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# MS Singapore Limited
# Illustrative Annual Report 2017

## Keeping pace with the changes in Financial Reporting

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# Foreword

## MS Singapore Limited and its Subsidiaries
**Illustrative Annual Report 2017**

**Introduction**

We are pleased to enclose MS Singapore Limited and its subsidiaries – Illustrative Annual Report 2017 illustrating the following based on a Singapore incorporated listed company:

- Directors' Statement;
- Report on Corporate Governance;
- Independent Auditor's Report; and
- Annual financial statements.

This publication also includes:

- Appendix I – Presentation of profit or loss and other comprehensive income – two statements
- Appendix II – Effect of adopting new or amended Financial Reporting Standards
- Appendix III – Other disclosures to Notes to the Financial Statements
- Appendix IV – Illustrative critical accounting judgements and key sources of estimation uncertainty
- Appendix V – Illustrative disclosures of new and revised standards
- Appendix VI – Differences between Financial Reporting Standards ("FRSs") and International Financial Reporting Standards ("IFRSs")

This 2017 edition of MS Singapore Limited and its Subsidiaries – Illustrative Annual Report reflects professional pronouncements issued as at 31 October 2017. As a general rule, this Illustrative Annual Report does not early adopt standards or amendments before their effective date.

MS Singapore Limited and its subsidiaries – Illustrative Annual Report 2017 aims to provide a practical working model consolidated financial statements in accordance with FRSs. It has been developed to assist engagement teams, directors, management and preparers of financial statements to better understand and implement the new financial reporting changes in an effective and efficient manner.

**Assumptions in the MS Singapore Limited and its Subsidiaries – Illustrative Annual Report 2017**

The MS Singapore Limited and its subsidiaries – Illustrative Annual Report 2017 includes the following main assumptions:

- The financial statements have been presented in accordance with FRSs for a number of years, thus it is not a first-time adopter of FRSs;
- MS Singapore Limited for the year ended 31 December 2017 is intended to illustrate the presentation and disclosure requirements of:

  (a) FRSs and INT FRSs;

  (b) Singapore Companies Act, Cap. 50; and

  (c) Singapore Exchange Securities Trading Limited (SGX-ST) Listing Manual;
- Inclusion of additional disclosures that are considered to be best practice, particularly where such disclosures are included in illustrative examples provided with a specific Standard;
- Inclusion of FRSs and INT FRSs effective for the annual period beginning on or after 1 January 2017; and
- Inclusion of FRSs and INT FRSs issued but not yet effective.

This Illustrative Annual Report has changed since the 2016 edition due to standards and interpretations issued or amended since 31 October 2017. We have also introduced certain additional disclosures which are listed below. While the list of new standards is provided, not all of these new standards will have an impact on these illustrative financial statements. To the extent that this illustrative annual report has changed since 2016 as a result of changes in standards and interpretations, we have indicated the changes.

A brief description of the above new standards can be found in Note 2 of the Illustrative Annual Report in this 2017 edition.

Major changes from the 2016 edition of MS Singapore Limited and its Subsidiaries – Illustrative Annual Report are highlighted by a double line running down the left margin of the text within those sections.

Suggested disclosures are cross-referenced to the underlying requirements in the texts of the relevant Standards and Interpretations. References are generally to the most recent version of the relevant Standard or Interpretation (unless specified otherwise) where the Standard or Interpretation has been adopted by MS Singapore Limited.

## Important Notices

- FRS references are shown on the left-hand margin of each page of the financial statements, indicating the specific FRS paragraph that outlines the disclosure for that particular line item or block of narrative.
- These financial statements are illustrative only, and do not attempt to show all possible accounting and disclosure requirements.
- Commentaries are provided to explain the basis for the disclosure or to address alternative disclosures not included in the illustrative financial statements. It is essential to refer to the relevant source and, where necessary, to seek appropriate professional advice if you have any doubts pertaining to the requirements.
- Please note that although the illustrative financial statements endeavour to illustrate the typical disclosure expected to be found in the financial statements of a group of companies whose activities include manufacturing, trading and investment holding, they should not be regarded as including every possible disclosure. This should be tailored to reflect the individual circumstances of a group of companies.
- The narrative given here will, in practice, also need to be extended to provide more detail in order to meet the various disclosure requirements. For instance, it is assumed that the Group does not engage in a portfolio fair value hedge of interest rate risk (in accordance with FRS 39) and so the required disclosures are not given. Conversely, certain disclosures are included in these financial statements merely for illustrative purposes even though they may be regarded as items or transactions that are not material for the Group.
- For the purposes of presenting the statements of comprehensive income, the alternatives allowed under FRSs for those statements have been illustrated. Preparers should select the alternative most appropriate to their circumstances.
- Note that in these illustrative financial statements, we have frequently included line items for which a Nil amount is shown, so as to illustrate items that, although not applicable to MS Singapore Limited, are commonly encountered in practice. This does not mean that we have illustrated all possible disclosures. Nor should it be taken to mean that, in practice, entities are required to display line items for such 'Nil' amounts.
- This annual report should not be relied upon as a substitute for detailed advice concerning individual situations. In case of doubt as to the FRSs requirements, it is essential to refer to the relevant source material and, where necessary, to seek appropriate professional advice. You are advised to consult your Moore Stephens LLP Assurance Partner should you have any questions regarding this illustration or any specific accounting queries.

**MS Singapore Limited and its Subsidiaries**

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**MS Singapore Limited and its Subsidiaries**

# Directors' Statement

**For the financial year ended 31 December 2017**

*CA 201.16*

The directors present their statement[1] to the members together with the audited consolidated financial statements of the Group for the financial year ended 31 December 2017 and the statement of financial position of the Company as at 31 December 2017.

In the opinion of the directors[2]:

*CA Twelfth Sch. No.1(a)*

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

*CA Twelfth Sch. No.1(b)*

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

**Directors**

*CA Twelfth Sch. No.7*

The directors[3] of the Company in office at the date of this statement are:

| | |
|---|---|
| Mr. Mohamad Ali | *Non-Executive Chairman* |
| Mr. Ang Swee Beng | *Chief Executive Officer* |
| Mr. Michael Low | *Independent Director* |
| Dr. Wong Soon Chong | *Independent Director* |
| Mr. Tan Ah Kaw | *Executive Director* |
| Mr. Lim Peng Heng | *Executive Director* (appointed on 3 March 2018)[3] |

*CA Twelfth Sch. No.8(a), 8(b)*

**Arrangements to Enable Directors to Acquire Shares or Debentures**

Except as described under "Share Options" in this report on page 2, neither at the end of nor at any time during the financial year was, the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

*CA Twelfth Sch. No.9*

**Directors' Interests in Shares and Debentures[4]**

The following directors[6], who held office at the end of the financial year, had, according to the register of directors' shareholdings, required to be kept under section 164 of the Singapore Companies Act, Chapter 50, an interest in shares and share options of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

| | *Holdings registered in the name of directors* | | *Holdings in which a director is deemed to have an interest* | |
|---|---|---|---|---|
| | At 01.01.17/ date of appointment | At 31.12.17 | At 01.01.17/ date of appointment | At 31.12.17 |
| **The Company** | | | | |
| *No. of Ordinary shares* | | | | |
| Mr. Mohamad Ali | - | - | 180,000,000 | 180,000,000 |
| Mr. Ang Swee Beng | 10,029,000 | 10,029,000 | 12,600,000 | 12,600,000 |
| Mr. Lim Peng Heng (appointed on 3 March 2017) | 10,000 | 10,000 | - | - |
| Mr. Chan Mun Heng (resigned on 2 January 2018)[5] | 1,000,000 | 1,000,000 | - | - |

*SGX 1207.7*

There was no change in any of the above-mentioned interests between the end of the financial year and 21 January 2018[7].

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

CA Twelfth Sch. No.2

### Share Options[8,9,10]

SGX 852, SGX 853

**MS Singapore Limited Employee Share Option Scheme**

The MS Singapore Limited Employee Share Option Scheme (the "Scheme") for key management personnel and employees of the Group was approved and adopted by shareholders at the Annual General Meeting held on 26 October 2010.

SGX 852.1(a)

The Remuneration Committee (the "RC") administering the Scheme comprises directors, Dr. Wong Soon Chong (Chairman of the Committee), Mr. Michael Low and Mr. Ang Swee Beng.

CA Twelfth Sch. No.2

During the financial year, the Company has granted 220,000 share options under the Scheme to executive and senior employees. These options are exercisable anytime but no later than the expiry date, 29 September 2018. The details of outstanding options to subscribe for ordinary shares of the Company pursuant to the Scheme as at 31 December 2017 are as follows:

| Number | Grant date | Expiry date | Exercise price |
|---|---|---|---|
| 196,000 | 30 September 2017 | 29 September 2018 | 1.00 |

SGX 852(1)(b)(ii)

SGX 852(1)(c)(ii)

Since the commencement of the Scheme till the end of the financial year, no options have been granted to the controlling shareholders of the Company and their associates (as defined in the SGX Trading Listing Manual). No options have been granted to the directors and employees of the holding company and its subsidiaries.

SGX 852(1)(b)(ii), SGX 852(1)(c)(i) CA Twelfth Sch. No.2, SGX 852(1)(d)

No employee or employee of related corporations has received 5% or more of the total options available under this Scheme. The options granted by the Company do not entitle the holders of the options, by virtue of such holding, to any rights to participate in any share issue of any other company. No options have been granted at a discount.

### Audit Committee[11,12]

CA 201B.9

The audit committee ("AC") carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act, Chapter 50, including the following:

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

(b) Reviewed the quarterly financial information and annual financial statements and the auditor's report on the annual financial statements of the Group and the Company before their submission to the board of directors;

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

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

(e) 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;

(f) Reviewed the cost effectiveness and the independence and objectivity of the external auditor; and the nature and extent of non-audit services provided by the external auditor;

(g) 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;

(h) Reported actions and minutes of the AC to the board of directors with such recommendations as the AC considered appropriate; and

(i) Reviewed interested person transactions in accordance with the requirements of the Singapore Exchange Securities Trading Limited's Listing Manual.

# Directors' Statement

**For the financial year ended 31 December 2017**

**Audit Committee[11,12] (cont'd)**

*SGX 1207.6(b)* The AC having reviewed the external auditor's non-audit services, was of opinion that there were no non-audit services rendered that would affect the independence and objectivity of the external auditors.

The AC has held five meetings since the last directors' statement with full attendance from all members, except for one where a member was absent. In performing its functions, the AC has also met with the Company's internal and external auditors, without the presence of the Company's management, at least once a year.

*SGX 1207.6(c)* The Company confirms that Rules 712 and 715 of the Singapore Exchange Securities Trading Limited's Listing Manual have been complied with.

Further information regarding the AC are detailed in the Corporate Governance Report set out in the Annual Report of the Company.

**Independent Auditors**

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

On behalf of the Board of directors[13],

| | |
|---|---|
| ................................................ | ................................................ |
| MOHAMAD ALI | ANG SWEE BENG |
| Chairman | Chief Executive Officer |

Singapore
15 March 2018

# Directors' Statement

**For the financial year ended 31 December 2017**

**Guidance Notes**

**Directors' Statement**

1) Pursuant to the legislative amendments in the Companies (Amendment) Act 2014, the director's statement has been enhanced. The directors' report is no longer required for financial reports in respect of financial years ended on or after 1 July 2015.

The disclosures previously contained in the directors' report have been moved to an enhanced directors' statement. The form and content of the directors' statement must comply with the Twelfth Schedule in the Companies (Amendments) Act 2014.

**Paragraph (b) of the Directors' Statement**

2) In situations of going concern uncertainties, this paragraph should be modified as to whether the Company will be able to pay its debts as and when they fall due.

*CA 201.6*
*CA 201.6A*

**Directors**

3) The names of the directors that are holding office at the date of the Directors' Statement are required to be disclosed. There is no requirement to give details of director(s) who resigned in the current financial year and up to the date of the Directors' Statement.

If a director is appointed during the financial year and remains in office at the date of the Directors' Statement, the date of the appointment, although not required, is recommended to be disclosed to clearly identify the new director.

*CA Twelfth Sch. No.9*

**Directors' interests in shares or debentures**

4) A director's interests include his personal holdings, the beneficial interests of his immediate family and any deemed interest (not less than 20% of the equity held) as defined under Section 7 of the Companies Act. Interests in rights or share options are also required to be disclosed.

If none of the directors have any interests in shares or debentures in the Company or any related corporations, the following disclosure is suggested for paragraph 3 of the Directors' Statement:

*"None of the directors of the Company holding office at the end of the financial year had any interests in the shares or debentures of the Company or any related corporations."*

5) If a director resigns after the end of the financial year/period but before the date of the Directors' Statement, his interests at the end of the financial year/period are still required to be disclosed.

*CA 164.3*

6) If the Company is a wholly owned subsidiary of another company (the "holding company"), the Company may be deemed to have complied with section 164 of the Singapore Companies Act in relation to a director who is also a director of that other company if the particulars required by this section are shown in the register of the holding company, the following should be disclosed:

*"The directors, Mr/Ms ________ and Mr/Ms_________ are also directors of MS Singapore Limited, incorporated in the Republic of Singapore, which owns all the shares of the Company. Their interests in shares are recorded in the register of directors' shareholdings kept under section 164 of the Singapore Companies Act by the holding company and are therefore not disclosed in this report."*

7) This is applicable only for listed companies required under the Singapore Exchange Securities Trading Limited's Listing Manual.

**Share options**

*CA Twelfth Sch. No.2*

8) The disclosures required by the New Twelfth Schedule of the Companies Act relate to share options granted by the Company.

*CA 201.11A*

9) Where such disclosures have been made in a previous report, reference may be made to that report.

*SGX 852(2)*

10) A negative statement must be included if any of the requirements in Rule 852(1) in respect of share option schemes is not applicable.

**Guidance Notes**

**Directors' Statement (cont'd)**

*CA 201B.9*

**Audit Committee**

11) The details and functions of the audit committee shall be included in the Directors' Statement of listed companies if the statutory accounts (which would not contain a section on corporate governance), rather than the annual report, are filed with the Registrar of the Accounting and Corporate Regulatory Authority. If the Annual Report is filed with the Registrar, this section is not required.

*SGX 1207.10*

12) The listing rule requires the board and the Audit Committee to opine on the adequacy of the internal controls addressing financial, operational and compliance risks in the annual reports of the listed companies.

**Dating and signing of Directors' Statement**

13) This phrase is not necessary if the Company has only two directors.

MS Singapore Limited and its Subsidiaries

# Report on Corporate Governance

## For the financial year ended 31 December 2017

The Company[1] is committed to maintaining a high standard of corporate governance within the Group in adopting the recommendations of the Code of Corporate Governance 2012 (the "2012 Code").

This report[2] describes the Company's Corporate Governance policies and practices that were in place during the financial year end 31 December 2017, with specific reference to the principles of the 2012 Code.

The Board confirms the Company has adhered to all principles and guidelines set out in the 2012 Code as set out below:

**BOARD MATTERS**

*Code of Corporate Governance Principle 1*

**Principle 1: The Board's Conduct of Affairs**

The Board has overall responsibility for setting corporate strategy, reviewing managerial performance and maximising returns for shareholders at an acceptable level of risk.

*Code of Corporate Governance Principle 1.2, 1.3*

All directors objectively make decisions in the interest of the Company. The Board has delegated specific responsibilities to three committees, namely the Audit Committee, Nominating Committee and Remuneration Committee. Information on each of the three is set out below.

*Code of Corporate Governance Principle 1.6, 1.7*

Upon the appointment of a director, he is provided with a formal letter setting out his duties and obligations. New directors also take part in an induction program, pursuant to which they receive information about the Group, the role of the Board and the matters reserved for its decision, the terms of reference and membership of the principal Board Committees and the powers delegated to the committees, the Group's corporate governance practices and procedures, and the latest financial information about the Group.

Facility visits to our subsidiaries' operation sites are arranged to provide newly-appointed directors an understanding of the Group's business operations. Existing directors are also invited to participate in such facility visits and orientation programmes.

As regards the continuing professional development of the executive and non-executive directors, Board members, independent of any formal training arranged and funded by the Company, are encouraged to attend seminars and conferences on issues relevant to their appointment as directors of a public company, particularly matters concerned with corporate governance, audit and remuneration issues.

*Code of Corporate Governance Principle 1.4*

The Board meets regularly and as warranted by particular circumstances, as deemed appropriate by the board members. Article 103(2) of the Company's Constitution[3] permits participation by telephone or video conferencing.

The number of meetings held and the attendance report of the Board and Board Committees are as follows:

| Meeting of | Board | Audit Committee | Nominating Committee | Remuneration Committee |
|---|---|---|---|---|
| Total held in FY2017 | 3 | 3 | 1 | 1 |
| Mr. Mohamad Ali | 3 | 3 | - | - |
| Mr. Ang Swee Beng | 3 | - | 1 | 1 |
| Mr. Chan Mun Heng | 3 | - | - | - |
| Mr. Tan Ah Kaw | 2 | - | - | - |
| Mr. Michael Low | 3 | 3 | 1 | 1 |
| Dr. Wong Soon Chong | 2 | 2 | 1 | 1 |
| Mr. Lim Peng Heng (Appointed on 3 March 2018) | - | - | - | - |

*Code of Corporate Governance Principle 1.5*

Board approvals are required for all material matters. A matter is considered material if the value of the transaction exceeds 5% of the Group's net tangible assets.

**BOARD COMPOSITION AND GUIDANCE**

*Code of Corporate Governance Principle 2, 2.1, 2.2*

**Principle 2: Independent Element on the Board[6]**

Independent directors make up half of the Board which comprises six directors, three of whom are non-executive directors as shown below:

**Executive Director:**
Mr. Ang Swee Beng
Mr. Chan Mun Heng
Mr. Tan Ah Kaw

**Non-executive Director:**

| | |
|---|---|
| Mr. Mohamad Ali | Chairman, Independent |
| Mr. Michael Low | Independent |
| Dr. Wong Soon Chong | Independent |

*Code of Corporate Governance Principle 2.3*

All directors are required to disclose any relationships or appointments which would impair their independence to the Board in a timely manner. The Board, based on the evaluations and results of a review conducted by the Nominating Committee ("NC"), views all the non-executive directors of the Company as 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.

*Code of Corporate Governance Principle 2.4*

None of the directors have served the Company for a period exceeding nine years. As and when directors serve beyond nine years, the NC performs a particularly rigorous review to assess the independence of the relevant directors.

*Code of Corporate Governance Principle 2.5*

The Board has examined its size and is of the view that it is an appropriate size for effective decision-making, taking into account the scope and nature of the operations of the Company.

*Code of Corporate Governance Principle 2.6*

The Board comprises businessmen with vast business or management experience, industry knowledge, strategic planning experience and includes professionals with financial, accounting and legal backgrounds. The NC is satisfied that the current Board comprises persons who, as a group, possess the core competencies, such as accounting, finance, business and management skills, as well as experience and industry knowledge required for the Board to be effective.

*Code of Corporate Governance Principle 2.7*

The Independent Directors are non-executive Directors of the Company. They provide constructive feedback in strategic development, assist the Board in reviewing the effectiveness of Management in meeting agreed goals and objectives, and monitor the reporting of performance.

*Code of Corporate Governance Principle 2.8*

The Independent Directors meet amongst themselves without the presence of the Management when necessary.

**CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

*Code of Corporate Governance Principle 3*

**Principle 3: Clear Division of Responsibilities between the leadership of the Board and the Executives**

*Code of Corporate Governance Principle 3.1*

The Chairman and CEO of the Company are separate individuals. The Chairman is a non-executive and independent director responsible for leadership of the Board and facilitating its effectiveness. The CEO is an executive director responsible for the Company's business and implementation of the Board's decisions.

The Chairman and the CEO are not related. The roles of the Chairman and the CEO are kept separate to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making.

**CHAIRMAN AND CHIEF EXECUTIVE OFFICER (cont'd)**

*Code of Corporate Governance Principle 3*

**Principle 3: Clear Division of Responsibilities between the leadership of the Board and the Executives (cont'd)**

*Code of Corporate Governance Principle 3.2*

The Chairman ensures that Board meetings are held as and when necessary. He leads the Board to ensure its effectiveness and approves the agenda of each Board meeting in consultation with the CEO. The Chairman reviews Board papers before they are presented to the Board and ensures that Board members are provided with accurate, timely and clear information. Further, he ensures that all agenda items included in the Board papers are provided sufficient airtime and adequately debated at Board meetings. Management staff who have prepared the papers, or who can provide additional insight into the matters to be discussed, are invited to present the paper or attend at the relevant time during the Board meeting. The Chairman monitors communications and relations between the Company and its shareholders, between the Board and management, and between independent and non-independent directors, with a view to encouraging constructive relationships and dialogue amongst them. The Chairman works to facilitate the effective contribution of non-executive directors. The responsibilities of the Chairman are included in the guidelines endorsed by the Board.

*Code of Corporate Governance Principle 3.3, 3,.4*

The Board appoint Mr. Michael Low to act as the Lead Independent Director ("LID"). Shareholders with concerns may contact him directly, when contact through the normal channels via the Chairman, Chief Executive Officer ("CEO") or Finance Director has failed to provide satisfactory resolution, or when such contact is inappropriate. All the Independent Directors including the LID, meet at least annually without the presence of the other executive and non-independent Directors to discuss matters of significance which are thereon reported to the Chairman accordingly.

**BOARD MEMBERSHIP/BOARD PERFORMANCE**

*Code of Corporate Governance Principles 4, 5*

**Principle 4: Formal and Transparent Process for the Appointment and Reappointment of Directors**
**Principle 5: Formal Assessment of the Effectiveness of the Board and the Contributions by Each Director**

*Code of Corporate Governance Principles 4.1*

The NC comprises a majority of non-executive independent directors as follows:

| | |
|---|---|
| Mr. Michael Low | Chairman, Independent |
| Dr. Wong Soon Chong | Independent |
| Mr. Ang Swee Beng | Executive |

*Code of Corporate Governance Principles 4.2*

The Nominating Committee has a written Charter endorsed by the Board that sets out its duties and responsibilities. Amongst them, the Nominating Committee is responsible for:

- making recommendations to the Board on all board appointments;
- evaluation of performance of the Board, its committees, members and directors;
- reviewing the adequacy of the Board's training and professional development programmes; and
- reviewing the Board's succession plans for directors, in particular the Chairman and CEO.

Article 92 of the Company's Constitution[3] provides that an election of Directors shall take place each year and that all Directors except a Managing Director shall retire once at least in each three years but shall be eligible for re-election. Accordingly, the NC reviews and makes recommendations to the Board with regards to the re-election of eligible Directors at Annual General Meetings ("AGM").

*Code of Corporate Governance Principles 4.3*

Article 74 of the Company's Articles of Association provides that the Directors shall have power from time to time and at any time to appoint additional directors, provided always that the total number of Directors shall not exceed the prescribed maximum. A Director so appointed shall retire from office at the close of the next AGM, but shall be eligible for re-election. Accordingly, the NC reviews and makes recommendations to the Board on the re-election of eligible Directors at AGMs. The NC also determines annually whether or not a director is independent, based on guidelines in the Code.

*Code of Corporate Governance Principles 4.4*

The NC is satisfied that sufficient time and attention was given by the directors to the affairs of the Group, taking into consideration the director's number of listed company board representations and other principal commitments. The Group has guidelines in place to address the competing time commitments faced by directors serving on multiple boards. The Board has determined that the maximum number of listed company board representations which any director may hold is five.

*Code of Corporate Governance Principles 4.5*

The NC does not have a practice of appointing alternate directors except for limited periods in exceptional cases such as when a director has a medical emergency. There were no alternate directors in this financial year.

**BOARD MEMBERSHIP/BOARD PERFORMANCE (cont'd)**

*Code of Corporate Governance Principles 4, 5*

**Principle 4: Formal and Transparent Process for the Appointment and Reappointment of Directors (cont'd)**
**Principle 5: Formal Assessment of the Effectiveness of the Board and the Contributions by Each Director (cont'd)**

*Code of Corporate Governance Principles 4.6*

In the search, nomination and selection process for new directors, the NC identifies the key attributes that an incoming director should have, based on a matrix of the attributes of the existing Board and the requirements of the Group. After endorsement by the Board of the key attributes, the NC taps on the resources of directors' personal contacts and recommendations of potential candidates, and goes through a shortlisting process. If candidates identified from this process are not suitable, executive recruitment agencies are appointed to assist in the search process. Interviews are set up with potential candidates for NC members to assess them, before a decision is reached. The NC also oversees the re-appointment of directors as and when their tenure of appointment is due. In assessing the directors for reappointment, the NC evaluates several criteria including, qualifications, contributions and independence of the directors.

*Code of Corporate Governance Principles 4.7*

A description of the background of each director is presented in the "Board of Directors" section of this annual report. The information on each director's shareholdings, relationships (if any), directorship and other principal commitments is presented in "Directors' Statement" section of this annual report.

*Code of Corporate Governance Principles 5.1, 5.2*

The Board has implemented a process for assessing its effectiveness as a whole and for assessing the contribution by each director to the effectiveness of the Board. A consulting firm specialising in board evaluation and human resources was appointed by the NC to help to design and implement the process. This is the sixth year in which this board evaluation process has been performed. The consulting firm is not related to the Group or any of its directors. The Board assessment considered the following key performance criteria:

- Board size and composition;
- Board independence;
- Board processes;
- Board information and accountability;
- Board performance in discharging principle functions;
- Board committee performance;
- Interactive skills;
- Knowledge;
- Directors duties;
- Availability at meetings; and
- Overall contribution.

*Code of Corporate Governance Principles 5.3*

The NC performs individual director evaluations assessing each director if he or she contributes effectively and demonstrates commitment and provides feedback to the Chairman of the Board. The Chairman, in consultation with the NC, proposes new directors to be appointed to the Board or seeks the resignation of directors.

