3 million), the Group’s total borrowings amounted to S\$14.5 million (31 December 2016: S\$13.3 million).

GEARING RATIO

During the financial year ended 31 December 2017, the gearing ratio of the Group was about 9.7% (2016: 11.3%) which was calculated on the Group’s total borrowing (including total borrowing and finance lease but excluding trade and other payables) to total shareholders’ equity (excluding non-controlling interests).

The decrease in gearing ratio was mainly due to the increase in our total shareholders’ equity.

TREASURY POLICIES

The Group has adopted a prudent treasury policy and thus maintained a healthy liquidity position throughout the year ended 31 December 2017. The Group strives to reduce credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group’s liquidity position to ensure that the liquidity structure of the Group’s assets, liabilities and other commitments can meet its funding requirements from time to time. In the event of capital need, we may borrow funds from banks in the currency that coincident the functional currency of the subsidiary as a natural hedge against foreign exchange fluctuation. We did not enter into any hedges in respect of the interest rate risk we are exposed to.

FOREIGN EXCHANGE EXPOSURE

The Group's foreign currency transactions are mainly denominated in Renminbi ("RMB") and United States dollars ("US\$"). The Group has currency exposure as certain sourced parts and components incurred in the Mainland China were denominated in RMB. Certain of subsidiaries of the Group have their assets and liabilities denominated in RMB and other currencies. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in RMB. During the financial year ended 31 December 2017, the Group did not commit to any financial instruments to hedge its exposure to foreign currency risk.

CAPITAL EXPENDITURES

During the financial year ended 31 December 2017, the Group's capital expenditure consists of additions to property, plant and equipment and construction in process amounting to approximately S\$2,095,000 (2016: S\$2,511,000).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, there were 809 (2016: 810) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance.

SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries and associates, the Group did not hold any significant investment in equity interest in any other company during the financial year ended 31 December 2017.

RISK MANAGEMENT

Contingent Liabilities

The Group did not have any significant contingent liabilities or outstanding guarantees in respect of payment obligations to any third parties as at 31 December 2017.

Charge on the Group's Assets

As at 31 December 2017, the Group's cash and cash equivalents of approximately S\$0.3 million (2016: S\$1.4 million) was pledged to banks to secure general banking facilities granted to the Group.

LISTING AND USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

The Shares have been listed since 12 January 2017 (the “Listing Date”) on the Main Board of the Stock Exchange and raised a net proceed from IPO of approximately S\$7.0 million (equivalent to HK\$37.8 million). During the period between the Listing Date and 31 December 2017, approximately S\$6.6 million were utilized in accordance with the proposed applications set out in the section headed “Future Plans and Use of Proceeds” in the Prospectus. The Group held the unutilized net proceeds in short term deposits with licensed bank in Hong Kong.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES AND CANCELLATION OF TREASURY SHARES

During the financial year ended 31 December 2017 and up to the date of this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

PROPOSED FINAL DIVIDEND

The directors have recommended the payment of a final dividend of S\$0.6 cents (equivalent to HK\$3.2 cents) per ordinary share for the year ended 31 December 2017. The proposed dividend payments are subject to approval by the shareholders of the Company at the annual general meeting to be held on 26 April 2018 at 2:00 p.m. (Singapore Time). Upon shareholders’ approval at the upcoming annual general meeting, the proposed final dividend will be paid on 5 June 2018 to shareholders whose names shall appear on the register of members of the Company on 17 May 2018.

CLOSING OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23 April 2018 to 26 April 2018, both dates inclusive, during which period no transfer of shares will be registered. In order to establish entitlements of attending and voting at the forthcoming annual general meeting of the Company to be held on 26 April 2018, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s Share Registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, for registration not later than 4:30 p.m. on 20 April 2018.

The register of members of the Company will be closed from 17 May 2018 to 18 May 2018, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s Share Registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, for registration not later than 4:30 p.m. on 16 May 2018.

CORPORATE GOVERNANCE

The Group has applied the principles and the extent of compliance with the guidelines as set out in the Singapore Code of Corporate Governance 2012 (the “Code”) and the applicable code provisions of the Corporate Governance Code (the “HK CG Code”) as set out in Appendix 14 to the Rules (the “Hong Kong Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “SEHK”) to provide the structure through which the objectives of protection of shareholders’ interest and enhancement of long term shareholders’ value are met. In the event of any conflict between the Code and the HK CG Code, the Group will comply with the more onerous provisions. Throughout the year ended 31 December 2017, the Group has complied with the Code and the HK CG Code, except those appropriately justified and disclosed.

COMPLIANCE WITH SINGAPORE LISTING MANUAL AND HONG KONG MODEL CODE

In compliance with Rules [1207(19) of the Listing Manual (the “Listing Manual”) of the Singapore Exchange Securities Trading Limited (the “SGX-ST”)] and the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Hong Kong Listing Rules, the Company has adopted its own internal compliance code pursuant to the SGX-ST’s and the Model Code’s best practices on dealings in securities and these are applicable to all its officers in relation to their dealings in the Company’s securities. In furtherance, specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code since the Listing Date, on 12 January 2017 and up to the date of this announcement.

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

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

AUDIT COMMITTEE

The Company established an audit committee (the “Audit Committee”) with written terms of reference which deal clearly with its authority and duties. Amongst the committee’s principal duties is to review and supervise the Company’s financial reporting process and internal controls. The Audit Committee has reviewed, with the management and the external auditors of the Company, Messrs. Moore Stephens LLP, the accounting principles and policies adopted by the Group, and discussed the financial information of the Group and the annual results announcement of the Company for the year ended 31 December 2017.

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Lim Siang Kai, Mr. Soh Beng Keng and Mr. Tan Soon Liang. Mr. Lim Siang Kai is the chairman of the Audit Committee.

SCOPE OF WORK OF THE AUDITORS

The figures in respect of the preliminary announcement of the Group’s results for the year ended 31 December 2017 have been compared by the Company’s auditors, Moore Stephens LLP (the “Auditors”), to the amounts set out in the Group’s draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by the Auditors in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the Auditors on this announcement.

PUBLICATION OF FINANCIAL INFORMATION

The annual results announcement for the financial year ended 31 December 2017 is published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.isdnholdings.com). The annual report of the Company for the year ended 31 December 2017 will be despatched to shareholders of the Company and published on the above websites in due course.

By order of the Board
ISDN HOLDINGS LIMITED
Mr. Teo Cher Koon
President and Managing Director

Singapore, 27 February 2018

As of the date of this announcement, the Board comprises Mr. Teo Cher Koon and Mr. Kong Deyang as executive directors of the Company; and Mr. Lim Siang Kai (Chairman), Mr. Soh Beng Keng and Mr. Tan Soon Liang as independent non-executive directors of the Company.