**ACCESS TO INFORMATION**
**Principle 6: Board Members to have Complete, Adequate and Timely Information**

*Code of Corporate Governance Principles 6.1, 6.2*

All directors receive a set of Board papers prior to the Board meeting. The Board papers are generally issued to directors at least five working days prior to the meeting in sufficient time to enable the directors to obtain further explanations, where necessary, in order to be briefed properly and prepare for the meeting. The Board papers include, among others, the following documents and details:

- Minutes of the previous Board meeting;
- Minutes of meetings of all committees of the Board held since the previous Board meeting;
- Background or explanations on matters brought before the Board for decision or information, including issues being dealt with by management, and relevant budgets, forecasts and projections. In respect of budgets, any material variance between the projections and actual results is disclosed and explained to the Board;
- Major operational and financial issues;
- Statistics on key performance indicators; and
- Statistics on customer satisfaction.

**ACCESS TO INFORMATION (cont'd)**
**Principle 6: Board Members to have Complete, Adequate and Timely Information (cont'd)**

*Code of Corporate Governance Principles 10.3*

As part of good corporate governance, key matters requiring decision are reserved for resolution at Board meetings rather than by circulation to facilitate discussion. Key analysts' reports on the Group are forwarded to the directors on an ongoing basis. In addition, the Board receives from management monthly management accounts which present a balanced and understandable assessment of the Group's performance, position and prospects. The latest set of monthly management accounts circulated is tabled for discussion at each Board meeting by the directors.

*Code of Corporate Governance Principles 6.3*

All directors have separate and independent access to the Company Secretary. The Board has approved a set of guidelines defining the role and responsibilities of the Company Secretary. The Company Secretary attends all Board meetings and ensures that board procedures are followed and that applicable rules and regulations are complied with. Under the direction of the Chairman, the Company Secretary ensures good information flows within the Board and its Committees and between senior management and non-executive directors. The Company Secretary also organises orientation and training for new Directors, as well as provides updates and advises directors on all governance matters.

*Code of Corporate Governance Principles 6.4*

The Articles of Association of the Company provide that the appointment and removal of the Company Secretary is subject to the approval of the Board.

*Code of Corporate Governance Principles 6.5*

The Board has approved a procedure for directors, either individually or as a group, to take independent professional advice, where necessary in the furtherance of their duties. The cost of such professional advice will be borne by the Company.

**REMUNERATION MATTERS**

*Code of Corporate Governance Principles 7, 8, 9*

**Principle 7: Procedures for Developing Remuneration Policies**
**Principle 8: Level and Mix of Remuneration**
**Principle 9: Disclosure on Remuneration**

*Code of Corporate Governance Principles 7.1*

The Remuneration Committee ("RC") comprises a majority of non-executive independent directors as follows:

| | |
|---|---|
| Dr. Wong Soon Chong | Chairman |
| Mr. Michael Low | |
| Mr. Ang Swee Beng | |

*Code of Corporate Governance Principles 7.1, 7.2*

The principal responsibilities of the RC are:

(a) Recommending to the Board for endorsement, a framework for computation of directors' fees of the Board (both executive and non-executive directors) and senior management of Senior Vice President grade or its equivalent and above. For executive directors and other senior management, the framework covers all aspects of executive remuneration (including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits in kind);

(b) Recommending the specific remuneration packages for each director and other senior management of Senior Vice President grade or its equivalent and above; and

(c) Administering the MS Singapore Limited Employee Share Option Scheme.

*Code of Corporate Governance Principles 7.3*

In determining the Group's remuneration policy above, the RC from time to time seeks advice from external remuneration consultants, who are unrelated to the directors or any organisation they are associated with, as well as confidentially from selected senior management, including the Director (Human Resource), at its discretion. The remuneration policy recommended by the RC is submitted for approval by the Board.

*Code of Corporate Governance Principles 7.4*

The RC reviews the reasonableness of the contracts of service of executive directors and key management personnel. Where necessary the RC obtains advice from external remuneration consultants for the Group's benchmarking of such contracts.

The RC in consultation with the Chairman of the Board reviews and recommends to the Board the remuneration packages of all executive directors and senior executives of the Group and directors' fees for non-executive directors, which are subject to shareholders' approval at the AGM. For the year under review, the RC has recommended directors' fees of S$250,000 which the Board would table at the forthcoming AGM for shareholders' approval.

**REMUNERATION MATTERS (cont'd)**

*Code of Corporate Governance Principles 7, 8, 9*

**Principle 7: Procedures for Developing Remuneration Policies (cont'd)**
**Principle 8: Level and Mix of Remuneration (cont'd)**
**Principle 9: Disclosure on Remuneration (cont'd)**

The Board has presented the remuneration summary as follows:

*Code of Corporate Governance Principle 9.1, 9.2, 9.3*

a) The nature of the remuneration of the Company's directors, in terms of S$ of total remuneration of each director for the year ended 31 December 2017, is as follows:

| Name of director | Basic salaries* S$'000 | Bonuses S$'000 | Benefits in kind S$'000 | Directors' fees S$'000 | Total 2017 S$'000 | Total 2016 S$'000 |
|---|---|---|---|---|---|---|
| *Chief Executive Officer* | | | | | | |
| Mr. Ang Swee Beng | 225 | 180 | 45 | - | 450 | 445 |
| | | | | | | |
| *Executive directors* | | | | | | |
| Mr. Tan Ah Kaw | 108 | 64 | 28 | - | 200 | 200 |
| Mr. Chan Mun Heng | 154 | 30 | 16 | - | 200 | 200 |
| | | | | | | |
| *Independent directors* | | | | | | |
| Mr. Mohamad Ali | - | - | - | 140 | 140 | 140 |
| Dr. Wong Soon Chong | - | - | - | 110 | 110 | 110 |

**Include allowances and contributions to Central Provident Fund (where applicable)*

b) The nature of the remuneration of the Group's top five key executives, in terms of S$ of total remuneration of each executive for the year ended 31 December 2017, is as follows:

| Name of key executives | Basic salaries* S$'000 | Bonuses S$'000 | Share-based payment S$'000 | Benefits in kind S$'000 | Total 2017 S$'000 | Total 2016 S$'000 |
|---|---|---|---|---|---|---|
| *S$500,000 to S$750,000* | | | | | | |
| [please indicate name, if any] | | | | | | |
| *S$250,000 to S$500,000* | | | | | | |
| Mr. Peter Ang | 279 | 65 | 71 | 22 | 437 | 420 |
| *Below S$250,000* | | | | | | |
| Ms. Molly Chin | 72 | 10 | 18 | - | 100 | 100 |
| Mr. Lim Kian Koo | 72 | 10 | 18 | - | 100 | 100 |
| Ms. Shirley Mo | 68 | 9 | 17 | - | 94 | 80 |
| Mr. Tan Tian Tian | 68 | 9 | 17 | - | 94 | 80 |

** Include allowances and contributions to Central Provident Fund (where applicable)*

*Code of Corporate Governance Principle 9.4*

c) Remuneration of employees who are immediate family members of the Directors or the CEO and whose remuneration exceeded S$50,000.

| Name | Relationship to Director or CEO | Director or CEO | S$'000 (2017) | S$'000 (2016) |
|---|---|---|---|---|
| Ms. Mei Ali | Wife | Mr. Mohamad Ali | 55 | 54 |
| Mr. Rick Ang | Son | Mr. Ang Swee Beng | 58 | 57 |

The Group's financial performance during financial year 2017, as reported in the business review, has sustained a positive result in terms of volume growth, price/mix, gross margin expansion and cash flow and has resulted in performance ahead of target for the short-term incentive plan measures.

The remuneration committee is, therefore, satisfied that the financial year 2017 annual bonus outcomes for the executive directors and key management personnel described in the remuneration summary appropriately reflected these results and the value delivered for shareholders.

**REMUNERATION MATTERS (cont'd)**

*Code of Corporate Governance Principles 7, 8, 9*

**Principle 7: Procedures for Developing Remuneration Policies (cont'd)**
**Principle 8: Level and Mix of Remuneration (cont'd)**
**Principle 9: Disclosure on Remuneration (cont'd)**

More details of the Employee Share Option Scheme can be found in the "Directors' Statement" section of this Annual Report.

*Code of Corporate Governance Principle 8.1, 9.6*

In designing the compensation structure, the RC seeks to ensure that the level and mix of remuneration is competitive, relevant and appropriate in finding a balance between current versus long-term compensation and between cash versus equity incentive compensation.

The compensation structure is designed such that the percentage of the variable component of key management personnel's remuneration increases as they move up the organisation. The variable component also depends on the actual achievement of corporate targets and individual performance objectives.

The remuneration structure for executive directors and key management personnel consists of the following components:

- Fixed remuneration
- Variable bonus
- Other benefits

The fixed remuneration comprises basic salary, statutory employer's contributions to the Central Provident Fund and fixed allowances. In setting remuneration packages, the Group takes into account pay and employment conditions within the same industry and in comparable companies, as well as the Group's relative performance and the performance of individual directors and key management personnel.

*Code of Corporate Governance Principle 9.6*

Variable bonus is an annual remuneration component which varies according to the Group's and the individual's performance objectives. To link rewards to performance, the more senior the executive in the Group, the higher is the percentage of the variable bonus against total compensation.

Additionally, in making its decision regarding appropriate performance objectives, the RC also considered the following factors relative to profit before tax and profit after tax:

- Each executive director and key management personnel believe he or she can meaningfully contribute to the achievement of these performance objectives.
- Maintaining the consistency of the objectives over a number of years allows for more accurate measurement and comparison of, and reward for, the desired performance from year to year.
- Profit before tax is used in our incentive plans for other employees, and thus, the interests of the entire organisation are aligned to achieve the same goals.
- They are not overly complex metrics and easily understood, providing for clear "light-of-sight".

The Group provides benefits consistent with local market practice, such as medical benefits, club membership, employee discounts and car allowance. Eligibility for these benefits will depend on individual salary grade and length of service.

The remuneration summary provides further details about reviews undertaken during the year ended 31 December 2017 and the reward outcomes for performance in that financial year.

*Code of Corporate Governance Principle 8.4*

Contracts with executive directors and key management personnel contain reclamation of incentive component clauses to safeguard the Group's interests in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the company.

**MS Singapore Limited Share Option Scheme 2006 ("Scheme")**

The above Scheme is one of the key long-term incentive schemes in place. The RC is responsible for the administration of this Scheme.

*Code of Corporate Governance Principle 8.2, 9.5*

The executive directors and key management personnel with more than five years of service to the Group are eligible for the grant of options under the Scheme. More details on share options of the Group is set out in the Directors' Statement and Note 41 to the financial statements.

## ACCOUNTABILITY AND AUDIT

*Code of Corporate Governance Principle 10*

**Principle 10: Accountability**

*Code of Corporate Governance Principle 10.1*

The Board recognises its responsibility to present a balanced and understandable assessment of the company's performance, position and prospects when presenting interim and other price sensitive public reports, and reports to regulators (if required).

*Code of Corporate Governance Principle 10.2*

The half-year and full-year results with performance review and commentaries on prospects by the management were reviewed by the Board and released to the shareholders through SGXNET during the year.

Board members receive monthly financial and business reports from management. Such reports keep the Board members informed of the Company's and the Group's financial and operational performance and prospects.

*Code of Corporate Governance Principle 11*

## RISK MANAGEMENT AND INTERNAL CONTROLS

**Principle 11: Sound System of Risk Management and Internal Controls**

*Code of Corporate Governance Principle 11.1*

The Board, with the assistance from the Risk Committee, is responsible for the governance of risk and ensures that management maintains a system of risk management and internal controls for all companies within the Group to safeguard assets, ensure that internal financial controls, operational and compliance controls, financial risk management objectives and policies are adequately met and that proper accounting records are maintained.

*Code of Corporate Governance Principle 11.2, 11.4*

The AC regularly reviews the Company's operational controls in conjunction with its annual review of external auditor's audit plan and their evaluation on the Company's internal control system. The AC also reviews the internal auditor's report and management's responses and ensures that necessary corrective actions are taken on a timely basis. In this regard, the AC is assisted by the Risk Committee which was formed as part of the Company's efforts to strengthen its risk management processes and framework.

*Code of Corporate Governance Principle 11.3*

The Board has obtained written assurance from the CEO and CFO:

(a) that the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and
(b) regarding the effectiveness of the Group's risk management and internal control systems.

*SGX Listing Rule 1207 (10)*

Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors and reviews performed by management, various Board Committees and the Board, the Audit Committee and the Board are of the opinion that the Group's internal controls including financial, operational, compliance and information technology controls, were adequate as at 31 December 2017.

*Code of Corporate Governance Principle 12*

## AUDIT COMMITTEE ("AC")

**Principle 12: Establishment of AC with Written Terms of Reference**

The AC which was established in 1999, had adopted terms of reference in the Guidebook for Audit Committees in Singapore, issued by the Audit Committee Guidance Committee.

*Code of Corporate Governance Principle 12.1*

The AC comprises the following three directors, all non-executive and professionally qualified, the majority of whom, including the Chairman, is independent.

| | |
|---|---|
| Mr. Michael Low | Chairman |
| Dr. Wong Soon Chong | |
| Mr. Mohamad Ali | |

*Code of Corporate Governance Principle 12.2*

The Chairman of the AC, Mr. Michael Low, is by profession a Chartered Accountant. The AC Chairman has accounting, auditing and risk management expertise and experience. The other members of the AC have many years of experience in business management, finance and legal services. The Board is of the view that the members of the AC have recent and relevant accounting or related financial management expertise or experience to discharge the AC's functions.

*Code of Corporate Governance Principle 12.8*

During FY2017, the AC attended external trainings on changes in accounting standards, risk management, corporate governance and regulatory related topics.

*Code of Corporate Governance Principle 12*

**AUDIT COMMITTEE ("AC") (cont'd)**
**Principle 12: Establishment of AC with Written Terms of Reference (cont'd)**

*Code of Corporate Governance Principle 12.5*

The AC meets regularly as and when deemed appropriate to carry out its functions which are set out in the Directors' Statements. The AC has also met with internal and external auditors, without the presence of the Company's management during the year.

The AC is responsible for monitoring the integrity of the Group's financial statements and any formal announcement relating to the Group's performance.

*Code of Corporate Governance Principle 12.3*

The AC has explicit authority to investigate any matter within its terms of reference, full access to and co-operation by management and full discretion to invite any director or executive officer to attend its meetings and has been given adequate resources to enable it to discharge its functions.

*Code of Corporate Governance Principle 12.8*

The following is the summary of the AC's activities:

(1) The AC monitors changes to regulations and accounting standards closely.
(2) The AC updates on regulatory requirements either during Board sessions or by circulation of papers.
(3) The AC meets with the external auditors, without the presence of the Company's management, at least once annually.

*Code of Corporate Governance Principle 12.4*

The AC performed their functions and responsibilities in accordance with the terms of reference, which include the following:

- reviewing the significant financial reporting issues and judgments so as to ensure the integrity of the financial statements of the Group and any announcements relating to the Group's financial performance;
- reviewing and reporting to the Board at least annually on the adequacy and effectiveness of the Group's internal controls, including financial, operational compliance and information technology controls and risk management systems;
- reviewing the effectiveness of the Group's internal audit functions;
- reviewing the scope and results of the external audit, and the independence and objectivity of the external auditors;
- making recommendations to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors.

In the review of the financial statements for the year ended 31 December 2017, the AC has discussed with both the Management and the external auditors the accounting principles that were applied and their judgement of items that might affect the integrity of the financial statements. Based on the review and discussions, the AC is of the view that the financial statements are fairly presented in conformity with the relevant Singapore Financial Reporting Standards in all material aspects.

During the audit committee meeting to approve the results announcement and the financial statements of the Group for the year ended 31 December 2017, the AC discussed with the external auditors on the identified key audit matters[5] and how those key audit matters have been addressed by the external auditors. Having considered the approach taken by the external auditors and their findings, the AC is satisfied with the basis and estimates adopted by the Group.

*Code of Corporate Governance Principle 12*

**AUDIT COMMITTEE ("AC") (cont'd)**
**Principle 12: Establishment of AC with Written Terms of Reference (cont'd)**

*Code of Corporate Governance Principle 12.7*

To strengthen corporate governance and ethical business practices across the Group, the Group had put in place a whistle-blowing policy and procedures duly endorsed by the AC, where employees of the Group may, in confidence, raise concerns about possible corporate improprieties in matters of financial reporting or other matters such as suspected fraud, corruption, dishonest practices etc.

All reports, including anonymous reports, that are lacking in details and verbal reports, will all be investigated into. All complaints will be treated as confidential and will be brought to the attention of the Chairman of the AC.

Assessment, investigation and evaluation of complaints are conducted by or at the direction of the AC, if it deems appropriate, independent advisors engaged at the Group's expense. Following investigation and evaluation of a complaint, the AC will then decide on recommended disciplinary or remedial action, if any. Appropriate actions that are determined by the AC shall then be brought to the Board or to the appropriate members of Senior Executive for authorisation or implementation respectively.

*Code of Corporate Governance Principle 12.9*

None of the members nor the Chairman of the Audit Committee are former partners or directors of the Group's auditing firm.

*SGX 1207.6*

The Company confirms compliance with Rule 712 and Rule 715 of the Listing Manual in engaging Moore Stephens LLP ("MSLLP"), as the external auditors of the Company which is registered with the Accounting and Corporate Regulatory Authority. MSLLP are the external auditors of the Company and of its Singapore subsidiaries and significant associated companies.

*Code of Corporate Governance Principle 12.6*

The Audit Committee has reviewed the amount of non-audit services rendered to the Group by the external auditors. During the year, the fees paid to the external auditors of the Company for non-audit services amounted to S$100,000 or 29% of the total annual audit fee.

Being satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors, the Audit Committee has recommended their re-nomination to the Board.

*Code of Corporate Governance Principle 13*
*Code of Corporate Governance Principle 13.1, 13.4*

**INTERNAL AUDIT ("IA")**
**Principle 13: Establishment of Independent IA Function**

The Group's IA function, which has been outsourced to a firm of Chartered Accountants, reports primarily to the Chairman of the AC. As a corporate member of Singapore chapter of the Institute of Internal Auditors (IIA), the internal auditor adopts the Standards for the Professional Practice of Internal Auditing issued by IIA. The appointment, assessment, and compensation of the internal auditor are approved by the AC.

*Code of Corporate Governance Principle 13.2, 13.3*

The internal audit function is staffed with suitably qualified experienced professionals with diverse operational and financial experience, who are at the level of manager and above.

*Code of Corporate Governance Principle 13.5*

During the year, the AC assessed the adequacy and effectiveness of the IA, by examining the scope of the IA work and its independence of the areas reviewed and the internal auditor's report. The AC is satisfied that the IA function is adequately resourced to perform its functions.

*Code of Corporate Governance Principles 14, 15, 16*

**SHAREHOLDER RIGHTS AND RESPONSIBILITIES**
**Principle 14: Shareholder Rights**
**Principle 15: Communication with Shareholders**
**Principle 16: Conduct of Shareholder Meeting**

*Code of Corporate Governance Principles 14.1*

In line with continuous disclosure obligations, the Company is committed to regular and proactive communication with shareholders. It is the Board's policy that shareholders be informed of all major developments that impact the Group.

*Code of Corporate Governance Principles 15.1, 15.2*

Information is communicated to shareholders on a timely basis through:

(a) annual reports that are sent to all shareholders;
(b) financial statements containing a summary of the financial information and affairs of the Group for the half year and full year via SGXNET;
(c) notices of an explanatory notes for AGMs and extraordinary general meetings;
(d) announcements on major issues and developments of the Group via SGXNET and Company's website; and
(e) media releases on major developments of the Group.

*Code of Corporate Governance Principles 15.3*

Shareholders can avail themselves of a telephone or email feedback line that goes directly to the Group's investor relations team *(www.mssi.com.sg/investors)*.

*Code of Corporate Governance Principles 15.4*

Over the past financial year, the Group has proactively engaged with shareholders and investors through one-on-one and group meetings, conferences and road shows. Such engagements aim to provide shareholders and investors with relevant information promptly and to solicit feedback on a range of strategic and topical issues.

*Code of Corporate Governance Principles 15.5*

The Board aims to declare and pay annual dividend, taking into consideration the Company's financial performance, the level of available cash, the return on equity and retained earnings, and our projected capital requirements. This is provided that the amount of dividend declared does not exceed the company's retained earnings.

*Code of Corporate Governance Principles 14.2, 16.5*

The Group strongly encourages active shareholder participation during the Annual General Meeting ("AGM"). Resolutions are passed through a process of voting by electronic polling and shareholders are entitled to vote in accordance with established voting rules and procedures. The poll results in favour and against for each resolution put forth are presented during the AGM.

*Code of Corporate Governance Principles 14.2, 14.3*

Shareholders can vote in person or in absentia by proxy. The Company's Constitution allow a shareholder to appoint up to two proxies to attend and vote in his place at the AGM. The Company's Constitution also allows investors who hold shares through a nominee company or custodian bank or through CPF agent banks, to appoint more than two proxies to attend and vote at shareholders' meetings. Shareholders have the opportunity to participate effectively at general meetings by expressing their views and asking the Board and management questions on the Company's operations.

Separate resolutions are proposed for substantially separate issues at general meetings. Thus all resolutions are single item resolutions as per the agenda items in the Notice of AGM.

*Code of Corporate Governance Principles 14, 15, 16*

**SHAREHOLDER RIGHTS AND RESPONSIBILITIES (cont'd)**
**Principle 14: Shareholder Rights (cont'd)**
**Principle 15: Communication with Shareholder (cont'd)**
**Principle 16: Conduct of Shareholder Meeting (cont'd)**

Members of the Board and Board Committees as well as management are present and available at general meetings to address questions raised by shareholders. The external auditors are present at general meetings to address shareholders' queries about the conduct of the audit and the preparation and content of the auditor's report.

SECURITIES TRANSACTIONS

The Group has adopted a set of codes of conduct to provide guidance to its officers regarding dealings in the Company's shares. In line with the guidelines of the Code, directors and officers of the Group are not permitted to deal in MS Singapore Limited's shares during the periods commencing one month before the announcement of the Group's half-year or annual results and ending on the date of the announcement of the relevant results.

INTERESTED PERSON TRANSACTION AND MATERIAL CONTRACTS

The Group confirms that there was no interested person transaction and material contracts during the financial year under review.

On behalf of the Board of directors[4],

| | |
|---|---|
| ..................................................... | ..................................................... |
| MOHAMAD ALI | ANG SWEE BENG |
| Chairman | Chief Executive Officer |

Singapore
15 March 2018

**Guidance Notes**

**Report on Corporate Governance**

1) This is only required for listed companies.

2) The corporate governance report is prepared for illustrative purposes and describes the Group's corporate governance practices and structures, with specific reference to the principles of the 2012 code. Listed companies are required to describe their corporate governance practices with specific reference to the principles of the code and to explain any deviations from any guideline in the 2012 code in their annual reports.

3) The Company's Articles of Association is merged into one document called "Constitution" which is effective from 3 January 2016.

**Dating and signing of Report on Corporate Governance**

4) Please refer to Guidance Note 13 of the Directors' Statement.

*Code of Corporate Governance Principles 14, 15, 16*

**SHAREHOLDER RIGHTS AND RESPONSIBILITIES (cont'd)**
**Principle 14: Shareholder Rights (cont'd)**
**Principle 15: Communication with Shareholder (cont'd)**
**Principle 16: Conduct of Shareholder Meeting (cont'd)**

**Guidance Notes**

**Audit Committee commentary on Key Audit Matters in Annual Report**

5) As highlighted in a press release issued by Accounting and Corporate Regulatory Authority (ACRA), Audit Committees (AC) are strongly encouraged to consider providing commentaries in the company's annual report for 2016 to explain significant financial reporting matters and to complement auditors' commentary on Key Audit Matters. This commentary will enable investors to hear directly from the audit committees and deepen their trust that audit committees have appropriately discharged their oversight responsibilities.

   ACRA has indicated that the AC commentary will not be mandatory.

**Board Composition**

*Code of Corporate Governance Principles 2.2*

6) Under Corporate Governance Guideline, the independent directors should make up at least half of the Board where:
   (a) the Chairman of the Board (the "Chairman") and the chief executive officer (or equivalent) (the "CEO") is the same person;
   (b) the Chairman and the CEO are immediate family* members;
   (c) the Chairman is part of the management team; or
   (d) the Chairman is not an independent director.

   * *The term "immediate family" shall have the same meaning as currently defined in the Listing Manual of the Singapore Exchange (the "Listing Manual"), i.e. the person's spouse, child, adopted child, step-child, brother, sister and parent.*

# Independent Auditor's Report

## To the Members of MS Singapore Limited

SSA 700(R).44

**Report on the audit of the Financial Statements**

SSA 700(R).23

**Opinion**

SSA 700(R).24

We have audited the financial statements of MS Singapore Limited (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 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

SSA 700(R).25
CA 207.2(a)

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

SSA 700(R).28

**Basis for Opinion**

SSA 700(R).28(a) to (d)

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.

SSA 700(R).30

**Key Audit Matters[1,2]**

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

[Description of each key audit matter in accordance with SSA 701.]

SSA 720(R).21-22

**Other Information**

Management is responsible for the other information. The other information[5] 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.

SSA 700(R).33

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

SSA 700(R).34(a)

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

SSA 700(R).34(b)

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.

SSA 700(R).35

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

# Independent Auditor's Report

## To the Members of MS Singapore Limited

SSA 700(R).37 **Auditor's Responsibilities for the Audit of the Financial Statements**

SSA 700(R).38 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.

SSA 700(R).39 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[3] 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.

SSA 700(R).40 We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

SSA 700(R).43 **Report on Other Legal and Regulatory Requirements**

CA 207.2(b) 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.

SSA 700(R).46 The engagement partner on the audit resulting in this independent auditor's report is [name].[4]

**Moore Stephens LLP**
SSA 700(R).47 Public Accountants and
Chartered Accountants

Singapore
SSA 700(R).49 15 March 2018

**Guidance Notes**

*SSA 701.13*

1) When describing Key Audit Matters (KAMs) in the auditor's report, the KAMs should be entity-specific and explain the significance of the matters as follows:
   a) Why the matter was of most significance;
   b) How the matter was addressed in the audit; and
   c) Reference to any relevant financial statement disclosures.

*SSA 700(R).30*

KAM section is applicable to listed entities. However, auditors may voluntarily, or at the request of management or Those Charged With Governance, communicate KAM in the auditor's report for entities other than listed entities.

*SSA 260(R).16*

2) As required by Revised SSA 260 *Communication With Those Charged with Governance*, the KAMs to be included in the auditor's report should be communicated with Those Charged with Governance.

*SSA 570R(22)*

3) When a material uncertainty related to going concern exists, it is by nature a KAM. Therefore, such going concern should be reported separately in "Material Uncertainty Related to Going Concern" section before the section of Key Audit Matters.
An illustrative wording is provided below:

"***Material Uncertainty Related to Going Concern***

*We draw attention to Note x in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended 31 December 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note x, these events or conditions, along with other matters as set forth in Note x, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.*

***Key Audit Matters***

*Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report……"*

*SSA 700(R).A61*

4) The disclosure of the name of the engagement partner is applicable to listed entities.

5) In this illustration, <u>all</u> of the other information have been obtained prior to the date of the auditor's report and no material misstatement of the other information was identified. When the auditor has not obtained all of the other information prior to the date of the auditor's report but expects to obtain other information after the date of auditor's report, or when the auditor has identified a material misstatement of the other information, please refer to Appendix 2 in SSA 720 *The Auditor's Responsibilities Relating to Other Information* for the illustrations.

MS Singapore Limited and its Subsidiaries

# Consolidated Statement of Comprehensive Income[1,2]

**For the financial year ended 31 December 2017**

| | | Notes | 2017 S$'000 | 2016 (restated)[10] S$'000 |
|---|---|---|---|---|
| *FRS 1.51(d)(e)* | | | | |
| | **Continuing operations** | | | |
| *FRS 1.82(a)* | Revenue | 5 | 140,918 | 151,840 |
| *FRS 1.99* | Cost of sales | | (87,897) | (91,840) |
| *FRS 1.85* | Gross profit | | 53,021 | 60,000 |
| *FRS 1.85* | Other income | 7 | 4,255 | 3,356 |
| *FRS 1.99* | Distribution expenses | | (5,087) | (4,600) |
| *FRS 1.99* | Administration expenses | | (16,711) | (19,683) |
| *FRS 1.82(b)* | Finance costs | 8 | (4,418) | (6,023) |
| *FRS 1.99* | Other operating expenses | | (2,801) | (2,612) |
| *FRS 1.82(c)* | Share of profits of associates[4] | 19 | 1,186 | 1,589 |
| *FRS 1.82(c)* | Share of profits of joint venture[4] | 20 | 282 | 81 |
| *FRS 1.85* | Profit before tax | | 29,727 | 32,108 |
| *FRS 1.82(d)* | Income tax expense | 9 | (11,564) | (11,799) |
| *FRS 1.85* | Profit for the year from continuing operations[3] | 12 | 18,163 | 20,309 |
| | **Discontinued operations[3]** | | | |
| *FRS 1.82(ea)* | Profit for the year from discontinued operations | 10 | 8,310 | 9,995 |
| *FRS 1.81A(a)* | **TOTAL PROFIT FOR THE YEAR** | | 26,473 | 30,304 |
| *FRS 1.81A(b)* | **Other comprehensive income, net of income tax** | | | |
| *FRS 1.82A(a)* | **Items that will not be reclassified subsequently to profit or loss:** | | | |
| | Gains on revaluation of property, plant and equipment | 29(b) | - | 1,150 |
| | Remeasurement of defined benefit obligation | 39 | 576 | 23 |
| | | | 576 | 1,173 |
| *FRS 1.82A(b)* | **Items that will be reclassified subsequently to profit or loss:** | | | |
| *FRS 107.20(a)(ii)* | Net gain on fair value changes of available-for-sale financial assets | 29(c) | 66 | 57 |
| *FRS 107.20(a)(ii)* | Cash flow hedges[6,7] | 29(e) | | |
| | - Fair value gain on effective hedges | | 305 | 221 |
| | - Reclassification | | (266) | (201) |
| | Exchange differences on translating foreign operations | 29(f) | | |
| | - Gains on translation of foreign operations | | 45 | 85 |
| | - Reclassification[6,7] | | (84) | - |
| | | | 66 | 162 |
| *FRS 1.81A(b)* | Other comprehensive income for the year, net of tax[5] | | 642 | 1,335 |
| *FRS 1.81A(c)* | **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | 27,115 | 31,639 |
| | Profit for the year attributable to: | | | |
| *FRS 1.81B(a)(ii)* | Owners of the Company | | 22,473 | 27,541 |
| *FRS 1.81B(a)(i)* | Non-controlling interests | | 4,000 | 2,763 |
| | | | 26,473 | 30,304 |

The accompanying notes form an integral part of these financial statements

# Consolidated Statement of Comprehensive Income[1,2]

## For the financial year ended 31 December 2017

| | | Notes | 2017 S$'000 | 2016 (restated)[10] S$'000 |
|---|---|---|---|---|
| FRS 1.103 FRS 1.51(d)(e) | | | | |
| | Total comprehensive income for the year attributable to: | | | |
| FRS 1.81B(b)(ii) | Owners of the Company | | 23,115 | 28,876 |
| FRS 1.81B(b)(i) | Non-controlling interests | | 4,000 | 2,763 |
| | | | 27,115 | 31,639 |
| | **Earnings per share[8,9]** | 13 | | |
| | From continuing and discontinued operations | | | |
| FRS 33.66 | Basic (cents per share) | | 129.2 | 116.1 |
| FRS 33.66 | Diluted (cents per share) | | 118.3 | 115.7 |
| | From continuing operations | | | |
| FRS 33.66 | Basic (cents per share) | | 81.4 | 74.0 |
| FRS 33.66 | Diluted (cents per share) | | 74.7 | 73.7 |

The accompanying notes form an integral part of these financial statements

## MS Singapore Limited and its Subsidiaries

# Consolidated Statement of Comprehensive Income[1,2]

### For the financial year ended 31 December 2017

**Guidance Notes**

**Statement of comprehensive income, cash flow statement and statement of changes in shareholders' equity of the holding company**

*CA 201.5*
*SGX 1207.5*

1) If consolidated financial statements are presented, the statement of comprehensive income, cash flow statement and statement of changes in shareholders' equity of the holding company need not be presented. However, the statement of financial position of the Company has to be presented. If consolidated financial statements are not presented (i.e. exempted under FRS 110.4(a), the statement of comprehensive income, cash flow statement and statement of changes in shareholders' equity of the holding company, forming a set of financial statements of the holding company, should be presented.

**Alternative formats**

*FRS 1.99*

2) An entity shall present an analysis of expenses using a classification based on either the function or the nature of the expenses, whichever provides information that is reliable and more relevant. In addition, an entity has the choice of presenting the statement of comprehensive income using a one-statement or a two-statement approach.

   In this illustration, all items of income and expenses are presented (based on function) in a single statement of comprehensive income. Alternatively, the presentation of other comprehensive income can be separated into another statement (see **Appendix I** - Presentation of profit or loss and other comprehensive income).

**Continuing/Discontinued operations**

*FRS 105.32*

3) If there is no discontinued operation, the heading "Continuing operations" is not required. "Profit from continuing operations" and "Total profit for the year" should also be changed to "Net profit for the year".

**Share of results of associates and joint ventures**

*FRS 1.82(c)*

4) The share of results of associates refers to the Group's share of associates' results after tax and non-controlling interests accounted for in accordance with FRS 28 *Investment in Associates*. The share of results of joint ventures accounted for using equity accounting is presented similarly.

**Other comprehensive income, net of tax**

5) The financial statements present these items individually net of tax. Alternatively, an entity can present these items individually **gross** of tax and their total tax effects as a separate line item, as follows:

*FRS 1.91*

Extract of statement of comprehensive income illustrating other comprehensive income presented at gross before related tax effects:

| | *2017 S$'000* | *2016 S$'000* |
|---|---|---|
| *Other comprehensive income:* | | |
| ***Items that will not be reclassified subsequently to profit or loss:*** | | |
| *Revaluation of freehold land and buildings* | *XX* | *(XX)* |
| *Remeasurement of defined benefit obligation* | *XX* | *XX* |
| *Share of other comprehensive income of associates and joint venture*❶ | *XX* | *XX* |
| *Income tax relating to component of other comprehensive income that will not be reclassified subsequently* | *(XX)* | *XX* |
| | *XX* | *(XX)* |
| ***Items that will be reclassified subsequently to profit or loss:*** | | |
| *Available-for-sale financial assets* | | |
| *- Fair value gains* | *XX* | *XX* |
| *- Reclassification* | *(XX)* | *-* |
| *Gains/(losses) of exchange differences on translation of foreign operations* | *XX* | *(XX)* |
| *Fair value gains arising from Cash flow hedges* | *XX* | *XX* |
| *Share of other comprehensive income of associates and joint venture*❶ | *XX* | *XX* |
| *Income tax relating to component of other comprehensive income that will be reclassified subsequently* | *XX* | *XX* |
| | *XX* | *(XX)* |
| *Other comprehensive income for the year, net of tax* | *XX* | *XX* |

❶ *Share of Other Comprehensive Income of associates and joint ventures accounted for using the equity method, should be aggregated into a separate line item*, split between those items that will or will not be subsequently reclassified to profit or loss [FRS 1.82A(b)]

# Consolidated Statement of Comprehensive Income[1,2]

**For the financial year ended 31 December 2017**

**Guidance Notes**

**Other comprehensive income (cont'd)**

An entity is required to disclose the amount of income tax relating to each item of other comprehensive income, including reclassification adjustments, either in the statement of profit or loss and other comprehensive income or in the notes.

**Reclassification adjustments**

6) Reclassification adjustments are adjustments for amounts previously recognised in other comprehensive income now reclassified to profit or loss.

*FRS 1.93* For example, gains realised on the disposal of available-for-sale financial assets are included in profit or loss of the current period. These amounts may have been recognised in other comprehensive income as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.

*FRS 1.94* 7) An entity may present classification adjustments in the statement(s) of profit or loss and other comprehensive income or in the notes. An entity presenting reclassification adjustments in the notes presents the items of other comprehensive income after any related reclassification adjustments.

**Earnings per share**

*FRS 33.66*
*FRS 33.67A* 8) The Company should present both basic and diluted earnings per share on the statement of comprehensive income for each class of ordinary shares that has a different right to share in the net profit for the year.

*FRS 33.69* An entity shall present basic and diluted earnings per share with equal prominence for all periods presented.

*FRS 33.66* 9) Where the Company reports a discontinued operation, FRS 33.66 requires the disclosure of basic and diluted earnings per share in the statement of comprehensive income, computed based on:

(a) profit or loss from continuing operations attributable to the parent entity; and
(b) profit or loss attributable to the parent entity.

The EPS attributable to discontinued operations can be presented either in the statement of comprehensive income or in the notes to the financial statements.

**Reclassifications and restatements**

*FRS 1.41* 10) Where the presentation or classification of items in the statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose the nature of the reclassification, the amount of each item or class of items that is reclassified and the reason for the reclassification. The following should be disclosed in the Notes to the financial statements as follows:

"Certain reclassifications have been made to the prior year's financial statements to enhance comparability with current year's financial statements. As a result, certain line items have been amended on the face of the statements of financial position, income statement, statement of changes in equity, cash flow statements and the related Notes to the financial statements. Comparative figures have been adjusted to conform with current year's presentation as follows:

***Statement of Other Comprehensive Income***
***As at 31 December 2017***

| | *2016 (As previously reported)* | *Adjustments* | *2016 (restated)* |
|---|---|---|---|
| | *S$'000* | *S$'000* | *S$'000* |
| *Revenue* | *XXX* | *(XXX)* | *XXX* |
| *Other income* | *XXX* | *XXX* | *XXX* |

. . . . . . . . . "

**Extraordinary items**

*FRS 1.87* 11) The Company shall not present any items of income and expense as extraordinary items.

**MS Singapore Limited and its Subsidiaries**

# Statements of Financial Position

**For the financial year ended 31 December 2017**

| | | Notes | Group | | Company | |
|---|---|---|---|---|---|---|
| *FRS 1.113* | | | 2017 | 2016[1] | 2017 | 2016[1] |
| *FRS 1.51(d)(e)* | | | S$'000 | S$'000 | S$'000 | S$'000 |
| | **Assets** | | | | | |
| *FRS 1.60* | ***Non-current assets*** | | | | | |
| *FRS 1.54(a)* | Property, plant and equipment | 14 | 109,783 | 135,721 | - | - |
| *FRS 1.54(b)* | Investment properties | 15 | 1,936 | 1,642 | - | - |
| *FRS 1.55* | Goodwill | 16 | 20,285 | 24,060 | - | - |
| *FRS 1.54(c)* | Other intangible assets | 17 | 10,249 | 11,325 | - | - |
| *FRS 1.55* | Investment in subsidiaries | 18 | - | - | 125,000 | 100,000 |
| *FRS 1.54(e)* | Investment in associates | 19 | 5,200 | 3,840 | - | - |
| *FRS 1.54(e)* | Investment in joint venture | 20 | 2,202 | 1,920 | - | - |
| *FRS 1.55* | Finance lease receivables | 25 | 820 | 707 | - | - |
| *FRS 1.54(d)* | Other financial assets | 21 | 6,003 | 4,752 | - | - |
| *FRS 1.54(d)* | Derivatives | 22 | 312 | 263 | - | - |
| | | | 156,790 | 184,230 | 125,000 | 100,000 |
| | ***Current assets*** | | | | | |
| *FRS 1.54(g)* | Inventories | 23 | 30,703 | 28,982 | - | - |
| *FRS 1.54(h)* | Trade and other receivables | 24 | 23,744 | 19,939 | 14,002 | 12,003 |
| *FRS 1.55* | Finance lease receivables | 25 | 208 | 198 | - | - |
| *FRS 1.54(n)* | Other financial assets | 21 | 8,996 | 7,805 | - | - |
| *FRS 1.55* | Current tax assets | 9 | 125 | 60 | - | - |
| *FRS 1.54(d)* | Derivatives | 22 | 208 | 137 | - | - |
| *FRS 1.54(i)* | Cash and bank balances | 26 | 8,571 | 19,778 | 8,527 | 8,912 |
| | Assets classified as held for sale | 11 | 22,336 | - | - | - |
| | | | 94,891 | 76,899 | 22,529 | 20,915 |
| | **Total assets** | | **251,681** | **261,129** | **147,529** | **120,915** |

The accompanying notes form an integral part of these financial statements.

MS Singapore Limited and its Subsidiaries

# Statements of Financial Position

**For the financial year ended 31 December 2017**

| | | Notes | Group 2017 S$'000 | Group 2016[1] S$'000 | Company 2017 S$'000 | Company 2016[1] S$'000 |
|---|---|---|---|---|---|---|
| *FRS 1.113* *FRS 1.51(d)(e)* | | | | | | |
| | **Equity and liabilities** | | | | | |
| | ***Capital and reserves*** | | | | | |
| *FRS 1.55* | Issued capital | 28 | 32,198 | 48,672 | 32,198 | 48,672 |
| *FRS 1.55* | Reserves | 29 | 3,923 | 3,376 | - | - |
| *FRS 1.55* | Retained earnings | | 112,223 | 94,909 | 111,298 | 68,709 |
| *FRS 1.54(r)* | Equity attributable to owners of the Company | | 148,344 | 146,957 | 143,496 | 117,381 |
| *FRS 1.54(q)* | Non-controlling interests | 31 | 23,453 | 20,005 | - | - |
| | Total equity | | 171,797 | 166,962 | 143,496 | 117,381 |
| *FRS 1.60* | ***Non-current liabilities*** | | | | | |
| *FRS 1.55* | Borrowings | 32 | 20,267 | 31,524 | - | - |
| *FRS 1.55* | Retirement benefit plans | 39 | 1,703 | 1,482 | - | - |
| *FRS 1.54(o)* | Deferred tax liabilities | 9 | 4,646 | 3,693 | - | - |
| *FRS 1.54(l)* | Provisions | 36 | 511 | 427 | - | - |
| | | | 27,127 | 37,126 | - | - |
| *FRS 1.60* | ***Current liabilities*** | | | | | |
| *FRS 1.54(k)* | Trade and other payables | 37 | 23,519 | 24,990 | 4,033 | 3,534 |
| *FRS 1.55* | Borrowings | 32 | 20,541 | 25,554 | - | - |
| *FRS 1.54(m)* | Other financial liabilities | 34 | 111 | 18 | - | - |
| | Derivatives | 35 | 80 | - | - | - |
| *FRS 1.54(n)* | Current tax liabilities | 9 | 5,270 | 5,868 | - | - |
| *FRS 1.54(l)* | Provisions | 36 | 747 | 611 | - | - |
| *FRS 1.54(p)* | Liabilities directly associated with assets classified as held for sale | 11 | 2,489 | - | - | - |
| | | | 52,757 | 57,041 | 4,033 | 3,534 |
| | Total liabilities | | 79,884 | 94,167 | 4,033 | 3,534 |
| | **Total equity and liabilities** | | **251,681** | **261,129** | **147,529** | **120,915** |

The accompanying notes form an integral part of these financial statements.

# Statements of Financial Position

## For the financial year ended 31 December 2017

**Guidance Notes**

**Restatements and reclassifications**

FRS 1.40B

1) When an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements, it shall present, as a minimum, three statements of financial position, two of each of the other statements, and related notes.

An entity presents statements of financial position as at:

(a) the end of the current period;

(b) the end of the previous period; and

(c) the beginning of the earliest comparative period.

FRS 1.40C

When an entity is required to present an additional statement of financial position in accordance with paragraph 40A of FRS 1, it must disclose the information required in paragraph 41 of FRS 1(see below). However, it need not present the related notes to the opening statement of financial position as at the beginning of the preceding period.

FRS 1.41

Where the presentation or classification of items in the statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose the nature of the reclassification, the amount of each item or class of items that is reclassified and the reason for the reclassification.

## MS Singapore Limited and its Subsidiaries

# Consolidated Statement of Changes in Equity

### For the financial year ended 31 December 2017

| | | | ← Attributable to equity holders of the Company → | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FRS 1.113 | | Notes | Share capital | General reserve | Revaluation reserve | Fair value adjustment | Equity-settled employee benefits reserve | Cash flow hedging reserve | Foreign currency translation reserve | Option premium on convertible bond | Retained earnings | Attributable to equity holders of the Company | Non-controlling interests | Total |
| FRS 1.51(d)(e) | | | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| | Balance at 1 January 2017 | | 48,672 | 807 | 1,201 | 527 | 338 | 278 | 225 | - | 94,909 | 146,957 | 20,005 | 166,962 |
| FRS 1.106(d)(i) | Profit or loss for the year | | - | - | - | - | - | - | - | - | 22,473 | 22,473 | 4,000 | 26,473 |
| FRS 1.106(d)(ii) | Other comprehensive income for the year, net of tax | | - | - | - | 66 | - | 39 | (39) | - | 576 | 642 | - | 642 |
| FRS 1.106(a) | Total comprehensive income for the year[1] | | - | - | - | 66 | - | 39 | (39) | - | 23,049 | 23,115 | 4,000 | 27,115 |
| FRS 1.106(d)(iii) | Payment of dividends | 30 | - | - | - | - | - | - | - | - | (5,560) | (5,560) | - | (5,560) |
| FRS 1.106(d)(iii) | Acquisition of non-controlling interests | 18 | - | - | - | - | - | - | - | - | (212) | (212) | (731) | (943) |
| FRS 1.106(d)(iii) | Partial disposal of interests in subsidiaries to non-controlling interests, without loss of control | 18 | - | - | - | - | - | - | - | - | 34 | 34 | 179 | 213 |
| FRS 1.106(d)(iii) | Recognition of share-based payments | 29 | - | - | - | - | 206 | - | - | - | - | 206 | - | 206 |
| FRS 1.106(d)(iii) | Issue of ordinary shares under employee share option plan | 28 | 314 | - | - | - | (314) | - | - | - | - | - | - | - |
| FRS 1.106(d)(iii) | Issue of ordinary shares | 28 | 108 | - | - | - | - | - | - | - | - | 108 | - | 108 |
| FRS 32.28 | Issue of convertible bond - equity component | 29(g) | - | - | - | - | - | - | - | 834 | - | 834 | - | 834 |
| FRS 32.39 | Share issue costs | 28 | (6) | - | - | - | - | - | - | - | - | (6) | - | (6) |
| FRS 1.109 | Buy-back of ordinary shares | 28 | (16,697) | - | - | - | - | - | - | - | - | (16,697) | - | (16,697) |
| FRS 32.39 | Share buy-back costs | 28 | (277) | - | - | - | - | - | - | - | - | (277) | - | (277) |
| | Transfer to retained earnings | 29(b) | - | - | (3) | - | - | - | - | - | 3 | - | - | - |
| FRS 1.106(d)(iii) | Income tax relating to transactions with owners | 28, 29(g) | 84 | - | - | - | - | - | - | (242) | - | (158) | - | (158) |
| | **Balance at 31 December 2017** | | 32,198 | 807 | 1,198 | 593 | 230 | 317 | 186 | 592 | 112,223 | 148,344 | 23,453 | 171,797 |

**MS Singapore Limited and its Subsidiaries**

# Consolidated Statement of Changes in Equity

**For the financial year ended 31 December 2017**

| | | | ← Attributable to equity holders of the Company → | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FRS 1.113 | | Notes | Share capital | General reserve | Revaluation reserve | Fair value adjustment | Equity-settled employee benefits reserve | Cash flow hedging reserve | Foreign currency translation reserve | Option premium on convertible bond | Retained earnings | Attributable to equity holders of the Company | Non-controlling interests | Total |
| FRS 1.51(d)(e) | | | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| | **Balance at 1 January 2016** | | 48,672 | 807 | 51 | 470 | - | 258 | 140 | - | 73,824 | 124,222 | 17,242 | 141,464 |
| FRS 1.106(d)(i) | Profit or loss for the year | | - | - | - | - | - | - | - | - | 27,541 | 27,541 | 2,763 | 30,304 |
| FRS 1.106(d)(ii) | Other comprehensive income for the year, net of tax | | - | - | 1,150 | 57 | - | 20 | 85 | - | 23 | 1,335 | - | 1,335 |
| FRS 1.106(a) | Total comprehensive income for the year[1] | | - | - | 1,150 | 57 | - | 20 | 85 | - | 27,564 | 28,876 | 2,763 | 31,639 |
| FRS 1.106(d)(iii) | Payment of dividends | 30 | - | - | - | - | - | - | - | - | (6,479) | (6,479) | - | (6,479) |
| FRS 1.106(d)(iii) | Recognition of share-based payments | 29(d) | - | - | - | - | 338 | - | - | - | - | 338 | - | 338 |
| | **Balance at 31 December 2016** | | 48,672 | 807 | 1,201 | 527 | 338 | 278 | 225 | - | 94,909 | 146,957 | 20,005 | 166,962 |

The accompanying notes form an integral part of these financial statements.

**MS Singapore Limited and its Subsidiaries**

# Consolidated Statement of Changes in Equity

**For the financial year ended 31 December 2017**

**Guidance Notes**

**Presentation of each component of equity in the Consolidated Statement of Changes in Equity ("SoCE")**

*FRS1.106A*
*FRS1.106(d)(ii)*

1) FRS 1R.106A requires a presentation of an analysis of other comprehensive income by item either in the statement of changes in equity or in the notes. In this illustration, the statement of changes in equity does not specify in detail each item of other comprehensive income because this is presented in Note 29 Reserves.

**MS Singapore Limited and its Subsidiaries**

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

# Consolidated Statement of Cash Flows

## For the financial year ended 31 December 2017

| | | Notes | 2017 | 2016 |
|---|---|---|---|---|
| *FRS 1.113* *FRS 1.51(d)(e)* | | | S$'000 | S$'000 |
| *FRS 7.10* | **Cash flows[1] from operating activities** | | | |
| *FRS 7.18(b)* | Profit for the year | | 26,473 | 30,304 |
| *FRS 7.20(b)(c)* | Adjustments[2] for: | | | |
| | Income tax expense recognised in profit or loss | | 14,724 | 14,797 |
| *FRS 7.20(b)* | Share of profits of associates | | (1,186) | (1,589) |
| | Share of profits of joint ventures | | (282) | (81) |
| | Finance costs recognised in profit or loss[3] | | 4,418 | 6,023 |
| | Investment income recognised in profit or loss | | (2,286) | (1,473) |
| | Gain on disposal of property, plant and equipment | | (6) | (67) |
| | Gain on revaluation of investment property | | (297) | (8) |
| | Gain on disposal of subsidiary | | (1,940) | - |
| | Net loss arising on financial assets classified as held for trading | | 707 | - |
| | Hedge ineffectiveness on cash flow hedges | | (89) | (68) |
| *FRS 7.20(b)* | Depreciation of property, plant and equipment | | 12,587 | 15,794 |
| *FRS 7.20(b)* | Amortisation of other intangible assets | | 1,291 | 1,261 |
| | Impairment loss on goodwill | | 235 | - |
| | Impairment loss on Property, Plant and Equipment | | 1,204 | - |
| *FRS 7.28* | Net unrealised foreign exchange (gain)/loss[7] | | (3,790) | 429 |
| | Expense recognised in respect of equity-settled share-based payments | | 206 | 338 |
| | Amortisation of financial guarantee contracts | | 6 | 18 |
| | | | 51,975 | 65,678 |
| *FRS 7.20(a)* | Movements in working capital | | | |
| | Increase in trade and other receivables | | (2,287) | (1,880) |
| | (Increase)/decrease in inventories | | (1,721) | 204 |
| | Decrease in trade and other payables | | (1,471) | (29,979) |
| | Increase/(decrease) in provisions | | 220 | (941) |
| | Cash generated from operations | | 46,716 | 33,802 |
| *FRS 7.31* | Interest paid[3] | | (4,510) | (6,079) |
| *FRS 7.35* | Income taxes paid | | (10,619) | (13,340) |
| | Net cash generated by operating activities | | 31,587 | 13,663 |

The accompanying notes form an integral part of these consolidated financial statements.

**MS Singapore Limited and its Subsidiaries**

# Consolidated Statement of Cash Flows

**For the financial year ended 31 December 2017**

| | | Notes | 2017 | 2016 |
|---|---|---|---|---|
| *FRS 1.113* | | | | |
| *FRS 1.51(d)(e)* | | | S$'000 | S$'000 |
| *FRS 7.10, 21* | **Cash flows from investing activities** | | | |
| *FRS 7.16(c)* | Payments to acquire financial assets | | (2,652) | (451) |
| *FRS 7.31* | Interest and investment income received[3] | | 2,286 | 2,197 |
| *FRS 7.31* | Dividends received from associates[3] | | 30 | 25 |
| *FRS 7.31* | Other dividends received[3] | | 156 | 154 |
| *FRS 7.16(e)* | Amounts advanced to related parties | | (1,128) | (4,311) |
| *FRS 7.16(f)* | Repayments by related parties | | 1,964 | 1,470 |
| *FRS 7.16(a)* | Payments for property, plant and equipment[4] | | (22,932) | (11,875) |
| *FRS 7.16(b)* | Proceeds from disposal of property, plant and equipment | | 11,462 | 21,245 |
| *FRS 7. 16(a)* | Payments for investment property | | (10) | (12) |
| *FRS 7.16(b)* | Proceeds from disposal of investment property | | - | 58 |
| *FRS 7.16(a)* | Payments for other intangible assets | | (215) | (250) |
| *FRS 7.39* | Net cash inflow on disposal of subsidiary | | 7,566 | - |
| *FRS 7.39* | Net cash outflow on acquisition of subsidiaries | | (517) | - |
| | Net cash (used in)/generated by investing activities | | (3,990) | 8,250 |
| *FRS 7.10, 21* | **Cash flows from financing activities** | | | |
| *FRS 7.17(a)* | Proceeds from issue of equity shares | | 108 | - |
| *FRS 7.17(a)* | Proceeds from issue of convertible bond | | 4,839 | - |
| | Payment for share issue costs | | (6) | - |
| *FRS 7.17(b)* | Payment for buy-back of shares | | (16,697) | - |
| | Payment for share buy-back costs | | (277) | - |
| *FRS 7.17(c)* | Proceeds from bank borrowings | | 8,651 | 26,798 |
| *FRS 7.17(d)* | Repayment of bank borrowings | | (10,018) | (23,197) |
| | Repayment of loan from related parties | | (18,944) | - |
| | Repayment of finance lease liabilities | | (75) | (12) |
| *FRS 7.31* | Dividends paid to owners of the Company[3] | | (5,560) | (6,479) |
| *FRS 7.42A* | Proceeds from partial disposal in a subsidiary, without loss of control[9] | | 213 | - |
| *FRS 7.42A* | Acquisition of non-controlling interest | | (943) | - |
| | Net cash used in financing activities | | (38,709) | (2,890) |
| | Net (decrease)/increase in cash and cash equivalents | | (11,112) | 19,023 |
| | Cash and cash equivalents[5, 6] at the beginning of the year | | 19,400 | 561 |
| *FRS 7.28* | Effects of exchange rate changes on the balance of cash held in foreign currencies[8] | | (80) | (184) |
| | **Cash and cash equivalents[5,6] at the end of the year** | **26** | **8,208** | **19,400** |

The accompanying notes form an integral part of these consolidated financial statements.

**MS Singapore Limited and its Subsidiaries**

# Consolidated Statement of Cash Flows

**For the financial year ended 31 December 2017**

**Guidance Notes**

**Direct method**

FRS 7.18(a)

1) An entity can present its cash flow statement using the direct or indirect method; the latter is illustrated in this publication. When the direct method is used, the cash flows from operating activities shall be presented as follows:

"

| | 2017 S$'000 | 2016 S$'000 |
|---|---|---|
| ***Cash flows from operating activities*** (FRS 7.AppA) | | |
| *Cash receipts from customers* (FRS 7.19) | *xxx* | *xxx* |
| *Cash paid to suppliers and employees* | *(xxx)* | *(xxx)* |
| *Cash generated from operations* | *xxx* | *xxx* |
| *Interest paid* | *(xxx)* | *(xxx)* |
| *Income taxes paid* | *(xxx)* | *(xxx)* |
| *Net cash provided by operating activities* | *xxx* | *xxx* |

"

The rest of the "direct method" consolidated cash flow statement is similar to that of the indirect method.

**Discontinued operations**

2) Non-cash items excluded from profit for purposes of the cash flow statement/statement of cash flows should include those non-cash items attributed to discontinued operations.

**Dividends and interest**

FRS 7.31
FRS 7.32

3) Cash flows from interest received and paid and dividends received shall each be disclosed separately, and classified consistently period to period. The interest amounts to be adjusted against profit after tax are the amounts charged or credited to profit or loss.

FRS 7.33

Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid and interest/dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

FRS 7.34

Dividends paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to pay dividends out of operating cash flows.

**Additions to property, plant and equipment**

FRS 7.44

4) Additions to property, plant and equipment in the cash flow statement/statement of cash flows should be net of hedging gains/losses transferred from hedging reserve and additions acquired through finance lease.

**Restricted cash and cash equivalents**

5) An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the enterprise that are not available for use by the group. Examples include cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply where the balances are not available for general use by the parent or other subsidiaries.

# Consolidated Statement of Cash Flows

**For the financial year ended 31 December 2017**

**Guidance Notes**

**Definition of cash and cash equivalents**

*FRS 7.7*

6) An investment normally qualifies as a cash equivalent only when it is a short-term, highly liquid investment that is readily convertible to known amounts of cash, and which is subject to an insignificant risk of changes in value.

**Currency translation differences**

*FRS 7.28*

7) The adjustment of total profit for unrealised currency translation losses/(gains) usually includes currency translation differences on monetary items that form part of investing or financing activities such as long-term loans. This is because these currency translation differences are included as a part of profit or loss for the financial year and need to be eliminated in arriving at the net cash flows from operating activities, as they do not relate to operating activities.

*FRS 7.28*

8) Currency translation differences that arise on the translation of foreign currency cash and cash equivalents should be reported in the statement of cash flows in order to reconcile opening and closing balances of cash and cash equivalents, separately from operating, financing and investing cash flows.

**Acquisition/Disposal of non-controlling interest**

*FRS 7.54*
*FRS 7.42A*

9) FRS 7 requires cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control to be classified as cash flows from financing activities.

*FRS 7.42B*

Changes in ownership interests in a subsidiary that do not result in a loss of control, such as stepped purchases or sales by a parent of a subsidiary's equity instruments that do not result in gain/loss of control of the subsidiary, are accounted for as equity transactions. Accordingly, the resulting cash flows are classified in the same ways as other transactions with owners i.e. financing cash flow.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 1. General Information[1,2,3]

FRS 1.138(a)

MS Singapore Limited (the "Company") is listed on the Singapore Exchange and is incorporated and domiciled in Singapore. The address of its registered office and principal place of business is 10 Anson Road, #29-15 International Plaza, Singapore 079903.

FRS 1.138(b)

The principal activity of the Company is investment holding. The principal activities of its subsidiaries, associates, and joint ventures are described in Note 18 Investment in subsidiaries, Note 19 Investment in associates and Note 20 Investment in Joint Venture.

FRS 24.13
FRS 1.138(c)

The immediate parent and ultimate controlling party of the Group are MS Limited (incorporated in USA) and MS Global Limited (incorporated in United Kingdom) respectively.

**Guidance Notes**

FRS 1.138

1) The following items shall be disclosed in the financial statements unless they are disclosed elsewhere in information published with the financial statements (i.e. in the other sections of the Annual Report):

FRS 1.138(a)

(a) the domicile and legal form of the reporting entity, its country of incorporation and the address of the registered office (or principal place of business, if different from the registered office);

FRS 1.138(b)

(b) a description of the nature of the entity's operations and its principal activities;

FRS 1.138(c)
FRS 24.13

(c) the name of the parent company and the ultimate parent company of the group; and if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed; and

FRS 1.138(d)

(d) if it is a limited life entity, information regarding the length of its life.

FRS 1.51(a)

2) If the Company changes its name during the financial year, the change shall be disclosed. A suggested disclosure is as follows:

*"With effect from [effective date of change], the name of the Company was changed from [ABC Pte Ltd] to [BCA Pte Ltd]."*

Disclosure of this change during the year should be made in both the directors' statement and notes to the financial statements. Further, all references to the Company's name in the directors' statement, auditors' report and financial statements should be based on the new name, followed by the words "Formerly known as [old name]."

FRS 1.113 to 114

3) An entity should present the notes in a systematic manner and are cross-referenced each item in the statements of financial position and in the statements of comprehensive income, and in the statements of changes in equity and of cash flows to any related information in the notes.

An entity has flexibility for the order of the notes, which do not necessarily need to be presented in the order as listed in FRS 1 paragraph 114.

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

*FRS 1.117*

### 2. Application of New/Revised Financial Reporting Standards ("FRSs") Issued[1,2]

#### (a) FRSs effective for annual period beginning on or after 1 January 2017

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

**Amendments to FRS 7 *Disclosure Initiative***

The amendments require new disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities in respect of:

(a) Changes from financing cash flows;
(b) Changes arising from obtaining or losing control of subsidiaries or other businesses;
(c) The effect of changes in foreign exchange rates;
(d) Changes in fair values; and
(e) Other changes.

The above disclosure also applies to changes in financial assets if cash flows from those financial assets are included in cash flows from financing activities. Comparatives are not required in the first year of adoption.

As this is a disclosure requirement, the application of this amendment has had no impact on the Group's consolidated financial statements. The above information is provided in Note 32.

**Guidance Notes**

**(a) FRSs effective for annual period beginning on or after 1 January 2017**

1) In this illustration, it is assumed that the adoption of new and revised FRSs issued and effective on or after 1 January 2017 will not have any impact on the accounting policies of the Group and the Company in the period of initial application.

The following FRSs are effective for the annual period beginning on or after 1 January 2017:

- Amendments to FRS 7 *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*

Please see Appendix V for the illustrative disclosures of adoption of the new and revised standards. Upon adoption of the new FRSs, which have material impact on the financial statements for the current or prior financial years, an entity is required to disclose the amounts of the adjustment for the current period and each prior period (to the extent applicable). Please see Appendix II Effect of adopting new or amended FRS for the illustration.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

FRS 1.117

## 2. Application of New/Revised Financial Reporting Standards ("FRSs") Issued (cont'd)

FRS 8.30

### (b) FRSs and INT FRSs issued but not yet effective[1]

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:

| Description | Effective Date (Annual periods beginning on or after) |
|---|---|
| FRS 109 *Financial Instruments* | 1 January 2018 |
| FRS 115 *Revenue from Contracts with Customers* | 1 January 2018 |
| Amendments to FRS 102 *Classification and Measurement of Share-based Payment Transactions* | 1 January 2018 |
| Amendments to FRS 40 *Investment Property* | 1 January 2018 |
| Amendments to FRS 104 *Applying FRS 109 Financial Instruments with FRS 104 Insurance Contracts* | 1 January 2018 |
| INT FRS 122 *Foreign Currency Transactions and Advance Consideration* | 1 January 2018 |
| Improvements to FRSs (December 2016) | 1 January 2018 |
| - FRS 101 *First-time Adoption of International Financial Reporting Standards* | |
| - FRS 28 *Investments in Associates and Joint Ventures* | |
| FRS 116 *Leases* | 1 January 2019 |
| INT FRS 123 *Uncertainty over Income Tax Treatments* | 1 January 2019 |
| Amendments to FRS 110 and FRS 28 *Investments in Associates and Joint Ventures – Sale or contribution of assets between an investor and its associate or joint venture* | Deferred indefinitely, early application is still permitted |

Except for amendments to FRS 109, FRS 115 and FRS 116, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the period of initial application.

#### FRS 109 *Financial Instruments*[2]

FRS 109 was introduced to replace FRS 39 *Financial Instruments: Recognition and Measurement*. FRS 109 changes the classification and measurement requirements for financial assets and liabilities, and also introduces a three-stage impairment model that will impair financial assets based on expected losses regardless of whether objective indicators of impairment have occurred. FRS 109 also provides a simplified hedge accounting model that will align more closely with companies' risk management strategies. FRS 109 is effective for annual periods beginning on or after 1 January 2018 with early application permitted. Retrospective application is generally required, except that hedge accounting requirements are, with limited exemptions, applied prospectively. Comparative information need not be restated.

*[Describe effect on the financial statements.]*

#### FRS 115 *Revenue from Contracts with Customers*[2]

FRS 115 Revenue from Contracts with Customers sets out the requirements for recognising revenue that apply to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments). FRS 115 replaces the previous revenue standards, FRS 18 Revenue and FRS 11 Construction Contracts, and the related interpretations on revenue recognition, INT FRS 115 Agreements for the Construction of Real Estate, INT FRS 118 Transfers of Assets from Customers, and INT FRS 31 Revenue – Barter Transactions Involving Advertising Services.

FRS 115 establishes a five-step model that will apply to revenue arising from contracts with customers. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in FRS 115 provide a more structured approach to measuring and recognising revenue when the promised goods and services are transferred to the customer i.e. when performance obligations are satisfied. Key issues for the Group include identifying performance obligations, accounting for contract modifications, applying the constraint to variable consideration, evaluating significant financing components, measuring progress toward satisfaction of a performance obligation, recognising contract cost assets and addressing disclosure requirements. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

*[Describe effect on the financial statements.]*

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

FRS 1.117

## 2. Application of New/Revised Financial Reporting Standards ("FRSs") Issued (cont'd)

FRS 8.30

### (b) FRSs and INT FRSs issued but not yet effective[1] (cont'd)

**FRS 116 *Leases*[2]**

FRS 116 Leases sets out a revised framework for the recognition, measurement, presentation and disclosure of leases, and replaces FRS 17 Leases, INT FRS 104 Determining whether an Arrangement contains a Lease, INT FRS 15 Operating Leases – Incentives; and INT FRS 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. FRS 116 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. 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.

FRS 116 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted for companies but only if it also apply FRS 115 Revenue from Contracts with Customers at or before the date of initial application of FRS 116.

*[Describe effect on the financial statements.]*

**Convergence with International Financial Reporting Standards (IFRS)[2]**

Singapore-incorporated companies listed on the Singapore Exchange (SGX) are required to apply a new financial reporting framework identical to the International Financial Reporting Standards (referred to as SG-IFRS in these financial statements) for the financial year ending 31 December 2018 onwards.

The Group has performed a preliminary assessment of the impact of SG-IFRS 1 *First-time adoption of International Financial Reporting Standards* for the transition to the new reporting framework. Based on the Group's preliminary assessment, the Group expects that the impact on adoption of SG-FRS 115 Revenue from Contracts with Customers and SG-IFRS 9 Financial Instruments will be similar to adopting FRS 115 and FRS 109 as described in this note.

Other than the adoption of new and revised standards, the Group does not expect to change its existing accounting policies on adoption of the new framework. The Group is currently conducting a detailed analysis of the available accounting policy choices, transitional optional exemptions and transitional mandatory exceptions under SG-IFRS 1 and the preliminary assessment may be subject to changes arising from the detailed analysis.

**Guidance Notes**

**FRSs and INT FRSs issued but not yet effective**

FRS 8.30

1) FRS 8 requires an entity to:
   (i) disclose those standards or interpretations that have been issued which are not yet effective; and
   (ii) provide known or reasonably estimable information to assess the possible impact that the application of such FRSs will have on the entity's financial statements in the period of initial application.

   Therefore, the Group has listed those FRSs and INT FRSs that are issued but not yet effective and **relevant** to the Group. Only those FRSs and INT FRSs, which are relevant to the entity, should be indicated. The following is a list of standards issued but not effective as at 31 October 2017. Each entity should customise the note accordingly to include standards that are applicable to the entity. Please see Appendix V for the illustrative disclosures of adoption of the new and revised standards.

FRS 1.117

## 2. Application of New/Revised Financial Reporting Standards ("FRSs") Issued (cont'd)

**Guidance Notes**

**Potential impact of Convergence with SG-IFRSs**

2) **Potential impact of Convergence with International Financial Reporting Standards**

Illustrative wordings are provided below:

***Impact of application of SG-IFRS 9 Financial Instruments***

*(Disclosures below relate to adoption of SG-IFRS 9 in conjunction with the adoption of the new SG-IFRS framework. Companies that are not adopting the new SG-IFRS framework should tailor accordingly).*

*The Group's adoption of SG-IFRS 9 will coincide with the adoption of the SG-IFRS framework on 1 January 2018. The Group's initial assessment of the impact of SFRS 109/ SG-IFRS 9 is as follows:*

*a)* *<u>Transition requirements</u>*
*The Group plans to adopt SG-IFRS 9 on 1 January 2018 without restating prior period information. Any differences between the previous carrying amounts and revised carrying amounts of affected assets and liabilities are recognised in opening retained earnings on 1 January 2018.*

*b)* *<u>Held for trading financial assets</u>*
*The Group expects to continue measuring these assets at fair value through profit or loss under SG-IFRS 9.*

*c)* *<u>Held-to-maturity debt investments</u>*
*The Group expects to continue recognising these assets at amortised cost under SG-IFRS 9, because these investments are expected to give rise to cash flows representing solely payments of principal and interest, and these investments are held to collect contractual cash flows. Accordingly, these investments will be categorised as "Debt investments at amortised cost".*

*SG-IFRS 9 requires impairment to be assessed based on a forward-looking expected credit loss (ECL) model. As these debt investments represent SGD government bonds with low credit risk as at 1 January 2018, the Group will adopt the exemption in SG-IFRS 9 to assess these low-credit risk instruments based on 12-month ECLs. The Group has assessed that the 12-month ECLs of these investments as at 31 December 2017 are insignificant.*

*d)* *<u>Available-for-sale quoted equity securities</u>*
*The Group will elect to present fair value changes on these equity investments in other comprehensive income under SG-IFRS 9, because these instruments are not held for trading. Accordingly, these assets will be categorised as "Equity investments at fair value through other comprehensive income".*

*e)* *<u>Available-for-sale unquoted equity securities</u>*
*These equity investments, which are currently measured at cost, will be re-measured to fair value under SG-IFRS 9. The Group will elect to present fair value changes on these equity securities in other comprehensive income under SG-IFRS 9, because these instruments are not held for trading. Accordingly, these assets will be categorised as "Equity investments at fair value through other comprehensive income". The difference between the cost as at 31 December 2017, amounting to S$ XXX, and the fair value amounting to S$ XXX, will be recognised in the opening reserves when the Group applies SG-IFRS 9, with a corresponding increase in tax liabilities of S$ XXX.*

FRS 1.117

## 2. Application of New/Revised Financial Reporting Standards ("FRSs") Issued (cont'd)

**Guidance Notes**

**Potential impact of Convergence with SG-IFRSs (cont'd)**

2) **Potential impact of Convergence with International Financial Reporting Standards (cont'd)**

***Impact of application of SG-IFRS 9 Financial Instruments (cont'd)***

*f)* *Trade, contract and lease receivables*
*The Group plans to apply the simplified impairment approach to recognise only lifetime ECL impairment charges on all trade receivables and other contract assets that arise from SG-IFRS 15, as well as lease receivables. The Group expects a resulting increase in aggregate impairment allowance on trade receivables, amounts due from customers under construction contracts (which will be reclassified to contract assets upon adoption of SG-IFRS 15), and finance lease receivables, amounting to S$ XXX. The Group is in the process of finalising its expected credit loss estimation which may vary upon completion.*

*g)* *Hedge accounting*
*The Group plans to adopt the accounting policy choice provided by SG-IFRS 9, to continue applying the hedge accounting requirements of SG-IAS 39 for all of the Group's hedging relationships. Accordingly, the Group expects no significant financial impact in respect of hedge accounting, upon adoption of SG-IFRS 9.*

***Impact of application of SG-IFRS 15 Revenue from Contracts with Customers***

*(Disclosures below relate to adoption of SG-IFRS 15 in conjunction with the adoption of the new SG-IFRS framework. Companies that are not adopting the new SG-IFRS framework should tailor accordingly. In particular, companies that are not moving on to the new SG-IFRS framework (i.e. not a first-time adopter) can elect not to restate the comparative period.)*

The Group's adoption of SG-IFRS 15 will coincide with the adoption of the SG-IFRS framework on 1 January 2018. The Group's initial assessment of the impact of SG-IFRS 15 is as follows:

*a)* *Transition requirements*
*The Group plans to adopt SG-IFRS 15 on 1 January 2018 retrospectively, which involves restating the comparative period presented in the 2018 financial statements.*

*b)* *Sales returns*
*Most of the Group's sales contracts include a sales return policy that allows customers to return products within a stipulated period. The Group currently accounts for expected sales returns by recording, against revenue, a provision for the margins associated with those expected returns. Under SG-IFRS 15, the Group is required to recognise a liability for the full obligation to refund the customer's consideration against revenue, and a separate asset for the right to recover the related inventory from customers against cost of sales.*

*Accordingly, upon adoption of SG-IFRS 15, the sales returns provision of S$ XXX recorded in trade and other payables as at 31 December 2017, representing the margins associated with expected sales returns, will be reclassified to contract liabilities. Additionally, the Group's revenue and cost of sales are expected to decline by S$ XXX, against increases of contract assets and contract liabilities by the same amount.*

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

FRS 1.117

## 2. Application of New/Revised Financial Reporting Standards ("FRSs") Issued (cont'd)

**Guidance Notes**

**Potential impact of Convergence with SG-IFRSs (cont'd)**

2) **Potential impact of Convergence with International Financial Reporting Standards (cont'd)**

***Impact of application of SG-IFRS 15 Revenue from Contracts with Customers (cont'd)***

c) *Product warranties*
*The Group's contracts relating to sale of electronics and appliances allow customers to separately purchase extended warranties, which are currently accounted for by recognising a provision for the expected costs to satisfy such warranties, against distribution expense.*

*Upon adoption of SG-IFRS 15, the Group is required to allocate and defer revenues for such extended warranties, which qualify as distinct revenue streams from the underlying sales contracts. The deferred revenue is presented as part of contract liabilities and recognised as revenue over the period of the extended warranty. For the financial year ended 31 December 2017, this will result in a reduction of revenue, and an increase in contract liability by S$ XXX. Distribution expense and provisions will also reduce by S$ XXX.*

d) *Volume rebates*
*Certain sales contracts of the Group in relation to health and beauty products offer volume rebates to customers. The Group currently recognises revenue subject to such volume rebates at the fair value of net consideration received after taking into consideration estimated volume rebates. A liability for estimated volume rebates is included in provisions.*

*Upon adoption of SG-IFRS 15, the Group can only recognise revenue to the extent that it is highly probable that the revenue will not be reversed by subsequent volume rebate claims. For the financial year ended 31 December 2017, the Group expects to reclassify the rebate liability amount of S$ XXX from provisions to contract liabilities. Additionally, the Group expects a decline of S$ XXX in revenues against a corresponding increase in contract liabilities, representing the additional sales proceeds that cannot be recognised under SG-IFRS 15 as they are not highly probable.*

e) *Construction contracts and related sales commissions*
*Certain reclassifications will be made upon adoption of SG-IFRS 15 to align the Group's financial statements with the terminology in SG-IFRS 15:*

- *Amounts due from customers under construction contracts, amounting to S$ XXX, will be presented as part of contract assets.*
- *Advances received from customers for contract work amounting to S$ XXX, and amounts due to customers under construction contracts amounting to S$ XXX will be presented as part of contract liabilities.*

*In addition, the Group pays success-based commissions to property agents upon sale of properties under construction. These costs are currently recognised as expense when incurred. Upon adoption of SG-IFRS 15, the Group plans to capitalise such costs that are recoverable as contract assets, and amortise these costs to profit and loss consistently with the associated revenue. For the financial year ended 31 December 2017, the Group expects distribution expense to decline by S$ XXX, with a corresponding increase in contract assets.*

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

**For the financial year ended 31 December 2017**

FRS 1.117

## 2. Application of New/Revised Financial Reporting Standards ("FRSs") Issued (cont'd)

**Guidance Notes**

**Potential impact of Convergence with SG-IFRSs (cont'd)**

2) **Potential impact of Convergence with International Financial Reporting Standards (cont'd)**

***Impact of application of SG-IFRS 16 Leases***

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

*As disclosed in Note 43, the Group has entered into operating leases of land and equipment as lessee. As at 31 December 2017, the minimum lease payments committed under non-cancellable operating leases amount to S$ XXX, of which S$ XXX are due after 31 December 2018. Upon adoption of SG-IFRS 16, the Group may be required to recognise lease liabilities and right-of-use assets in respect of some of those lease commitments. However, the approximate financial impact cannot be ascertained until 31 December 2018, as certain factors can only be established at that date, including those that affect discount rate, likelihood of lease renewals and terminations, as well as new leases. The Group will continue its detailed assessment of the financial impact of SG-IFRS 16.*

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

FRS 1.117
FRS 1.122

### 3. Significant Accounting Policies

FRS 1.112(a)

#### (a) Basis of preparation

FRS 1.16
SGX 1207.5(d)

The financial statements[1] have been prepared in accordance with the Financial Reporting Standards ("FRSs"). These financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

FRS 1.51(d)(e)

The financial statements are presented in Singapore dollars (SGD or S$), which is the functional currency of the Company. All financial information presented in Singapore dollars have been rounded to the nearest thousand, unless otherwise stated.

**Guidance Notes**

**Going concern assumption**

FRS 10.14

1) An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period that it either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

FRS 1.25
FRS 1.122

2) When preparing financial statements, management shall make an assessment of the entity's ability to continue as a going concern. Where the effect of the judgement made in relation to the entity's ability to continue as a going concern has significant effect on the amounts recognised in the financial statements, the judgement made should be disclosed.

FRS 1.25

When management is aware of material uncertainties related to events or conditions which may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed, even if management eventually concludes that it is appropriate to prepare the financial statements on a going concern basis.

FRS 1.25

Illustrative disclosure:

*"The Group incurred a net loss of S$ XXX (2016: S$ XXX) and total comprehensive loss of S$ XXX (2016: S$ XXX) during the financial year ended 31 December 2017 and as that date, the Group's current liabilities and total liabilities exceeded its current assets and total assets by S$ XXX (2016: S$ XXX) and S$ XXX (2016: S$ XXX) respectively.*

*These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The ultimate holding company has undertaken to provide continuing financial support and/or the Group is able to generate profits and/or sufficient positive cash flows from its operations.*

*If the Group is unable to continue its operational existence for the foreseeable future, the Group may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the statements of financial position. In addition, the Group may have to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to the financial statements."*

FRS 1.25

When the financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not considered a going concern.

Illustrative disclosure :

*"The Company incurred a net loss of S$ XXX (2016: S$ XXX) and total comprehensive loss of S$ XXX (2016: S$ XXX) during the financial year ended 31 December 2017 and as at that date, the Company's current and total liabilities exceeded its current and total assets by S$ XXX (2016: S$ XXX) and S$ XXX (2016: S$ XXX) respectively. These financial statements are prepared on a realisation basis because management intends to liquidate the Company within the next 12 months from the reporting date. Accordingly, all assets as at 31 December 2017 are measured at the lower of their carrying amounts and estimated realisable values and all liabilities as at 31 December 2017 are measured at their estimated settlement amounts."*

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (b) Group accounting

#### i. Subsidiaries

FRS 110.7
FRS 110.20
FRS 110.25

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated[1,3] from the date on which control[2] is transferred to the Group. They are deconsolidated from the date that control ceases.

FRS 110.B41, B42

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

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

FRS 103.32

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

FRS 103.5
FRS 103.37
FRS 103.39
FRS 103.18
FRS 103.19

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

FRS 103.53

Acquisition-related costs are expensed as incurred.

FRS 103.42

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

FRS 103.58

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

FRS 103.B63(a)
FRS 103.34

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

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

*FRS 1.117*
*FRS 1.122*

## 3. Significant Accounting Policies (cont'd)

### (b) Group accounting (cont'd)

#### i. Subsidiaries (cont'd)

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

*FRS 110.23*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of interests in subsidiaries to non-controlling interests without loss of control are also recorded in equity.

*FRS 110.25*
*FRS 110.B98*
*FRS 110.B99*

When the Group loses control of a subsidiary, it:

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

**Guidance Notes**

**Reporting date of subsidiary**

*FRS 110.B92*

1) The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall have the **same reporting date**. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent, to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so.

*FRS 110.B93*

Where it is impracticable to do so, the parent may use the financial statements of a subsidiary prepared as of a reporting date different from that of the parent, provided adjustments are made for the effects of significant transactions or events that occur between that date and the date of the parent's financial statements, and the difference between the reporting dates of the subsidiary and parent is no more than three months. In addition, the length of the reporting periods and any difference in the reporting dates shall be the same from period to period.

*FRS 28(R).33*

A similar requirement applies to the financial statements of associates and joint ventures used for the purpose of equity accounting, as appropriate.

**Business Combinations involving entities under common control**

*FRS 103.2*
*FRS 103.App B*

2) In this illustration, there is no business combination involving entities under common control. Where a business combination involves entities or businesses under common control, it is outside the scope of FRS 103 *Business Combinations* and may be accounted for using the pooling of interest method or the acquisition method (when the transaction has substance from the perspective of the reporting entity).

FRS 1.117
FRS 1.122

### 3. Significant Accounting Policies (cont'd)

#### (b) Group accounting (cont'd)

**Guidance Notes**

**Business Combinations involving entities under common control (cont'd)**

FRS 103.2
FRS 103.App B

2) Illustrative accounting policy where the pooling of interest method is applied:

RAP 12.9

*"Business Combinations involving entities under common control are accounted for by applying the pooling of interest method. The assets and liabilities of the combining entities are reflected at their carrying amounts reported in the consolidated financial statements of the controlling holding company. No adjustments are made to reflect the fair values on the date of combination, or recognise any new assets or liabilities. No additional goodwill is recognised as a result of the combination. Any difference between the consideration paid and the share capital of the "acquired" 'entity is reflected within equity as merger reserve. The statement of comprehensive income reflects the results of the combining entities for the full year, irrespective of when the combination takes place. Comparatives are presented as if the entities had always been combined since the date the entities had come under common control."*

**Exemption from consolidation**

FRS 110.4(a)

3(a) When a parent is exempted under paragraph 4(a) of FRS 110 *Consolidated Financial Statements* from preparing consolidated financial statements and elects to use the exemption and prepare separate financial statements, the following disclosure can be considered:

*"These financial statements are the separate financial statements of [Company name]. The Company is exempted from the preparation of consolidated financial statements as,*

*i. the Company is a wholly-owned subsidiary of MS Global Limited, a UK-incorporated company;*

*ii. the Company's equity instruments are not traded in a public market;*

*iii. the Company did not file, nor is in the process of filing its financial statements for the purpose of issuing any class of instruments in a public market; and*

*iv. MS Global Limited, the ultimate controlling party, produces consolidated financial statements available for public use.*

*The registered office of MS Global Limited is as follows: St Paul's House, Warwick Lane, London EC4M 7BP, UK."*

The exemption above also applies to investment in associates and joint ventures.

3(b) However, under IFRS, the exemption (iv) in Guidance Note 3(a) above requires the ultimate or any intermediate parent of the Company to produce a consolidated financial statements available for public use that comply with IFRS.

FRS 27.16(b)(c)

3(c) The exempted parent that elects to prepare separate financial statement shall also disclose a list of significant investments in subsidiaries, jointly-controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest (and if different, proportion of voting power held) and a description of the method used to account for these investments.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

**For the financial year ended 31 December 2017**

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (b) Group accounting (cont'd)

#### ii. Associates and joint ventures[1]

FRS 28.3 and 5,
FRS 111.16

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are entities over which the Group has joint control as a result of contractual arrangements, and rights to the net assets of the entities.

FRS 28.32(a)

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

FRS 28.10
FRS 28.32

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

FRS 28.25

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

FRS 28.38
FRS 28.39

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

FRS 28.40
FRS 28.42

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the amount in profit or loss.

FRS 28.28
FRS 28.35

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

**Guidance Notes**

**Reporting date**

1) Please refer to Guidance Note 1 under Note 3(b)(i) Subsidiaries.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (b) Group accounting (cont'd)

#### iii. Joint operation[1]

FRS 111.7 and 20

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

FRS 111.20

The Group recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

FRS 111.21

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the accounting policies applicable to those particular assets, liabilities, revenues and expenses.

FRS 111.B34 and B35

When the Group enters into transaction involving a sale or contribution of assets with a joint operation, the Group recognises gains and losses resulting from such a transaction only to the extent of the interests held by the other parties to the joint operation. The Group recognises the full amount of any loss when the sale or contribution of assets provides evidence of a reduction in the net realisable value, or an impairment loss, of those assets.

FRS 111.B36 and B37

When the Group enters into a transaction involving purchase of assets from a joint operation, the Group does not recognise its share of the gains and losses until it resells the assets to a third party, except for losses that evidence a reduction in net realisable value or an impairment loss on those assets.

### (c) Investment in subsidiary companies, associates and joint venture

FRS 27.17(c)

Investments in subsidiary companies, associates and joint ventures[1,2] are carried at cost less accumulated impairment losses in the statement of financial position of the Company.

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

**Guidance Notes**

FRS 27.10

1) When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either: (a) at cost; (b) in accordance with FRS 39; or (c) using the equity method as described in FRS 28.

   An entity applies the same accounting policy on joint operations as stated in Note 3(b)(iii) above, in its separate financial statements.

FRS 27.11

2) If an entity elects, in accordance with paragraph 18 of FRS 28 (as amended in 2011), to measure its investments in associates or joint ventures at fair value through profit or loss in accordance with FRS 39, it shall also account for those investments in the same way in its separate financial statements.

FRS 27.11A

   If a parent is required, in accordance with paragraph 31 of FRS 110, to measure its investment in a subsidiary at fair value through profit or loss in accordance with FRS 39, it shall also account for its investment in a subsidiary in the same way in its separate financial statements.

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (d) Non-current assets held for sale and discontinued operations

FRS 105.6

Non-current assets or disposal groups are classified as held for sale or distribution if their carrying amount will be recovered through a sale transaction or distribution 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.

FRS 105.8A
FRS 105.15, 15A

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 set out above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale. Non-current assets (or disposal groups) classified as held for sale (held for distribution) are measured at the lower of the assets' previous carrying amount and fair value less cost to sell (fair value less costs to distribute).

FRS 105.25
FRS 105.20 to 22

The assets are not depreciated or amortised while they are classified as held-for-sale. In addition, equity accounting of associates and joint ventures ceases once classified as held for sale. Any impairment loss on initial classification and subsequent measurement is recognised as an expense. Any subsequent increase in fair value less costs to sell (not exceeding the accumulated impairment loss that has been previously recognised) is recognised in profit or loss.

FRS 105.32

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held-for-sale and;

i. represents a separate major line of business or geographical area of operations; or
ii. is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
iii. is a subsidiary acquired exclusively with a view to resale.

FRS 105.34

When a component of an entity qualifies as a discontinued operation, the comparative statement of comprehensive income is retrospectively restated to segregate the results of all operations that have been discontinued by the end of the latest reporting period.

### (e) Revenue recognition

FRS 18.9

Revenue[1,2] for the Group comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of business, goods and services tax[3], rebates and discounts and after eliminating sales within the Group.

FRS 18.14(c) to (e)
FRS 18.20

The Group recognises revenue when the amount of revenue and related cost can be reliably measured, it is probable that the collectibility of the related receivables is reasonably assured and when the specific criteria for each of the Group's activities are met as follows:

*(i) Sale of goods*

FRS 18.14(a)
FRS 18.18

Revenue on the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the customer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

*FRS 1.117*
*FRS 1.122*

## 3. Significant Accounting Policies (cont'd)

### (e) Revenue recognition (cont'd)

*(ii) Rendering of services*

*FRS 18.20*

Service income, management and consultancy fees are recognised in the period in which the services are rendered.

Revenue from maintenance services is recognised on a pro-rated basis over the period of the maintenance contract based on services performed.

*(iii) Construction contracts*

*FRS 18.4*
*FRS 18.21*

Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see Note 3 (f) Construction contracts below).

*(iv) Dividend income*

*FRS 18.30(c)*

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

*(v) Interest income*[4]

*FRS 18.30(a)*

Interest income is recognised on a time proportion basis using the effective interest method.

*(vi) Rental income*

*FRS 17.50*
*INT FRS 15.9*

Rental income from operating lease (net of any incentives given to the lessees) is recognised on a straight-line basis over the lease term as set out in specific rental agreements.

**Guidance Notes**

*FRS 18.35*

1) Revenue recognition policy for each principal activity is required to be disclosed and the disclosure should be tailored to the entity's specific circumstances to provide the readers with sufficient understanding of the policies.

2) Illustrative disclosure example on a contract with multiple-element arrangements is as follows:

*Multiple-element arrangements*

*FRS 18.13*

*"The Group offers certain arrangements where a customer can purchase certain electronic equipment, together with a two-year maintenance contract. When such multiple element arrangements exist, the amount recognised as revenue upon the sale of the equipment is the fair value of the equipment in relation to the fair value of the arrangement taken as a whole and is recognised when the equipment is delivered and the customer accepted the delivery. The revenue relating to the service element, which represents the fair value of the maintenance arrangement in relation to the fair value of the arrangement taken as a whole, is recognised over the maintenance period evenly. The fair value of each element is determined based on the current market price when the elements are sold separately.*

*Where the Group is unable to determine the fair value of each of the elements in an arrangement, it uses the residual value method. Under this method, the Group determines the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration. To the extent that there is a discount on the arrangement, such discount is allocated between the elements of the contract in such a manner as to reflect the fair value of the elements."*

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

**For the financial year ended 31 December 2017**

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (e) Revenue recognition (cont'd)

**Guidance Notes**

3) If the Group operates predominantly other than in Singapore, the term "goods and services tax" should be appropriately tailored.

FRS 18.32

4) When unpaid interest has accrued on an investment prior to it being acquired by the reporting entity, the subsequent receipt of interest is treated as a recovery of part of the cost of debt securities. Where interest representing recovery of the cost of investment is material, the following disclosure can be considered:

FRS 18.32

*"Where the Group receives interest from its debt investments, which clearly represent recovery of part of the cost of the investments, the interest received are accounted for as a reduction of the carrying amounts of those investments."*

### (f) Construction contracts

FRS 11.22

When the outcome of a construction contract[1] can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date ("percentage-of-completion method").

FRS 11.23

The outcome of a construction contract can be estimated reliably when:

i. total contract revenue can be measured reliably;
ii. it is probable that the economic benefits associated with the contract will flow to the enterprise;
iii. both the contract cost to complete the contract and the stage of contract completion at the reporting date can be measured reliably; and
iv. the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (f) Construction contracts (cont'd)

FRS 11.32

When the outcome of a construction contract cannot be estimated reliably, revenue should be recognised only to the extent of contract costs incurred that it is probable will be recoverable, and contract costs should be recognised as an expense in the period in which they are incurred.

FRS 11.22
FRS 11.36

When it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately.

FRS 11.39(b)
FRS 11.11
FRS 11.13
FRS 11.14

Contract revenue comprises the initial amount of revenue agreed in the contract, variations in the contract work, and claims that can be measured reliably. A variation or a claim is recognised as contract revenue when it is probable that the customer will approve the variation or negotiations have reached an advanced stage such that it is probable that the customer will accept the claim.

FRS 11.39(c)
FRS 11.31

The stage of completion[2] is measured by reference to the proportion of contract costs incurred to date to the estimated total costs for the contract. Costs incurred during the financial year in connection with future activities on a contract are excluded from costs incurred to date when determining the stage of completion of a contract. Such costs are shown as construction contract work-in-progress on the statements of financial position unless it is not probable that such contract costs are recoverable from the customers, in which case, such costs are recognised as an expense immediately.

FRS 11.43
FRS 11.44

At the reporting date, the aggregated costs incurred plus recognised profit (less recognised loss) on each contract is compared against the progress billings. Where costs incurred plus the recognised profits (less recognised losses) exceed progress billings, the balance is presented as due from customers on construction contracts within "trade and other receivables". Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is presented as due to customers on construction contracts within "trade and other payables".

Progress billings[3] not yet paid by customers and retentions are included within "trade and other receivables". Advances received are included within "trade and other payables".

FRS 11.8

When a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

i. separate proposals have been submitted for each asset;

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

iii. the costs and revenues of each asset can be identified.

FRS 11.9

A group of contracts, whether with a single customer or with several customers, should be treated as a single construction contract when:

i. the group of contracts is negotiated as a single package;

ii. the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and

iii. the contracts are performed concurrently or in a continuous sequence.

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (f) Construction contracts (cont'd)

**Guidance Notes**

**Scope of FRS 11**

1) A significant feature of a construction contract is that the date of commencement and the date of completion fall into different accounting periods. A revenue-generating contract must meet the definition of a construction contract to be in the scope of FRS 11. Otherwise, FRS 18 applies. FRS 18 contains less stringent rules in the segmenting of contracts, compared to FRS 11.

**Measuring stage of completion**

FRS 11.30

2) The proportion of contract costs incurred to date over the total estimated contract costs may not be a reliable measure of the stage of completion for all construction contracts. Other methods such as a survey of work performed or the completion of a physical proportion of contract work may be more appropriate.

FRS 11.41

3) Progress billings are amounts billed for the work performed on a contract whether or not they have been paid by the customer.

Advances are amounts received by the contractor before the related work is performed. Both often do not reflect the work performed and accordingly, are not used to determine the stage of completion.

### (g) Leases

#### i. When the Group is the lessee[3]

_Lessee – Finance leases_

FRS 17.4

Leases where the Group assumes substantially all risks and rewards incidental to ownership of the leased assets are classified as finance leases.

FRS 17.20

The leased assets and the corresponding lease liabilities (net of finance charges) under finance leases are recognised on the statements of financial position as plant and equipment and borrowings respectively, at the inception of the leases based on the lower of the fair value of the leased assets and the present value of the minimum lease payments.

FRS 17.25

Each lease payment is apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense is recognised in profit or loss on a basis that reflects a constant periodic rate of interest on the finance lease liability.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

FRS 1.117
FRS 1.122

### 3. Significant Accounting Policies (cont'd)

#### (g) Leases (cont'd)

##### i. When the Group is the lessee[3] (cont'd)

_Lessee – Operating leases_

FRS 17.4
FRS 17.33
INT FRS 15.5

Leases of factories and warehouses where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease.

FRS 17.31(c)

Contingent rents[2] are recognised as an expense in profit or loss when incurred.

##### ii. When the Group is the lessor[3]

_Lessor – Finance leases_

FRS 17.4

Leases where the Group has transferred substantially all risks and rewards incidental to ownership of the leased assets to the lessees, are classified as finance leases.

FRS 17.36

The leased asset is derecognised and the present value of the lease receivable (net of initial direct costs for negotiating and arranging the lease) is recognised on the statements of financial position and included in "trade and other receivables". The difference between the gross receivable and the present value of the lease receivable is recognised as unearned finance income.

FRS 17.40
FRS 17.39

Each lease payment received is applied against the gross investment in the finance lease receivable to reduce both the principal and the unearned finance income. The finance income is recognised in profit or loss on a basis that reflects a constant periodic rate of return on the net investment in the finance lease receivable.

FRS 17.38

Initial direct costs[1] incurred by the Group in negotiating and arranging finance leases are added to finance lease receivables and recognised as an expense in profit or loss over the lease term on the same basis as the lease income.

_Lessor – Operating leases_

FRS 17.4
FRS 17.50

Leases of investment properties where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessees) is recognised in profit or loss on a straight-line basis over the lease term.

FRS 17.52

Initial direct costs[1] 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.

FRS 17.56(b)

Contingent rents[2] are recognised as income in profit or loss when earned.

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (g) Leases (cont'd)

**Guidance Notes**

**Initial direct costs – lessee**

FRS 17.4

1) Initial direct costs of lessees are the incremental costs incurred by lessees that are directly attributable to negotiating and arranging a lease. Where initial direct costs are incurred by the reporting entity as a lessee, the following disclosure is suggested:

   *Lessee – Finance leases*

   FRS 17.24

   *"Initial direct costs incurred by the Group in negotiating and arranging finance 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 expense."*

   *Lessee – Operating leases*

   FRS 17 is silent on the accounting of initial direct costs by lessees in operating leases. Either of the following accounting policies can be adopted:

   i. *"Initial direct costs incurred by the Group in negotiating and arranging operating leases are capitalised as prepayments and recognised in profit or loss over the lease term on a straight-line basis."; or*

   ii. *Initial direct costs incurred by the Group in negotiating and arranging operating leases are recognised in profit or loss when incurred."*

**Contingent rents**

FRS 17.25
FRS 17.31(c)
FRS 17.31(e)(i)
FRS 17.35(c)
FRS 17.35(d)(i)
FRS 17.47(e)
FRS 17.56(b)

2) Contingent rents recognised as an expense or income, if material, shall be disclosed for each class of leases (i.e. operating and financing), irrespective of whether the reporting entity is a lessee or lessor. The basis upon which the contingent rent payable was determined is required to be disclosed when the reporting entity is a lessee.

**Penalties for early termination**

3) Where such penalties are material, the following disclosure is suggested:

   *"When a lease is terminated before the lease period expires, any payment made (or received) by the Group as penalty is recognised as an expense (or income) when termination takes place."*

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

FRS 1.117
FRS 1.122

### 3. Significant Accounting Policies (cont'd)

#### (h) Foreign currencies

##### (a) Functional and presentation currency

FRS 21.8

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

FRS 1.51(d)

For the purpose of the consolidated financial statements, the results and financial position of each entity in the Group are expressed in Singapore Dollar ("S$"), which is the functional currency[1] of the Company and the presentation currency[2,3] for the consolidated financial statements.

##### (b) Transactions and balances

FRS 21.21

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

FRS 21.23(a)

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

FRS 21.23(a)
FRS 21.28
FRS 21.32
FRS 39.102

Currency translation differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the reporting date are recognised in profit or loss, unless they arise from borrowings in foreign currencies and other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations.

FRS 21.48

Those currency translation differences are recognised in other comprehensive income and accumulated in the currency translation reserve in the consolidated financial statements and transferred to profit or loss as part of the gain or loss on disposal of the foreign operation.

FRS 21.23(c)

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

FRS 23.6(e)

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

FRS 21.27

ii. exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 3 (u) (ii) Hedge accounting below for hedging accounting policies); and

FRS 21.32

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

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (h) Foreign currencies (cont'd)

#### (c) Translation of Group entities' financial statements

FRS 21.39

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a. assets and liabilities are translated at the closing rate at the reporting date;

FRS 21.39

b. income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and

c. all resulting exchange differences are recognised in other comprehensive income and accumulated in the currency translation reserve.

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

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

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

**Guidance Notes**

**Functional and presentation currency**

FRS 21.54

1) Where there is a change in the functional currencies of either the reporting entity or a significant foreign operation, the fact and reason for the change in the functional currencies shall be disclosed.

FRS 21.53

2) When the financial statements are presented in a currency different from the Company's functional currency, the following are required to be disclosed:
   i. the Company's functional currency; and
   ii. the reason for using a different currency as its presentation currency.

3) Where a non-Singapore Dollar presentation currency is used for a Singapore-incorporated entity, it is recommended as a best practice to prominently denote this fact.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

FRS 1.117
FRS 1.122

### 3. Significant Accounting Policies (cont'd)

#### (i) Borrowing costs

FRS 23.8
FRS 23.22
FRS 23.5

Borrowing costs directly attributable[1,2] to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

FRS 23.12

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[2].

FRS 23.8

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

**Guidance Notes**

FRS 23.8

1) Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are required to be capitalised into the cost of the qualifying assets.

**Capitalisation of borrowing costs**

FRS 23.14
FRS 23.26(b)

2) If the amount of borrowing costs eligible for capitalisation have been determined by applying capitalisation rate to the expenditures on a qualifying asset because funds used for the purpose of obtaining the qualifying asset are borrowed generally (rather than specifically), the capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing costs incurred during that period.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (j) Employee benefits[7,8,9]

FRS 19.55(b)

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

#### i. Defined contribution plan[1]

FRS 19.8

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

FRS 19.51

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

#### ii. Defined benefit retirement plan

FRS 19.57(a)(d)

The cost of providing benefits under defined benefit retirement plans is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Defined benefit costs are categorised as follows:

FRS 19.120

a. Service cost (including current service cost, past service cost, as well as gains and losses on settlements);

b. Net interest expense or income; and

c. Remeasurement of the net defined benefit liability/(asset) in other comprehensive income.

The Group presents the first two components of defined benefit costs in profit or loss in employee benefits expense. Past service cost is recognised in profit or loss in the period of plan amendment. Curtailment gains and losses are accounted for as past service costs. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Remeasurement, comprising actual gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

FRS 1.117
FRS 1.122

### 3. Significant Accounting Policies (cont'd)

#### (j) Employee benefits[7,8,9] (cont'd)

##### iii. Share-based compensation[2,3,4,5,6]

FRS 102.2(a)
FRS 102.10

The Group operates an equity-settled share-based compensation plan. The fair value of the employee services received in exchange for the grant of options is recognised as an expense with a corresponding increase in the share option reserve over the vesting period.

FRS 102.16
FRS 102.21A

The total amount to be recognised over the vesting period is determined by reference to the fair value of the options granted on the date of the grant. Non-market vesting conditions are included in the estimation of the number of shares under options that are expected to become exercisable on the vesting date.

FRS 102.20

At each reporting date, the Group revises its estimates of the number of shares under options that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in profit or loss, with a corresponding adjustment to the share option reserve over the remaining vesting period.

The employee share option reserve is transferred to retained earnings upon expiry of the share options. When the options are exercised, the employee share option reserve is transferred to share capital if new shares are issued, or to treasury shares if the options are satisfied by the reissuance of treasury shares[6].

FRS 102.13A

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received (or to be received) are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date. This is then capitalised or expensed as appropriate.

**Guidance Notes**

**(i) Defined contribution plans**

**Employee leave entitlement**

1 In this illustration, it is assumed that employee leave entitlement is not significant and is not included in the list of significant accounting policies.

Illustrative accounting policy for employee leave entitlement (if significant):

FRS 19.13

FRS 19.155
FRS 19.156

*"Employee entitlements to annual leave are recognised as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognised for services rendered by employees up to the end of the reporting period. The liability for leave expected to be settled beyond twelve months from the end of the reporting period is determined using the project unit credit method. The net total of service costs, net interest on the liability and remeasurement of the liability are recognised in profit or loss."*

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (j) Employee benefits[7,8,9] (cont'd)

**Guidance Notes**

**(ii) Share-based compensation**

**Share-based compensation – Cash-settled plan**

FRS 102.30

2) If the Group operates a cash-settled share-based compensation plan, the following disclosure is

*"For cash-settled share-based compensation, the fair value of the employee services received in exchange for the grant of options is recognised as an expense with the recognition of a corresponding liability over the vesting period at grant date. Until the liability is settled, it is re-measured at each reporting date with changes in fair value recognised in profit or loss."*

**Share-based compensation – Modification**

3) If there is any modification of the share option plan, please refer to the illustrative disclosure below:

FRS 102.28

FRS 102.B42 to B44

*"Where a share-based compensation plan is modified to increase the total fair value of the plan, the incremental fair value is recognised as additional share-based compensation expense. Where the modifications reduce the fair value of the plan, the share-based compensation is measured as if such modifications have not occurred (except for modifications that involve cancellation of equity instruments granted)."*

**Share-based compensation – Forfeiture**

FRS 102.IG24

4) If a share-based payment under vesting conditions or other conditions where the counterparty does not meet the conditions, this event is to be treated as forfeiture. The following disclosure requirements may be considered:

*"Where the vesting conditions of a share-based compensation plan are not met, it shall be considered as forfeiture. The expense shall be revised to reflect the best available estimate of the number of equity instruments expected to vest."*

**Share-based compensation – Vesting Conditions and Cancellations**

FRS 102.IG24

5) If a share-based payment has non-vesting conditions where a counterparty or an entity can choose whether to meet the condition or not, a failure to meet the condition shall be treated as a cancellation.

The entity recognises immediately the amount of the expense that would otherwise have been recognised over the remainder of the vesting period.

If there is any cancellation of the share option plan, the following disclosure is suggested:

FRS 102.28

*"Where the employee share option plan is cancelled, it is treated as if it vested on the date of cancellation, and any expense that otherwise would have been recognised for services received over the remaining vesting period is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph."*

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

FRS 1.117
FRS 1.122

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

**(j) Employee benefits[7,8,9] (cont'd)**

**Guidance Notes**

**Share-based compensation – Transfer of share option reserve**

FRS 102.23

6) The transfer of the balance in the share option reserve to share capital or treasury shares upon exercise of the option and the transfer of the balance in the share option reserve to retained earnings upon expiry of the option are not mandatory. Alternatively, the share option reserve may be kept as a separate reserve upon expiry or exercise of the option. It may also be transferred to retained earnings upon exercise of the option.

**Termination benefits**

7) In this illustration, the Group does not provide any termination benefit to its employees. An illustrative accounting policy for termination benefits is as follows:

FRS 19.8

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

FRS 19.165
FRS 19.169

*A liability and expense for termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits, and when the Group recognises related restructuring costs. Initial recognition and subsequent measurement of termination benefits should be performed in accordance with the nature of the employee benefits."*

**Termination benefits versus Post-employment benefits**

FRS 19.164

8) Some termination benefits are payable regardless of the reason for the employee's departure. Although these benefits are described in some countries as termination indemnities or termination gratuities, they can be post-employment benefits, rather than termination benefits and an entity accounts for them as post-employment benefits.

**Profit sharing and bonus plans**

FRS 19.19

9) If such benefits are material, the following disclosure is suggested:

*"The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision when contractually obliged to pay or when there is a past practice that has created a constructive obligation to pay."*

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

FRS 1.117
FRS 1.122

### 3. Significant Accounting Policies (cont'd)

#### (k) Income tax

FRS 12.6

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

**i. Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

FRS 12.46

**ii. Deferred tax**

FRS 12.15

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

FRS 12.34

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

FRS 12.22C

Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

FRS 12.39

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, 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.

FRS 12.44

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.

FRS 12.56

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.

FRS 12.47

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

FRS 12.51

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

FRS 12.71

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.

FRS 12.37

The Group recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (k) Income tax (cont'd)

#### ii. Deferred tax (cont'd)

FRS 12.68

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss.

FRS 12.51C

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefit embodied in the investment property over time, rather than through sale.

#### iii. Current and deferred tax for the period

FRS 12.58

Current and deferred tax are recognised as income or an expense in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where the current and deferred tax arises from the initial accounting for a business combination, the tax effect is taken into account in the accounting for the business combination.

### (l) Property, plant and equipment[3]

#### i. Measurement

_Land and buildings_

FRS 16.15

Land and buildings are initially recognised at cost[1]. Freehold land is subsequently carried at the revalued amount.

FRS 16.31

Leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statements of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

FRS 16.31

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

FRS 16.34
FRS 16.35(b)

Land and buildings are revalued by independent professional valuers on a triennial basis and whenever their carrying amounts are likely to differ materially from their revalued amounts. When an asset is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset.

FRS 16.39
FRS 21.30

Increases in carrying amounts arising from revaluation, including currency translation differences, are recognised in other comprehensive income, unless they offset previous decreases in the carrying amounts of the same asset, in which case, they are recognised in profit or loss. Decreases in carrying amounts that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases in carrying amounts are recognised in profit or loss.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (l) Property, plant and equipment[3] (cont'd)

#### i. Measurement (cont'd)

*Other property, plant and equipment*

FRS 16.15
FRS 16.30
FRS 16.73(a)

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

*Components of cost*[2]

FRS 23.10
FRS 16.16(b)

Properties in the course of construction for production, supply or administrative purposes, are carried at cost, less any recognised impairment losses. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy and any fair value gains or losses on qualifying cash flow hedges of property, plant and equipment that are transferred from the hedging reserve. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

#### ii. Depreciation

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

FRS 16.61
FRS 16.51

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. 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.

FRS 17.27

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

FRS 36.9

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

FRS 16.51
FRS 16.61

The residual value, useful life and depreciation method are reviewed at each financial year and adjusted as appropriate at each reporting date. The effects of any revision are recognised in profit or loss when the changes arise.

FRS 16.73(c)

The following useful lives are used in the calculation of depreciation:

| | |
|---|---|
| Buildings | 20 – 30 years |
| Leasehold improvements | 5 – 7 years |
| Plant and equipment | 5 – 15 years |
| Equipment under finance lease | 5 years |

#### iii. Subsequent expenditure

FRS 16.7

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

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (l) Property, plant and equipment[3] (cont'd)

#### iv. Disposal

FRS 16.67

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

FRS 16.68
FRS 16.41

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss. Any amount in revaluation reserve relating to that asset is transferred to retained earnings directly. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

**Guidance Notes**

**(i) Measurement**

**Method of accounting**

FRS 16.29
FRS 16.36
FRS 16.37

1) An item of PPE shall be initially measured at cost, but can be subsequently measured using either the cost model or the revaluation model. The elected policy shall be applied consistently to an entire class of PPE. A class of PPE is a grouping of assets of a similar nature and use in an entity's operations. Examples of separate classes include land, land and buildings, machinery, ships, aircraft, motor vehicles, furniture and fixtures and office equipment.

**Provision for dismantlement, removal or restoration**

FRS 16.16(c)

2) The projected cost of dismantlement, removal or restoration is recognised as part of the cost of PPE if such obligation is incurred either when the item is acquired or as a consequence of using the asset during a particular period for purposes other than to produce inventories during that period. In this illustration, there are no projected costs of dismantlement, removal or restoration. The following is an example of the accounting policy:

*"The projected cost of dismantlement, removal or restoration is also recognised as part of the cost of property, plant and equipment if the obligation for the dismantlement, removal or restoration is incurred as a consequence of either acquiring the asset or using the asset for purposes other than to produce inventories."*

**(ii) Depreciation**

**Component approach to depreciation**

FRS 16.7
FRS 16.13
FRS 16.14
FRS 16.43

3) Parts of some items of PPE may require replacement or major overhauls at regular intervals. An entity allocates the amount initially recognised in respect of an item of PPE to its significant parts and depreciates separately each significant part if those parts have different useful lives. The entity capitalises the cost of the replacements when (i) it is probable that future economic benefits associated with the item will flow to the entity; and (ii) the cost of the item can be reliably measured. The carrying amount of the replaced parts is derecognised. If the amount is material, a suggested disclosure is as follows:

*"The [specific class of plant and equipment] are subject to overhauls at regular intervals. The inherent components of the initial overhaul are determined based on the estimated costs of the next overhaul and are separately depreciated over a period of [years] in order to reflect the estimated intervals between two overhauls. The costs of the overhauls subsequently incurred are capitalised as additions and the carrying amounts of the replaced components are written off to profit or loss."*

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (m) Investment properties

FRS 40.6
FRS 40.5
FRS 40.10
FRS 40.75(b)(e)
FRS 40.8(b)
FRS 40.20
FRS 40.30
FRS 40.35

Investment properties[1], which are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes and land under operating leases that is held for long-term capital appreciation or for a current indeterminate use), are measured initially at its cost, including transaction costs.

Subsequent to initial recognition, investment properties are measured at fair value[2], determined annually by independent professional valuers on the highest-and-best use basis. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

FRS 40.18
FRS 40.19

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

FRS 40.66
FRS 40.69

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

FRS 40.57
FRS 40.60

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use.

FRS 40.61

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain arising on remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve in equity. Any loss is recognised immediately in profit or loss.

When the property is sold, the related amount in the revaluation reserve is transferred to retained earnings.

**Guidance Notes**

**Classification as investment property**

FRS 40.75(c)
FRS 1.122

1) When judgement is required to determine the portions of investment property, owner-occupied property and property held-for-sale in the ordinary course of business, the entity shall disclose the criteria used to distinguish them and the judgement involved.

**Cost model**

FRS 40.30
FRS 40.34
FRS 40.56

2) Alternatively, the entity may adopt the cost model which is to measure investment properties at cost less accumulated depreciation and accumulated impairment losses. In these circumstances, disclosure about the cost basis and depreciation rates would be required. This option is not available if the entity accounts for property interest held under an operating lease as investment property. The following accounting policy may be adopted:

*"Investment properties which are properties held for long-term rental yields and/or for capital appreciation, are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using [a straight-line] method to allocate the depreciable amounts over the estimated useful lives of [ ] years. The residual values, useful lives and depreciation method of investment properties are reviewed, and adjusted as appropriate, at each reporting date. The effects of any revision are included in profit or loss when the changes arise....."*

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (m) Investment properties (cont'd)

**Guidance Notes**

**Cost model (cont'd)**

FRS 40.79(e)

2) When the cost model is applied, the fair value of investment property shall be disclosed at each reporting date. In exceptional cases, when an entity cannot determine the fair value of investment property reliably, it shall disclose:

   a. a description of the investment property;
   b. an explanation of why fair value cannot be determined reliably; and
   c. if possible, the range of estimates within which fair value is highly likely to lie.

### (n) Intangible assets[1]

FRS 38.24
FRS 38.74

Intangible assets acquired separately are measured initially at cost. Intangible assets are carried at cost[1] less accumulated amortisation and accumulated impairment losses.

FRS 38.97
FRS 38.118(b)
FRS 38.104
FRS 36.9

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least once at each financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category consistent with the function of the intangible asset.

FRS 36.10(a)
FRS 36.9
FRS.38.107
FRS 38.109

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

FRS 38.113

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

#### i. Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

FRS 38.57

Deferred development expenditure is recognised if, and only if, all of the following have been demonstrated:

   a. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
   b. the intention to complete the intangible asset and use or sell it;
   c. the ability to use or sell the intangible asset;
   d. how the intangible asset will generate probable future economic benefits;
   e. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
   f. the ability to measure reliably the expenditure attributable to the intangible asset during its development.

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (n) Intangible assets[1](cont'd)

#### i. Research and development expenditure (cont'd)

FRS 38.74
FRS 38.118(a),(b)

Subsequent to initial recognition, the deferred development costs are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of the deferred development costs begins when development is complete and the asset is available for use. Deferred development costs have a finite useful life and are amortised over the period of 8 years on a straight line method, based on the period of expected sales from the related projects.

#### ii. Trademarks

FRS 38.74
FRS 38.118(a),(b)

Trademarks acquired are initially recognised at cost and are subsequently carried at cost less accumulated amortisation and accumulate impairment losses (if any). Trademarks have useful lives of 32 years and amortised to profit or loss using the straight line method.

#### iii. Computer software licence

FRS 38.24
FRS 38.27 and 28, FRS 38.66 and 67

Acquired computer software licence is initially capitalised at cost which includes the purchase prices (net of any discounts and rebates) and other directly attributable costs of preparing the asset for its intended use. Direct expenditures including employee costs, which enhance or extend the performance of computer software beyond its specifications and which can be reliably measured, are added to the original cost of the software. Costs associated with maintaining the computer software are expensed off when incurred.

FRS 38.74
FRS 38.118
FRS 38.97

Computer software licence is subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the straight-line method over their estimated useful lives of 4 years.

**Guidance Notes**

FRS 38.75

1) Alternatively, the entity may adopt the revaluation model which is to measure intangible assets at fair value less accumulated amortisation and accumulated impairment losses. This option is only available if the fair value can be determined by reference to an active market.

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (o) Impairment of non-financial assets

#### i. Goodwill

FRS 36.10(b)

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

FRS 36.80

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

FRS 36.6
FRS 36.74
FRS 36.90

An impairment loss[1] is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU's fair value less cost of disposal and value-in-use.

FRS 36.104

The total impairment loss[1] of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

FRS 36.124

An impairment loss[1] on goodwill is recognised in profit or loss and is not reversed in a subsequent period.

FRS 36.86

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

#### ii. Intangible assets, property, plant and equipment, investments in subsidiaries, associates and joint ventures

FRS 36.9
FRS 28.40

Finite intangible assets, property, plant and equipment and investments in subsidiaries, associates and joint ventures are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

FRS 36.9
FRS 36.66

At the end of each reporting period, the Group reviews the carrying amounts of its finite intangible assets, property, plant and equipment and investments in subsidiaries, associates and joint ventures to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any), on an individual asset.

FRS 36.67

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.

FRS 36.10(a)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

FRS 36.74
FRS 36.IE72

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

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (o) Impairment of non-financial assets (cont'd)

#### ii. Intangible assets, property, plant and equipment, investments in subsidiaries, associates and joint ventures (cont'd)

FRS 36.90
FRS 36.59

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

FRS 36.60

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss, unless the asset is carried at revalued amount[2] where the revaluation was previously taken to other comprehensive income. In this case, such impairment loss of revalued asset is treated as a revaluation decrease. Please refer to Note 3 (l) Property, plant and equipment for the treatment of a revaluation decrease.

FRS 36.110

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased.

FRS 36.119

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount[2], in which case the reversal of the impairment loss is treated as a revaluation increase. However, to the extent that an impairment loss on the same revalued asset[2] was previously recognised as an expense, a reversal of that impairment is also credited to profit or loss.

**Guidance Notes**

**(i) Goodwill**

**Reversal of impairment loss on goodwill in a previous interim period.**

INT FRS 110.6

1) An entity **shall not reverse** an impairment loss recognised in a previous interim period of an investment in either an equity investment or a financial asset carried at cost or goodwill.

**(ii) Assets carried at revalued amounts**

2) In this illustration, certain classes of non-financial assets are carried at their revalued amounts. The disclosures related to revalued amounts shall be removed if the Group applies only the cost model for all non-financial assets.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

FRS 1.117
FRS 1.122

### 3. Significant Accounting Policies (cont'd)

#### (p) Inventories

FRS 2.9
FRS 2.25
FRS 2.36(a)

Inventories are stated at the lower of cost[1] and net realisable value. Costs are determined using the first-in-first-out method.

FRS 2.6(c)
FRS 2.10
FRS 39.98(b),99

The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Cost also includes any gains or losses on qualifying cash flow hedges of foreign currency purchases of inventories that are transferred from the hedging reserve.

FRS 2.6

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Guidance Notes**

**Cost of inventories of a service provider**

1) Where materials and supplies to be consumed in the rendering of services are material, the following disclosure is suggested:

*"Inventories comprise materials and supplies to be consumed in the rendering of [ ] services.....Net realisable value is the estimated selling price of [ ] services less the applicable costs of conversion to complete the services and variable selling expenses."*

FRS 107.21

#### (q) Financial assets

##### i. Classification

FRS 39.9
FRS 107.8

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition and in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

*Financial assets, at fair value through profit or loss*

FRS 39.9

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

FRS 107.AppB5(a)

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling it in the short term. Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performances are evaluated on a fair value basis, in accordance with a documented Group investment strategy.

FRS 1.66

Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are presented as current assets if they are either held for trading or are expected to be realised within 12 months after the reporting period.

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

*FRS 1.117*
*FRS 1.122*

## 3. Significant Accounting Policies (cont'd)

*FRS 107.21*

### (q) Financial assets (cont'd)

#### i. Classification (cont'd)

*Loans and receivables*

*FRS 39.9* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

*FRS 1.66* They are presented as current assets, except for those expected to be realised later than 12 months after the reporting period which are presented as non-current assets.

Loans and receivables are presented as "trade and other receivables" and "cash and bank balances" on the statements of financial position.

*Held-to-maturity financial assets*

*FRS 39.9* Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

*FRS 1.69* If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale.

*FRS 1.66* They are presented as non-current assets, except for those maturing within 12 months after the reporting period which are presented as current assets.

*Available-for-sale financial assets*

*FRS 107.AppB5(b)*
*FRS 39.9*
*FRS 1.66*
*FRS 1.69*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are presented as non-current assets unless the investment matures or management intends to dispose of the assets within 12 months after the reporting period.

#### ii. Recognition and derecognition

*FRS 107.AppB5(c)*
*FRS 39.38*

Regular way purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

*FRS 39.17*
*FRS 39.20(a)*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the financial asset has expired, or has been transferred[7] and transferred substantially all the risks and rewards of ownership of the financial asset to another entity.

*FRS 39.20(c)* 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.

*FRS 39.20(b)* 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.

*FRS 39.26* On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of consideration received is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is transferred to profit or loss.

*FRS 39.20* Trade receivables that are factored out to banks and other financial institutions with recourse to the Group are not derecognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (q) Financial assets (cont'd)

#### iii. Initial measurement

FRS 39.AG64
FRS 39.43

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets at fair value through profit or loss are recognised immediately as expenses.

#### iv. Subsequent measurement

FRS 39.46

Financial assets, both available-for-sale and at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and financial assets, held-to-maturity are subsequently carried at amortised cost[1,2] using the effective interest method.

FRS 39.55(a)
FRS 107.AppB5(e)
FRS 21.30

Changes in the fair values of financial assets at fair value through profit or loss including the effects of currency translation, interest and dividends, are recognised in profit or loss when the changes arise.

Interest and dividend income on available-for-sale financial assets are recognised separately in income.

FRS 39.55(b)
FRS 107.AppB5(e)
FRS 39.AG83

Gains and losses arising from changes in fair value of available-for-sale debt investments are recognised in other comprehensive income with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses which are recognised directly in profit or loss.

FRS 21.30

Changes in fair values of available-for-sale equity securities (i.e. non-monetary items) are recognised in other comprehensive income and accumulated in the fair value reserve, together with the related currency translation differences, with the exception of impairment losses.

The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

FRS 39.58
FRS107.AppB5(f)

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

*Loans and receivables / Held-to-maturity financial assets*

FRS 39.59

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

FRS 39.63

The carrying amount of these assets is reduced through the use of an impairment allowance account[1] which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

FRS 39.65

The allowance for impairment loss account is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

### (q) Financial assets (cont'd)

#### v. Impairment (cont'd)

*Available-for-sale financial assets*

FRS 39.61

In addition to the objective evidence of impairment described above, a significant or prolonged decline in the fair value of an equity security below its cost is considered as an indicator that an available-for-sale equity investment is impaired.

FRS 39.67
FRS 39.68
FRS 39.69

If any evidence of impairment exists, the cumulative loss that was previously recognised in other comprehensive income is reclassified to profit or loss. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any impairment loss previously recognised as an expense. The impairment losses[3] recognised as an expense on available-for-sale equity investment are not reversed through profit or loss.

**Guidance Notes**

**Impairment loss on financial assets carried at amortised cost**

FRS 39.63

1) FRS 39 allows an impairment loss on financial assets carried at amortised cost to be recognised through the use of an allowance account or by reducing the carrying amount of the financial asset directly.

**Subsequent measurement**

FRS 39.46(c)

2) In this illustration, the Group does not have any investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments.

The following disclosure of accounting policy of such financial asset would be required:

*"Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost."*

**Reversal of impairment loss in a previous interim period**

INT FRS 110.8

3) An entity **shall not reverse** an impairment loss recognised in the previous interim period in respect of an investment in an equity investment carried at cost.

### (r) Offsetting of financial assets and financial liabilities

FRS 32.42

Financial assets and financial liabilities are offset and the net amount is presented in the statements of financial position, when and only when, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

FRS 1.117
FRS 1.122

### 3. Significant Accounting Policies (cont'd)

#### (s) Provisions[1]

FRS 37.14

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.

FRS 37.36

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 the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a 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.

**i. Onerous contracts**

FRS 37.66
FRS 37.68

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

**ii. Warranties**

FRS 37.24
FRS 37.36

Provisions for the expected cost for of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products based on the directors' best estimate of the expenditure required to settle the Group's obligation.

**Guidance Notes**

**Provisions for asset dismantlement, removal or restoration**

FRS 37.14

1) Provisions for asset dismantlement, removal or restoration are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amounts have been reliably estimated. The following accounting policy should be disclosed if such provisions are accounted for:

FRS 37.36

*"The Group recognises the estimated costs of dismantlement, removal or restoration of items of property, plant and equipment arising from the acquisition or use of assets. This provision is estimated based on the best estimate of the expenditure required to settle the obligation, taking into consideration the time value.*

INT FRS 101.5

*Changes in the estimated timing or amount of the expenditure or discount rate for asset dismantlement, removal and restoration costs are adjusted against the cost of the related property, plant and equipment, unless the decrease in the liability exceeds the carrying amount of the asset or the asset has reached the end of its useful life. In such cases, the excess of the decrease over the carrying amount of the asset or the changes in the liability is recognised in profit or loss immediately."*

FRS 106.10
FRS 106.11

Emission rights received could be recognised as intangible assets at their fair value with all the disclosures required by FRS 38, or an entity may also apply that net liability approach based on FRS 37.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

FRS 1.117
FRS 1.122

### 3. Significant Accounting Policies (cont'd)

FRS 107.21

#### (t) Financial liabilities

##### i. Compound instruments (convertible bonds)

FRS 32.28

The component parts of compound instruments (convertible bonds[1]) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

FRS 32.AG 31(a)

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

FRS 32.AG 31(b)

The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

##### ii. Financial guarantees

FRS 39.9

The Company has issued corporate guarantees to banks for borrowings of its subsidiaries. These guarantees are financial guarantees as they require the Company to reimburse the banks if the subsidiaries fail to make principal or interest payments when due in accordance with the terms of their borrowings.

FRS 39.47(c)

Financial guarantees are measured initially at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

a. the amount of the obligation under the contract, as determined in accordance with FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and

b. the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with FRS 18 *Revenue*.

FRS 39.43

Financial guarantees are initially recognised at their fair values plus transaction costs in the Company's statement of financial position.

FRS 39.47(c)

Financial guarantees are subsequently amortised to profit or loss over the period of the subsidiaries' borrowings, unless it is probable that the Company will reimburse the bank for an amount higher than the unamortised amount. In this case, the financial guarantees shall be carried at the expected amount payable to the bank in the Company's statement of financial position.

Intra-group transactions with regards to the financial guarantees are eliminated on consolidation.

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

FRS 107.21

### (t) Financial liabilities (cont'd)

#### iii. Financial liabilities

FRS 39.14

An entity shall recognise a financial liability on its statements of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument.

FRS 39.43

Financial liability is recognised initially at fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue.

Financial liabilities are classified as either financial liabilities at 'Fair Value through Profit or Loss' (FVTPL) or 'other financial liabilities'.

*Financial liabilities at FVTPL*

FRS 39.9(a)

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. Directly attributable transaction costs are recognised in profit or loss as incurred.

A financial liability is classified as held for trading if:

a. it has been acquired principally for the purpose of repurchasing it in the near term; or

b. on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

c. it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

FRS 39.9(b)(i)

i. such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

FRS 39.9(b)(ii)

ii. the financial liability forms part of a Group of financial assets of financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

FRS 39.11A

iii. it forms part of a contract containing one or more embedded derivatives, and FRS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

FRS 39.47
FRS 107.AppB5(e)
FRS 107.35

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the other operating income in the consolidated statement of comprehensive income. Fair value is determined in the manner described in Note 44 Fair Value Measurement.

*Other financial liabilities*

FRS 39.43
FRS 39.47

Other financial liabilities (including borrowing and trade and other payables), are initially measured at fair value, plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method.

FRS 39.9

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

FRS 1.69

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the reporting period.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

FRS 1.117
FRS 1.122

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

FRS 107.21

**(t) Financial liabilities (cont'd)**

**iv. Derecognition of financial liabilities**

FRS 39.39

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Guidance Notes**

**Conversion option**

FRS 32.11(b)(ii)

1) If the conversion option in a convertible bond is settled other than by the exchange of a fixed amount of cash or other financial asset for a fixed number of the issuer's own equity instruments, the conversion option is a derivative liability.

FRS 32.28
FRS 32.15
FRS 32.16
FRS 32AG 27(d)

An example of a conversion option that is a derivative liability is found in a convertible bond that is denominated in a foreign currency. This is because the fixed amount of the foreign currency bond that will be extinguished if the holder converts represents a variable amount of cash in the functional currency of the issuer. The following disclosure is suggested:

*"On issuance of convertible foreign currency bonds, the proceeds are allocated between the embedded equity conversion option and the liability component. The embedded option is recognised at its fair value. The liability component is recognised as the difference between total proceeds and the fair value of the equity conversion option. The equity conversion option is subsequently carried at its fair value with fair value changes recognised in profit or loss. The liability component is carried at amortised cost until the liability is extinguished on conversion or redemption. When an equity conversion option is exercised, the carrying amounts of the liability component and the equity conversion option are derecognised with a corresponding recognition of share capital."*

FRS 1.117
FRS 1.122

## 3. Significant Accounting Policies (cont'd)

FRS 107.21

### (u) Derivative financial instruments and hedging activities

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 40 Financial instruments.

FRS 39.43
FRS 39.46

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

FRS 39.55(a)

The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

FRS 39.71
FRS 39.86

The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities, hedges of highly probable forecast transactions or hedges of net investments in foreign operations.

FRS 39.55(a)

Fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognised in profit or loss when the changes arise.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

FRS 1.66
FRS 1.69

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

#### i. Embedded derivatives

FRS 39.11

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

FRS 1.66
FRS 1.69

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

FRS 107.22

#### ii. Hedge accounting

FRS 39.86

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations.

FRS 39.88

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Note 44 Fair value measurement sets out details of the fair values of the derivative instruments used for hedging purposes.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

FRS 1.117
FRS 1.122

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

FRS 107.21

**(u) Derivative financial instruments and hedging activities (cont'd)**

FRS 107.22

**ii. Hedge accounting (cont'd)**

FRS 107.23

**(a) Cash flow hedges**

FRS 1.7(e)
FRS 39.95

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

FRS 39.100

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated statement of comprehensive income as the recognised hedged item.

FRS 39.98

However, when the forecast transaction that is hedged, results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

FRS 39.101

If the forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacements or rollover, or if its designation as a hedge is revoked but the forecast transaction being hedged is still expected to occur, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction affects profit or loss.

**(b) Hedges of net investments in foreign operations**

FRS 39.102

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gains or losses on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in the foreign currency translation reserve. The gains or losses relating to the ineffective portion is recognised immediately in profit or loss, and is included in the other operating income.

FRS 39.102

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operation in the same way as exchange differences relating to the foreign operation as described in Note 3 (h) Foreign currencies above.

**(v) Related parties**

FRS 24.9

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 ("reporting entity").

FRS 24.9(a)

a. A person or a close member of that person's family is related to the Group and Company 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.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

FRS 1.117
FRS 1.122

### 3. Significant Accounting Policies (cont'd)

#### (v) Related parties (cont'd)

FRS 24.9(b)

b. An entity is related to the Group and the company 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);

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).

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.

#### (w) Segment reporting

FRS 108.5(b)

Operating segments are reported in a manner consistent with the internal reporting provided to the executive committee whose members are responsible for allocating resources and assessing performance of the operating segments.

#### (x) Cash and cash equivalents

FRS 7.45

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits with financial institutions which are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are presented as current borrowings on the statements of financial position.

#### (y) Share capital

Ordinary shares are classified as equity. Incremental costs[1] directly attributable to the issuance of new ordinary shares are charged to equity, net of any tax effects.

| Guidance Notes |
|---|
| 1) FRS 32 requires directly attributable costs relating to equity transactions to be recognised in equity, but does not specify which equity account. Accordingly, these costs may also be recognised against retained earnings. |

FRS 1.117
FRS 1.122

### 3. Significant Accounting Policies (cont'd)

#### (z) Treasury shares

FRS 32.33

When any entity within the Group purchases the Company's ordinary shares ("treasury shares"), the carrying amount which includes the consideration paid including any directly attributable incremental cost is presented as a component within equity attributable to the Company's equity holders, until they are cancelled, sold or re-issued.

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When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained earnings of the Company if the shares are purchased out of the earnings of the Company.

FRS 32.33

When treasury shares are subsequently sold or re-issued pursuant to the employee share option scheme, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or re-issue, net of any directly attributable incremental transaction costs and related income tax, is recognised in the capital reserve.

#### (aa) Dividends to Company's shareholders

FRS 10.12
FRS 32.35

Dividend to the Company's shareholders are recognised when the dividends are approved for payment.

### 4. Critical accounting judgements and key sources of estimation uncertainty

FRS 1.122

In the application of the Group's accounting policies, which are described in Note 3 above, the directors are 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.

FRS 1.122
FRS 1.125
FRS 1.126
FRS 1.129

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[1,2] in applying accounting policies

In the process of applying the Company's accounting policies, the application of judgements that are expected to have a significant effect on the amounts recognised in the financial statements are discussed in the following pages.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

**4. Critical accounting judgements and key sources of estimation uncertainty (cont'd)**

**(a) Critical judgements[1,2] in applying accounting policies (cont'd)**

**i. Control over C (Singapore) Pte Ltd as subsidiary**

FRS 112.7(a)
FRS 112.9(b)

Note 18 describes that C (Singapore) Pte Ltd is a subsidiary of the Group although the Group only owns 45 per cent ownership interest in C (Singapore) Pte Ltd. Based on the contractual arrangements between the Group and other investors, the Group has the power to appoint and remove the majority of the board of directors of C (Singapore) Pte Ltd that has the power to direct the relevant activities of C (Singapore) Pte Ltd. Therefore, the directors of the Group concluded that it has the practical ability to direct the relevant activities of C (Singapore) Pte Ltd unilaterally and hence the Group has control over C (Singapore) Pte Ltd.

**ii. Investment in BB Co. Ltd as an associate**

FRS 112.7(b)
FRS 112.9(e)

Note 19 describes that BB Co. Ltd is an associate of the Group although the Group only owns 17 per cent ownership interest in BB Co. Ltd. The Group has significant influence over BB Co. Ltd by virtue of the contractual right to appoint two directors to the board of directors of that Company.

The carrying amount of the investment in BB Co. Ltd and details of these assets are set out in Note 19 Investment in associates.

**iii. Classification of investment in Freeflow Limited as available for sale financial asset**

Management has assessed that it has no significant influence in Freeflow Limited despite its 20% interest, because the other 80% of the ordinary share capital is controlled by 1 shareholder who also manages the day to day operation of the Company.

Details of these assets are set out in Note 21 of the financial statements.

FRS 1.125
FRS 1.129

**(b) Key sources of estimation uncertainty[3]**

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

**i. Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Details of the estimation of value in use is provided in Note 16.

**ii. Impairment of trade and other receivables**

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is an objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. Details of impairment of trade and other receivables is provided in Note 24.

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

**4. Critical accounting judgements and key sources of estimation uncertainty (cont'd)**

*FRS 1.125*
*FRS 1.129*

**(b) Key sources of estimation uncertainty[3] (cont'd)**

**iii. Useful lives of plant and equipment**

The cost of plant and equipment for the various manufacturing operations is depreciated on a straight line basis over the plant and equipment's estimated economic useful lives.

Management estimates the useful lives of these plant and equipment to be within 5 to 15 years. These are common life expectancies applied in these industries. Changes in the expected level of usage and technological developments could impact the economic useful lives of these assets. Hence, future depreciation charges could be revised.

The carrying amount of the Group's plant and equipment at the end of each reporting period is disclosed in Note 14 Property, plant and equipment to the financial statements.

**iv. Employee share options**

The Group measures the cost of equity-settled transactions with employees with reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant.

This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 41 Share-based payments.

**v. Defined benefit plan**

*FRS 1.116*

The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the pension obligation is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return of assets, future salary increases, mortality rates and future pension increases. Significant estimates and assumptions in determining the value of defined benefit plans are disclosed in Note 39 Retirement benefit plans.

**vi. Fair value measurements and valuation processes**

Some of the Groups' assets and liabilities are measured at fair value for financial reporting purposes. The board of directors of the Company has set up a valuation committee, which is headed up by a Chief Financial Officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where inputs are not available, the Group engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation committee's findings to the board of directors of the Company every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in Notes 14, 15 and 44.

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

**4. Critical accounting judgements and key sources of estimation uncertainty (cont'd)**

**Guidance Notes**

1) If no critical judgements and estimates and assumptions applied, the following should be disclosed in the financial statements:

*"In the preparation of the financial statements, there were no critical judgements that management made in the process of applying the Group's accounting policies that have a significant effect on the amounts recognised in the financial statements, nor key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year."*

2) In this illustration, it is assumed that these are the judgements and estimates made in applying accounting policies that has the most significant effect on the amounts recognised in the financial statements. These disclosures must be tailored for another reporting entity as they are specific to an entity's particular circumstance.

*FRS 1.128*

3) Disclosure of key sources of estimation uncertainty is not required for assets and liabilities that are measured at fair value based on recently observable market prices. This is because even if their fair values may change materially within the next financial year, these changes will not arise from assumptions or other sources of estimation uncertainty at the reporting date.

*FRS 1.125*
*FRS 1.129*

The sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation is required to be disclosed only when it is necessary to help users of financial statements understand difficult, subjective or complex judgements made by management concerning the future and other key sources of estimation uncertainty.

## 5. Revenue

FRS 18.35(b) An analysis of the Group's revenue for the year from continuing operations is as follows:

| | | Group | |
|---|---|---|---|
| | | Year ended 2017 | Year ended 2016 |
| | | S$'000 | S$'000 |
| FRS 18.35(b)(i) | Revenue from the sale of goods | 121,881 | 128,852 |
| FRS 18.35(b)(ii) | Revenue from the rendering of services | 15,700 | 20,602 |
| FRS 11.39(a) | Construction contract revenue | 3,337 | 2,386 |
| | | 140,918 | 151,840 |

## 6. Segment information

### (a) Products and services from which reportable segments derive their revenues

FRS 108.22(a) Management has determined the operating segments based on the reports reviewed by the Executive Committee ("Exco") that are used to make strategic decisions. The Exco comprises the Chief Executive Officer, the Chief Financial Officer, and the department heads of each business.

FRS 108.22(b)
FRS 1.138(b) The Group's reportable segments are as follows:

- Electronics and appliance equipment

The electronics and appliance equipment segment is a supplier of electronic components for consumer and industrial electronics for manufacturers.

- Health and beauty goods

The health and beauty goods segment is in the retail business of selling skincare, fragrance, make-up and hair care, body care products, health and beauty supplements to consumers.

- Construction

Construction segment is in the construction of commercial properties.

FRS 108.22(aa) The electronics and appliances (direct sales) segment includes a number of direct sales operations in various provinces within China each of which is considered as a separate operating segment by the Exco. For financial statements presentation purposes, these individual operating segments have been aggregated into a single operating segment taking into account the following factors:

(1) the nature of the products and production processes;
(2) the type or class of customer for their products and services;
(3) methods used to distribute their products to the customers or provide their services; and
(4) if applicable, the nature of the regulatory environment.

FRS 108.16 Other operations include the investment holding, construction activities; the development, sale and installation of computer software for specialised business applications; and the leasing out of specialised storage equipment.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 6. Segment information (cont'd)

#### (b) Segment revenues and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment:

FRS 108.23

| | Segment revenue | | Segment profit | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| Electronics and appliance | 102,823 | 112,408 | 23,748 | 26,964 |
| Health and beauty goods | 34,758 | 37,046 | 8,753 | 9,415 |
| Construction | 3,337 | 2,386 | 359 | 501 |
| | 140,918 | 151,840 | 32,860 | 36,880 |
| Share of profits of associates | | | 1,186 | 1,589 |
| Share of profits of joint venture | | | 282 | 81 |
| Other income | | | 4,255 | 3,356 |
| Central administration costs and directors' salaries | | | (4,438) | (3,775) |
| Finance costs | | | (4,418) | (6,023) |
| Profit before tax from continuing operations (FRS 108.28(b)) | | | 29,727 | 32,108 |

FRS 108.23(a)

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales[2].

FRS 108.27

Segment profit represents the profit earned by each segment prior to the allocation of central administration costs and directors' salaries, share of profits of associates, other income and finance costs, and income tax expense. This is the measure reported to the Chief Operating Decision Maker.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 6. Segment information (cont'd)

FRS 108.23

#### (c) Reconciliation

| | Group 2017 | Group 2016 |
|---|---|---|
| | S$'000 | S$'000 |
| FRS 108.28(c) **(i) Segment assets** | | |
| Electronics and appliance | 138,624 | 143,544 |
| Health and beauty goods | 63,490 | 70,303 |
| Construction | 11,587 | 23,408 |
| FRS 108.28(c) Total segment assets | 213,701 | 237,255 |
| Assets classified as held-for-sale | 22,336 | - |
| Unallocated | 15,644 | 23,874 |
| Consolidated total assets | 251,681 | 261,129 |
| FRS 108.28(d) **(ii) Segment liabilities** | | |
| Electronics and appliance | 47,274 | 58,983 |
| Health and beauty goods | 14,456 | 21,408 |
| Construction | 5,558 | 3,832 |
| FRS 108.28(d) Total segment liabilities | 67,288 | 84,223 |
| Liabilities relating to classified as held-for-sale | 2,489 | - |
| Unallocated | 10,107 | 9,944 |
| Consolidated total liabilities | 79,884 | 94,167 |

FRS 108.27

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than investment in associates, other financial assets, derivatives and tax assets. Goodwill is allocated to reportable segments as described in Note 16 Goodwill. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

- all liabilities are allocated to reportable segments other than other financial liabilities, derivatives, current and deferred tax liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

#### (d) Other segment information

FRS 108.23(e)
FRS 108R.24(b)

| | Group: Depreciation and amortisation | | Group: Additions to non-current assets | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| Electronics and appliance | 8,179 | 10,305 | 9,283 | 6,492 |
| Healthy and beauty goods | 4,133 | 4,951 | 9,386 | 3,465 |
| Construction | 1,566 | 1,799 | 5,017 | 2,207 |
| Total | 13,878 | 17,055 | 23,686 | 12,164 |

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

## 6. Segment information (cont'd)

### (d) Other segment information (cont'd)

*FRS 108.23(i)*
*FRS 36.129*

In addition to the depreciation and amortisation reported above, impairment losses of S$1,204,000 (2016: S$ Nil) and S$235,000 (2016: S$ Nil) were recognised in respect of property, plant and equipment and goodwill, respectively. These impairment losses were attributable to the following reportable segments:

| | 2017 |
|---|---|
| | S$'000 |
| Impairment losses of property, plant and equipment – electronics and appliance | 1,204 |
| Impairment loss of goodwill – construction | 235 |

### (e) Revenue from major products and services

*FRS 108.32*

The Group's revenue from continuing operations from its major products and services were as follows:

| | 2017 | 2016 |
|---|---|---|
| | S$'000 | S$'000 |
| Electronics and appliance | 102,823 | 112,408 |
| Health and beauty products | 34,758 | 37,046 |
| Construction | 3,337 | 2,386 |
| | 140,918 | 151,840 |

### (f) Geographical information

The Group operates in three principal geographical areas – Singapore (country of domicile), People's Republic of China and Mauritius as set out below:

*FRS 108.33*

- Singapore
  The Company is headquartered and has operations in Singapore. The operations in this area are principally manufacture and sale of electronics and appliances, and health and beauty products.

- People's Republic of China
  The operations in this area are manufacture and sale of electronics and appliances, health and beauty products and construction of commercial properties.

- Mauritius
  The operations in this are principally sale of health and beauty products.

- Others
  The operations include sale of electronics and appliances in South East Asia countries such as Malaysia, Brunei, Thailand, Vietnam and Cambodia.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

6. **Segment information (cont'd)**

**(f) Geographical information (cont'd)**

FRS 108.33(a)

The Group's revenue from external customers and information about its non-current assets* by geographical location are detailed below:

| | Revenue from continuing external customers | | Non-current assets* | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| Singapore | 112,260 | 107,211 | 117,820 | 103,245 |
| People's Republic of China | 38,914 | 56,931 | 19,797 | 28,100 |
| Mauritius | 33,887 | 37,179 | 16,085 | 19,512 |
| Others | 10,857 | 14,519 | 7,950 | 21,891 |
| Discontinued operation | (55,000) | (64,000) | (19,399) | - |
| Total | 140,918 | 151,840 | 142,253 | 172,748 |

* Non-current assets consist of property, plant and equipment, investment property, goodwill and intangible assets.

**(g) Information about major customers**

FRS 108.34

Included in revenues arising from direct sales of electronics and appliances of S$102.8 million (2016: S$112.4 million) (see Note 6 (b)) are revenues of approximately S$25.6 million (2016: S$19.8 million) which arose from sales to the Group's largest customer.

**Guidance Notes**

FRS 108.2(a)(b)

1) Segment disclosures are required only for parent companies:

- whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

- that files, or is in the process of filing, its (consolidated) financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

**Segment revenues and results**

FRS 108.27(a)

2) In this illustration, we have assumed that there were no inter-segment sales in the year. If there were inter-segment sales in the year or previous year, the basis of the inter-segment sales should be disclosed, e.g.

*"Sales between segments are carried out at arm's length."*

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 7. Other income

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | | S$'000 | S$'000 |
| | **Continuing operations** | | |
| FRS 18.35(b)(iii) | Interest income: | | |
| FRS 107.20(b) | Bank deposits | 1,686 | 934 |
| | Held-to-maturity investments | 450 | 389 |
| | | 2,136 | 1,323 |
| FRS 18.35(b)(v) | Dividends received from available-for-sale investments | 150 | 150 |
| | Miscellaneous income | 101 | 117 |
| FRS 40.75(f)(i) | Operating lease rental income – investment property | 18 | 14 |
| FRS 1.98(c) | Gain/(loss) on disposal of property, plant and equipment | 6 | 67 |
| FRS 21.52(a) | Net foreign exchange gains | 1,418 | 1,609 |
| | Gain arising on effective settlement of legal claim against a subsidiary (Note 18) | 40 | - |
| FRS 40.76(d) | Fair value gains on investment property at fair value through profit or loss | 297 | 8 |
| FRS 107.24(b) | Hedge ineffectiveness on cash flow hedges | 89 | 68 |
| | | 4,255 | 3,356 |

### 8. Finance costs

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | | S$'000 | S$'000 |
| | **Continuing operations** | | |
| | Interest on bank overdrafts and loans | 4,421 | 6,025 |
| | Interest on obligations under finance leases | 75 | 54 |
| | Other interest expense | 14 | - |
| FRS 107.20(b) | | 4,510 | 6,079 |
| FRS 107.23(d) | Fair value gains on interest rate swaps designated as cash flow hedges of floating rate debt reclassified from equity to profit or loss | (120) | (86) |
| | Unwinding of discounts on provisions | 28 | 30 |
| | | 4,418 | 6,023 |

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 9. Income taxes

#### (a) Income tax expense

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| FRS 12.79 Consolidated statement of comprehensive income: | | |
| Current tax: | | |
| Current income taxation | 10,021 | 11,347 |
| | 10,021 | 11,347 |
| Deferred tax: | | |
| Deferred tax expense relating to the origination and reversal of temporary differences (Note 9 (e)) | 1,693 | 538 |
| Deferred tax reclassified from other comprehensive income to profit or loss (Note 9(c)) | (150) | (86) |
| | 1,543 | 452 |
| Income tax expense relating to continuing operations | 11,564 | 11,799 |

A reconciliation[1] between the expense and the product of accounting profit is as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Profit before tax from continuing operations | 29,727 | 32,108 |
| Income tax expense calculated at 17% (2016: 17%) | 5,054 | 5,458 |
| Effect of: | | |
| Income not subject to tax | (30) | - |
| Expenses not deductible for tax purposes | 6,651 | 6,668 |
| Share of profits of associates and joint ventures | (250) | (284) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 139 | (43) |
| Income tax expense recognised in profit or loss | 11,564 | 11,799 |

FRS 12.81(c) The tax rate used is the corporate tax rate of 17% payable by corporate entities in Singapore on taxable profits under tax law in that jurisdiction.

Expenses not deductible for tax purposes comprise transaction cost related to the acquisition of a subsidiary, exchange loss arising from revaluation of non-trade balances and entertainment and transportation expenses incurred for personal purposes.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 9. Income taxes (cont'd)

FRS 12.81(a)

#### (b) Income tax recognised directly in equity

| | Group 2017 S$'000 | Group 2016 S$'000 |
|---|---|---|
| ***Deferred tax*** | | |
| Arising on transactions with owners: | | |
| Initial recognition of the equity component of compound financial instruments | 242 | - |
| Share issue and buy-back expenses deductible over 5 years | (84) | - |
| Total income tax recognised directly in equity | 158 | - |

FRS 12.81

#### (c) Income tax recognised in other comprehensive income

| | Group 2017 S$'000 | Group 2016 S$'000 |
|---|---|---|
| ***Deferred tax*** | | |
| Arising on income and expenses recognised in other comprehensive income: | | |
| Translation of foreign operations | 22 | 36 |
| Fair value remeasurement of financial instruments designated in a hedge of a net investment in a foreign operation | (4) | - |
| Fair value remeasurement of available-for-sale financial assets | 28 | 24 |
| Fair value remeasurement of financial instruments treated as cash flow hedges | 131 | 95 |
| Revaluation of property, plant and equipment | - | 493 |
| | 177 | 648 |
| Reclassifications from other comprehensive income to profit or loss: | | |
| Relating to cash flow hedges | (114) | (86) |
| On disposal of a foreign operation | (36) | - |
| | (150) | (86) |
| Total income tax recognised in other comprehensive income | 27 | 562 |

#### (d) Current tax assets and liabilities

| | Group 2017 S$'000 | Group 2016 S$'000 |
|---|---|---|
| ***Current tax assets*** | | |
| Tax refund receivable | 125 | 60 |
| | 125 | 60 |
| ***Current tax liabilities*** | | |
| Income tax payable | 5,270 | 5,868 |

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 9. Income taxes (cont'd)

#### (e) Deferred tax balances

Deferred tax assets/(liabilities) arise from the following:

| | | Group | | | | |
|---|---|---|---|---|---|---|
| | | Opening balance | Recognised in profit or loss[5] | Recognised in other comprehensive income | Reclassified from equity to profit or loss | Closing balance |
| | | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| FRS 12.81(a) | **2016** | | | | | |
| FRS 12.81(g) | ***Temporary differences*** | | | | | |
| | Cash flow hedges | (110) | - | (95) | 86 | (119) |
| | Associates | (791) | (477) | - | - | (1,268) |
| | Property, plant & equipment | (2,560) | (202) | (493) | - | (3,255) |
| | Finance leases | (29) | 7 | - | - | (22) |
| | Intangible assets | (669) | 97 | - | - | (572) |
| | Available-for-sale financial assets | (202) | - | (24) | - | (226) |
| | Exchange difference on foreign operations | 22 | - | (36) | - | (14) |
| | Provisions | 1,692 | (20) | - | - | 1,672 |
| | Other financial liabilities | 9 | (4) | - | - | 5 |
| | Others | 45 | 59 | - | - | 104 |
| | | (2,593) | (540) | (648) | 86 | (3,695) |
| | ***Unused tax losses and credits*** | | | | | |
| | Others | - | 2 | - | - | 2 |
| | | - | 2 | - | - | 2 |
| | | (2,593) | (538) | (648) | 86 | (3,693) |

## 9. Income taxes (cont'd)

### (e) Deferred tax balances (cont'd)

Deferred tax assets/(liabilities) arise from the following: (cont'd)

Group

| | Opening balance | Recognised in profit or loss[5] | Recognised in other compre-hensive income | Recognised directly in equity | Reclassified from equity to profit or loss | Acquisitions/ disposals | Closing balance |
|---|---|---|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| FRS 12.81(a) **2017** | | | | | | | |
| FRS 12.81(g) ***Temporary differences*** | | | | | | | |
| Cash flow hedges | (119) | - | (131) | - | 114 | - | (136) |
| Net investment hedges | - | - | 4 | - | - | - | 4 |
| Associates | (1,268) | (356) | - | - | - | - | (1,624) |
| Property, plant & equipment | (3,255) | (1,585) | - | - | - | 495 | (4,345) |
| Finance leases | (22) | 18 | - | - | - | - | (4) |
| Intangible assets | (572) | 214 | - | - | - | - | (358) |
| Available-for-sale financial assets | (226) | - | (28) | - | - | - | (254) |
| Convertible bond | - | 9 | - | (242) | - | - | (233) |
| Exchange difference on foreign operations | (14) | - | (22) | - | 36 | - | - |
| Provisions | 1,672 | 42 | - | - | - | - | 1,714 |
| Other financial liabilities | 5 | 2 | - | - | - | - | 7 |
| Unclaimed share issue and buy-back costs | - | - | - | 84 | - | - | 84 |
| Others | 104 | (37) | - | - | - | - | 67 |
| | (3,695) | (1,693) | (177) | (158) | 150 | 495 | (5,078) |
| ***Unused tax losses and credits*** | | | | | | | |
| Other | 2 | - | - | - | - | - | 2 |
| | 2 | - | - | - | - | - | 2 |
| | (3,693) | (1,693) | (177) | (158) | 150 | 495 | (5,076) |

Deferred tax balances[5] are presented in the statements of financial position as follows:

| | Group 2017 | Group 2016 |
|---|---|---|
| | S$'000 | S$'000 |
| Deferred tax liabilities | 4,646 | 3,693 |
| Directly associated with assets held for sale (Note 11) | 430 | - |
| | 5,076 | 3,693 |

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

**9. Income taxes (cont'd)**

**(f) Unrecognised taxable temporary differences associated with investments in subsidiaries**

*FRS 12.81(f)*

Deferred tax liabilities amounting to S$260,000 (2016: S$214,000) have not been recognised in respect of taxes that will be payable upon distribution of earnings of certain foreign subsidiaries. The Group controls the distribution of these earnings and has determined that such earnings will not be distributed in the foreseeable future.

**(g) Unrecognised deferred tax assets**

*FRS 12.81(e)*

The following deferred tax assets have not been recognised at the reporting date:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Tax losses | 11 | 11 |

*FRS 12.82*
*FRS 12.81(e)*

Deferred income tax assets are recognised for tax losses and capital allowances carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group[2,4] has unrecognised tax losses of S$65,000 (2016: S$65,000) at the reporting date which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by those companies with unrecognised tax losses and capital allowances in their respective countries of incorporation. The tax losses have no expiry date.

**Guidance Notes**

**A. Income tax recognised in profit or loss**

**Applicable tax rate(s)**

*FRS 12.85*

1) In explaining the relationship between tax expenses and accounting profit, an entity shall use an applicable tax rate that provides the most meaningful information to the users of its financial statements. This publication illustrates the disclosure where the corporate tax rate in the country in which the Company is domiciled (Singapore) is the most meaningful tax rate.

   Another entity operating in several jurisdictions may find it more meaningful to aggregate separate reconciliations prepared using the domestic rates in those jurisdictions. When that approach is adopted, the line item "effect of different tax rates in other countries" will no longer be relevant.

**Investment holding company**

2) In the situations where the entity is an investment holding company, the following disclosures should be considered:

   *"The losses incurred by the Company, which is an investment holding company, are not available to offset against future taxable profits under relevant sections of the Income Tax Act."*

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

**9. Income taxes (cont'd)**

**Guidance Notes**

3) Not used.

**Dormant company**

4) In the event, the entity is dormant, the following disclosure can be considered:

"As the Company is dormant, the losses incurred by the Company cannot be carried forward to offset against future profits."

**B. Deferred tax balances**

**Deferred income tax or expense recognised in profit or loss**

*FRS 12.81(g)(ii)*

5) This disclosure is required in situations where the amount of the deferred tax income or expense recognised in profit or loss relating to each type of deferred tax assets/liabilities is not apparent from the changes in the amounts recognised in the statements of financial position.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 10. Discontinued operations

#### (a) Disposal of bag manufacturing operations

FRS 105.30
FRS 105.41

On 28 August 2017, the board of directors entered into a sale agreement to dispose of A Limited, which carried out all of the Group's bag manufacturing operations. The disposal of the bag manufacturing operations is consistent with the Group's long-term policy to focus its activities in the electronics and appliance and other health and beauty goods markets. The disposal was completed on 29 October 2017, on which date control of the bag manufacturing operations passed to the acquirer. Details of the assets and liabilities disposed of, and the calculation of the profit or loss on disposal, are disclosed in Note 18 Investment in subsidiaries.

#### (b) Plan to dispose of the car business

FRS 105.30
FRS 105.41

On 30 October 2017, the board of directors announced a plan to dispose of the Group's car business. The Group is actively seeking a buyer for its car business and expects to complete the sale by 31 July 2018. The assets and liabilities related to the car business have been reclassified to assets and liabilities held-for-sale (Note 11).

#### (c) Analysis[2] of profit for the year from discontinued operations

The combined results of the discontinued operations (i.e. bag manufacturing and car businesses) included in the consolidated statement of comprehensive income are set out below. The comparative statement of comprehensive income has been re-presented to include those operations classified as discontinued in the current period[2].

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | | S$'000 | S$'000 |
| FRS 105.33(b) | ***Profit for the year from discontinued operations*** | | |
| | Revenue | 55,000 | 64,000 |
| | Other income | 30 | 45 |
| | | 55,030 | 64,045 |
| | Expenses | (45,500) | (51,052) |
| | Profit before tax | 9,530 | 12,993 |
| FRS 12.81(h) | Income tax expense | (2,530) | (2,998) |
| | **Profit for the year** | **7,000** | **9,995** |
| | Gain on disposal of operation | 1,940 | - |
| FRS 12.81(h) | Income tax expense | (630) | - |
| | | 1,310 | - |
| FRS 105.33(b) | Profit for the year from discontinued operations (attributable to owners of the Company) | 8,310 | 9,995 |
| FRS 105.33(c) | ***Cash flows from discontinued operations[1]*** | | |
| | Net cash inflows from operating activities | 5,950 | 6,900 |
| | Net cash inflows from investing activities | 3,500 | - |
| | Net cash outflows from financing activities | (5,302) | - |
| | Net cash inflows | 4,148 | 6,900 |

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

## 10. Discontinued operations (cont'd)

**Guidance Notes**

*FRS 105.33(c)*

1) The net cash flows attributable to operating, investing and financing activities of discontinued operations (including comparatives) shall be disclosed either in the Notes to the financial statements or on the face of the cash flow statement/ statement of cash flow. This illustration illustrates the disclosure when the entity elects to disclose in the Notes to the financial statements.

   If the entity elects to present net cash flows on the face of the statement of cash flow, the relevant net cash flows should be presented under operating, investing and financing activities respectively. It is not appropriate to combine and present the net cash flows from three activities as one line item under operating, investing or financing activities.

*FRS 105.33(b)*
*FRS 105.33(c)*
*FRS 105.39*

2) These analyses/disclosures are not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition.

## 11. Assets classified as held for sale[1]

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Assets related to car business | 22,336 | - |
| Liabilities associated with assets held for sale | 2,489 | - |

*FRS 105.41*
*FRS 105.38*

As described in Note 10 Discontinued operations, the Group is seeking to dispose of its car business and anticipates that the disposal will be completed by 31 July 2018. The directors expect that the fair value less costs to sell of the business will be higher than the aggregate carrying amount of the related assets and liabilities.

The major classes of assets and liabilities of the car business at the end of the reporting period are as follows:

| | Group |
|---|---|
| | 2017 |
| | S$'000 |
| Goodwill (Note 16) | 1,150 |
| Property, plant and equipment | 18,249 |
| Inventories | 890 |
| Trade receivables | 1,872 |
| Cash and bank balances (Note 26) | 175 |
| Assets of car business classified as held for sale | 22,336 |
| Trade payables | (2,059) |
| Deferred tax liabilities (Note 9) | (430) |
| Liabilities of car business classified as held for sale | (2,489) |
| Net assets of car business classified as held for sale | 19,847 |

**Guidance Notes**

*FRS 105.26A*

1) When an entity made a direct reclassification of an asset or disposal group from being held for sale to being held for distribution to owners, or vice versa, this reclassification is considered a continuation of the original plan of disposal. As a result, the entity continues to measure the assets (or disposal group) at the lower of carrying amount and fair value less cost to sell.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 12. Profit for the year from continuing operations[1,2]

FRS 1.97
FRS 1.104

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

| Reference | | Group 2017 S$'000 | Group 2016 S$'000 |
|---|---|---|---|
| SGX 1207(6a) | Audit fees[3] paid to: | | |
| | - Auditors of the Company | 250 | 250 |
| | - Other auditors | 50 | 50 |
| SGX 1207(6a) | Non-audit fees[3] paid to: | | |
| | - Auditors of the Company | 100 | 50 |
| | - Other auditors | 80 | - |
| FRS 1.104 FRS 16.75(a) | Depreciation of property, plant and equipment | 12,587 | 15,794 |
| FRS 1.104 | Amortisation of intangible assets | 1,291 | 1,261 |
| FRS 1.104 | Employee benefits expense | 9,803 | 11,655 |
| FRS 2.36(d) | Inventories recognised as an expense in cost of sales | 87,897 | 91,840 |
| FRS 17.35(c) | Operating lease expense | 2,008 | 2,092 |
| | Research and development costs | 502 | 440 |
| | Impairment loss on property, plant and equipment | 1,204 | - |
| | Impairment of goodwill | 235 | - |
| FRS 107.20(e) | Impairment loss recognised on trade receivables | 63 | 430 |
| | Reversal of impairment losses recognised on trade receivables | (103) | (24) |
| FRS 1.97 and 104 | Transportation charges[2] | 550 | 458 |
| FRS 1.97 and 104 | Marketing expenses | 3,305 | 2,254 |
| FRS 107.20(a) | Net loss arising on financial assets classified as held for trading | 707 | - |

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

**12. Profit for the year from continuing operations[1,2] (cont'd)**

**Guidance Notes**

**Expenses by function**

FRS 1.99

1) This disclosure is required only to entities that present their expenses by function on the face of the statement of comprehensive income. In this illustration, the reporting entity presents only selected significant/material expenses in this Note to the financial statements.

**Separate disclosure of income and expenses**

FRS 1.97
FRS 1.98

2) Where items of income and expense are of such size, nature or incidence that their disclosure is relevant to explain the performance of the entity for the period, the nature and amount of such items shall be disclosed separately. This includes:

(a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;

(b) restructuring of the activities of an entity and reversals of any provision for the costs of restructuring;

(c) disposals of items of property, plant and equipment;

(d) disposals of investments;

(e) discontinued operations;

(f) litigation settlements;

(g) other reversals of provisions;

FRS 17.31(d) (h) minimum lease payments; and

FRS 17.31(c) (i) contingent rents and sub-lease payments - the following disclosure is suggested as below:

*"Included in the Group's rental expense on operating leases is contingent rent amounting to S$ XXX (2016: S$ XXX). The contingent rent was computed based on annual inflation rates published by the Singapore Department of Statistics."*

FRS 1.97

This expense item (transportation charges) has been disclosed separately as it is considered to be material in the assumed scenario due to their size or nature.

**Audit and non-audit fees**

SGX 1207 6a

3) The aggregate amount of fees paid to auditors, broken down into audit and non-audit services. If there are no audit or non-audit fees paid, an appropriate negative statement shall be made.

*"The financial statements of the Company for the year ended 31 December 2017 do not include non-audit fees."*

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 13. Earnings per share[1,2,3,4,5]

| | | Group | |
|---|---|---|---|
| | | 2017 Cents per share | 2016 Cents per share |
| | **Basic earnings per share** | | |
| | From continuing operations | 81.4 | 74.0 |
| FRS 33.68 | From discontinued operations | 47.8 | 42.1 |
| | Total basic earnings per share | 129.2 | 116.1 |
| | **Diluted earnings per share** | | |
| | From continuing operations | 74.7 | 73.7 |
| FRS 33.68 | From discontinued operations | 43.6 | 42.0 |
| | Total diluted earnings per share | 118.3 | 115.7 |

**Basic earnings per share**

FRS 33.10

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

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

| | | Group | |
|---|---|---|---|
| | | 2017 S$'000 | 2016 S$'000 |
| FRS 33.70(a) | Profit for the year attributable to owners of the Company | 22,473 | 27,541 |
| | Earnings used in the calculation of total basic earnings per share | 22,473 | 27,541 |
| | Profit for the year from discontinued operations used in the calculation of basic earnings per share from discontinued operations | (8,310) | (9,995) |
| | Earnings used in the calculation of basic earnings per share from continuing operations | 14,163 | 17,546 |

| | | Group | |
|---|---|---|---|
| | | 2017 '000 | 2016 '000 |
| FRS 33.70(b) | Weighted average number of ordinary shares for the purposes of basic earnings per share (all measures) | 17,400 | 23,730 |

**13. Earnings per share[1,2,3,4,5] (cont'd)**

**Diluted earnings per share**

FRS 33.30
FRS 33.31
FRS 33.33
FRS 33.36
FRS 33.41
FRS 33.A15

For the purpose of calculating diluted earnings per share, profit attributable to equity holders of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares.

FRS 33.36

Convertible bonds are assumed to have been converted into ordinary shares at issuance and the net profit is adjusted to eliminate the interest expense less the tax effect.

FRS 33.45

For share options, the weighted average number of shares on issue has been adjusted as if all dilutive share options were exercised. The number of shares that could have been issued upon the exercise of all dilutive share options less the number of shares that could have been issued at fair value (determined as the Company's average share price for the financial year) for the same total proceeds is added to the denominator as the number of shares issued for no consideration. No adjustment is made to the net profit.

FRS 33.70(a)

The earnings used in the calculation of diluted earnings per share are as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Earnings used in the calculation of total basic earnings per share | 22,473 | 27,541 |
| Interest on convertible bond (after tax at 17%) | 77 | - |
| Earnings used in the calculation of diluted earnings per share from continuing operations | 22,550 | 27,541 |
| Profit for the year from discontinued operations used in the calculation of diluted earnings per share from discontinued operations | (8,310) | (9,995) |
| Earnings used in the calculation of diluted earnings per share from continuing operations | 14,240 | 17,546 |

FRS 33.70(b)

The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | '000 | '000 |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share | 17,400 | 23,730 |
| Effects of dilutive potential ordinary shares: | | |
| Employee options | 161 | 85 |
| Convertible bond | 1,500 | - |
| Weighted average number of ordinary shares used in the calculation of diluted earnings per share (all measures) | 19,061 | 23,815 |

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

## 13. Earnings per share[1,2,3,4,5] (cont'd)

**Guidance Notes**

**Earnings per share ("EPS")**

*FRS 33.64*

1) If the number of ordinary or potential ordinary shares increases as a result of a capitalisation, bonus issue or share split, or decreases as a result of a reverse share split before the financial statements are authorised for issue, the basic and diluted EPS for all periods presented shall be adjusted retrospectively, even when this occurs after the reporting period.

*FRS 33.73*

2) If the reporting entity discloses, in addition to basic and diluted EPS, per share amounts using another measure of net profit, such amounts shall be calculated using the weighted average number of ordinary shares determined based on FRS 33. The basic and diluted per share amount shall be disclosed in the Notes to the financial statements. A reconciliation shall be provided between the measure used and a line item reported in the statement of comprehensive income.

3) An entity shall present basic and diluted earnings per share, even if the amounts are negative (i.e. a loss per share).

*FRS 33.70(d)*

4) An entity shall disclose a description of ordinary share transactions or potential ordinary share transactions, other than those resulted from share capitalisation, bonus issue or share split, that occur after the end of the reporting period and that would have changed significantly the number of ordinary shares or potential ordinary shares outstanding at the end of the period if those transactions had occurred before the end of the reporting period.

*FRS 33.71*

Example of such transactions include:

- An issue of shares for cash;
- An issue of shares when the proceeds are used to repay debt or preference shares outstanding at the end of the reporting period;
- The redemption of ordinary shares outstanding;
- The conversion or exercise of potential ordinary shares outstanding at the end of the reporting period into ordinary shares;
- An issue of options, warrants, or convertible instruments; and
- The achievement of conditions that would result in the issue of contingently issuable shares.

Earnings per share amounts are not adjusted for such transactions occurring after the end of the reporting period because such transactions do not affect the amount of capital used to produce profit or loss for the period.

**Anti-dilutive earnings per share**

*FRS 33.70(c)*

5) If the earnings (per ordinary share basis) attributable to the potential ordinary shares are higher than that attributable to ordinary shares, these potential ordinary shares are said to be anti-dilutive. Potential ordinary shares shall be treated as dilutive only when their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations. FRS 33.70(c) requires disclosure of potential ordinary shares which are not included in the calculation of the diluted EPS because they are anti-dilutive for the periods presented, but which could potentially dilute basic EPS in the future.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

## 14. Property, plant and equipment[2]

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | | S$'000 | S$'000 |
| | Cost or valuation | 145,729 | 170,907 |
| | Accumulated depreciation and impairment losses | (35,946) | (35,186) |
| | Net book value | 109,783 | 135,721 |
| FRS 113.93(e) | Freehold land, valuation | 15,078 | 17,868 |
| FRS 113.93(e) | Buildings, valuation | 6,622 | 14,694 |
| | Plant and equipment, at cost | 88,055 | 102,997 |
| FRS 17.31(a) | Equipment under finance lease, at cost | 28 | 162 |
| | | 109,783 | 135,721 |

| FRS 1.78(a) | | Freehold land at fair value | Buildings at fair value | Plant and equipment at cost | Equipment under finance lease at cost | Total |
|---|---|---|---|---|---|---|
| | | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| FRS 16.73(d) | ***Cost or valuation*** | | | | | |
| FRS 16.73(d) | Balance at 1 January 2016 | 16,923 | 12,659 | 152,794 | 630 | 183,006 |
| FRS 16.73(e)(i) | Additions | - | 1,205 | 10,670 | 27 | 11,902 |
| FRS 16.73(e)(ii) | Disposals | - | - | (25,788) | - | (25,788) |
| FRS 40.8(e) | Transferred to investment property (Note 15) | - | (1,510) | - | - | (1,510) |
| FRS 16.73(e)(iv) | Revaluation increase | 1,608 | 2,533 | - | - | 4,141 |
| FRS 16.73(e)(viii) | Effect of foreign currency exchange differences | (663) | (193) | (1) | 13 | (844) |
| | Balance at 31 December 2016 | 17,868 | 14,694 | 137,675 | 670 | 170,907 |
| FRS 16.73(e)(i) | Additions | - | - | 22,932 | 51 | 22,983 |
| FRS 16.73(e)(ii) | Disposals | (1,439) | (1,200) | (12,401) | (624) | (15,664) |
| | Transferred as consideration for acquisition of subsidiary | (400) | - | - | - | (400) |
| | Derecognised on disposal of a subsidiary | - | - | (8,419) | - | (8,419) |
| | Acquisitions through business combinations | - | - | 512 | - | 512 |
| FRS 16.73(e)(ii) | Reclassified as held for sale | (1,200) | (1,357) | (22,045) | - | (24,602) |
| FRS 16.73(e)(viii) | Effect of foreign currency exchange differences | 249 | - | 214 | (51) | 412 |
| FRS 16.73(d) | Balance at 31 December 2017 | 15,078 | 12,137 | 118,468 | 46 | 145,729 |

The Group acquired S$51,000 of equipment under a finance lease (2016: S$27,000).

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 14. Property, plant and equipment [2] (cont'd)

FRS 1.75(a)

| | | Freehold land at fair value | Buildings at fair value | Plant and equipment at cost | Equipment under finance lease at cost | Total |
|---|---|---|---|---|---|---|
| | | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| | ***Accumulated depreciation and impairment losses*** | | | | | |
| FRS 16.73(d) | Balance at 1 January 2016 | - | (1,551) | (25,019) | (378) | (26,948) |
| FRS 16.73(e)(ii) | Disposals | - | - | 4,610 | - | 4,610 |
| FRS 16.73(e)(iv) | Eliminated on revaluation | - | 2,498 | - | - | 2,498 |
| FRS 16.73(e)(vii) | Depreciation expense | - | (947) | (14,717) | (130) | (15,794) |
| FRS 16.73(e)(viii) | Effect of foreign currency exchange differences | - | - | 448 | - | 448 |
| FRS 16.73(d) | Balance at 31 December 2016 | - | - | (34,678) | (508) | (35,186) |
| | Disposals | - | 106 | 3,602 | 500 | 4,208 |
| | Eliminated on disposal of a subsidiary | - | - | 2,757 | - | 2,757 |
| FRS 16.73(e)(ii) | Eliminated on reclassification as held for sale | - | 153 | 6,200 | - | 6,353 |
| FRS 36.126(a)<br>FRS 16.73(e)(v) | Impairment losses recognised in profit or loss | - | - | (1,204) | - | (1,204) |
| FRS 16.73(e)(vii) | Depreciation expense | - | (774) | (11,803) | (10) | (12,587) |
| FRS 16.73(e)(viii) | Effect of foreign currency exchange differences | - | - | (287) | - | (287) |
| FRS 16.75(d) | Balance at 31 December 2017 | - | (515) | (35,413) | (18) | (35,946) |
| | ***Net book value*** | | | | | |
| | At 31 December 2017 | 15,078 | 11,622 | 83,055 | 28 | 109,783 |
| | At 31 December 2016 | 17,868 | 14,694 | 102,997 | 162 | 135,721 |

#### (a) Impairment losses recognised

FRS 36.131
FRS 16.78

During the year, impairment losses recognised in respect of technically obsolete plant and equipment amounted to S$1,204,000 (2016: S$ Nil). Those assets belonged to the Group's electronics and appliance reportable segment.

FRS 36.126(a)

The impairment losses have been included in the line item other expenses in the consolidated statement of comprehensive income.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

**14. Property, plant and equipment[2] (cont'd)**

**(b) Freehold land and buildings carried at fair value**

FRS 16.77(a)(b)
SGX 1207.11

An independent valuation of the Group's freehold land and buildings was performed by Top One Surveyors Pte. Ltd., an independent valuer, to determine the fair value of the land and buildings as at 31 December 2016. The valuer has a recognised and relevant professional qualification and with recent experience in the location and category of the properties being valued.

FRS 113.91(a), 93(d)

The fair value of the freehold land and buildings was determined using market comparable approach that uses yield adjustments based on management's assumption. There has been no change to the valuation technique from previous year. The fair values are regarded as level 3 fair values.

FRS 113.93(a)(b)

Details of the Group's freehold land and buildings and information about the fair value hierarchy as at 31 December 2016 are as follows:

| | Level 1 | Level 2 | Level 3 | Fair value as at 2016 |
|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 |
| - Freehold land | - | - | 17,868 | 17,868 |
| - Buildings | - | - | 14,694 | 14,694 |

**Valuation techniques used to derive Level 3 fair values**

The following table shows the information about fair value measurements using significant unobservable inputs (Level 3) as at 31 December 2016:

| Description | Fair Value as at 31 December 2016 S$'000 | Valuation techniques | Unobservable inputs | Range (weighted average) |
|---|---|---|---|---|
| Freehold land | 17,868 | Market comparable approach | Yield adjustments based on management's assumptions* | 10% to 25% (12%) |
| Buildings | 14,694 | Market comparable approach | Yield adjustments based on management's assumptions* | 10% to 20% (15%) |

* The yield adjustments are made for any difference in the nature, location or condition of the specific property.

A significant increase (decrease) in yield adjustments based on management's assumptions would result in a significantly lower (higher) fair value measurement.

FRS 113.93(c)

There were no transfers[3] between Level 1 and Level 2 during the year.

FRS 16.77(e)

Had the Group's freehold land and buildings (other than land and buildings classified as held for sale or included in a disposal group) been measured at cost less accumulated depreciation, their carrying amounts would have been as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Freehold land | 14,500 | 16,500 |
| Buildings | 5,400 | 11,712 |

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

**14. Property, plant and equipment[2] (cont'd)**

**(c) Assets pledged as security**

*FRS 16.74(a)*

Freehold land and buildings with a carrying amount of S$21,700,000 (2016: S$27,600,000) have been mortgaged to secure borrowings of the Group (see Note 32 Borrowings). Freehold land and buildings have been pledged as security for bank loans under a mortgage. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

*FRS 7.43*

Included in additions in the consolidated financial statements are equipment acquired under finance leases amounting to S$51,000 (2016: S$27,000). The cash outflow on acquisition of property, plant and equipment amounted to approximately S$22,932,000 (2016: S$11,875,000).

In addition, the Group's obligations under finance leases (see Note 38 Obligations under finance leases) are secured by the lessors' title to the leased assets, which have a carrying amount of S$28,000 at reporting date (2016: S$162,000).

**Guidance Notes**

*FRS 8.39*
*FRS 16.76*

1) Where applicable, an entity should disclose the nature and effect of a change in accounting estimate that has an effect in the current or subsequent periods.

Illustrative Note disclosure for change in estimated useful life of equipment:

*"During the financial year, the Group conducted an operational efficiency review on its production lines. The Group revised the estimated useful lives of some machines from five to eight years, after refurbishment that will enable these machines to remain in production for additional three years. The revision in estimate has been applied on a prospective basis from 1 January 2017. The effect of the above revision on depreciation charge in current and future periods are as follows:*

| | *2017* | *2018* | *2019* | *Later* |
|---|---|---|---|---|
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| *Decrease in depreciation expense* | *(XXX)* | *(XXX)* | *(XXX)* | *(XXX)"* |

*FRS 16.79(a) to (d)*

2) Entities are also encouraged to disclose the following information, which users of financial statements may find relevant to their needs:

- The carrying amount of temporarily idle property, plant and equipment;
- The gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
- The carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with FRS 105; and
- When the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

*FRS 113.95*
*FRS 113.C3*

3) If an asset has been transferred between different levels of the fair value hierarchy during the year, the Group should disclose the reasons for the transfer and the Group's policy for determining when transfers between levels are deemed to have occurred (for example, at the beginning or end of the reporting period or at the date of the event that caused the transfer).

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

## 15. Investment properties[2]

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | | S$'000 | S$'000 |
| | ***At fair value*** | | |
| FRS 40.76 | Balance at beginning of year | 1,642 | 170 |
| FRS 40.76(a) | Additions through subsequent expenditure | 10 | 12 |
| | Disposals | - | (58) |
| FRS 40.76(f) | Transferred from property, plant and equipment (Note 14) | - | 1,510 |
| FRS 40.76(d), FRS 113.93(e) | Gain from fair value adjustments (under level 3)[2] recognised in profit or loss | 297 | 8 |
| FRS 40.76(e) | Effect of foreign currency exchange differences | (13) | - |
| FRS 40.76 | Balance at end of year | 1,936 | 1,642 |

FRS 40.75(e)
FRS 113.91(a)

The fair value of the Group's investment properties at 31 December 2017 has been arrived at on the basis of a valuation carried out at that date by Top One Surveyors Pte. Ltd., an independent valuer with appropriate qualifications and experience in the valuation of properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

FRS 113.93(i)

In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

FRS 113.93(b)

Details of the Group's investment properties and information about the fair value hierarchy[2] are as follows:

| | Level 1 | Level 2 | Level 3 | Fair value as at 2017 |
|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 |
| Commercial property | - | - | 1,936 | 1,936 |

| | Level 1 | Level 2 | Level 3 | Fair value as at 2016 |
|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 |
| Commercial property | - | - | 1,642 | 1,642 |

**Valuation techniques used to derive Level 3 fair values**

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

| Description | Fair Value as at 31 December 2017 S$'000 | Valuation techniques | Unobservable inputs | Range (weighted average) |
|---|---|---|---|---|
| *Commercial property* | 1,936 | Market comparable approach | Yield adjustments based on management's assumptions* | 10% to 20% (15%) |
| Description | Fair Value as at 31 December 2016 S$'000 | Valuation techniques | Unobservable inputs | Range (weighted average) |
| *Commercial property* | 1,642 | Market comparable approach | Yield adjustments based on management's assumptions* | 10% to 20% (15%) |

* The yield adjustments are made for any difference in the nature, location or condition of the specific property.

A significant increase (decrease) in yield adjustments based on management's assumptions would result in a significantly lower (higher) fair value measurement.

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

## 15. Investment properties[2] (cont'd)

All of the Group's investment properties is held under freehold interests.

*FRS 17.56(c)*

Investment property is leased to non-related parties under operating leases (Note 43 Operating lease arrangements).

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

*SGX 1207.11(b)*

| Description and location | Existing use | Tenure | Unexpired lease term |
|---|---|---|---|
| Shop unit in a 5-storey shopping centre, PRC | Shop | Leasehold | 58 years |

*FRS 40.75(f)(i)*
*FRS 40.75(f)(ii)*
*FRS 40.75(f)(iii)*

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to S$18,000 (2016: S$14,000). Direct operating expenses arising on the investment property in the period amounted to S$4,000 (2016: S$3,000). Property tax and other direct operating expenses arising from investment property that did not generate rental income is S$ Nil (2016: S$ Nil).

**Guidance Notes**

**List of properties held for investment**

*SGX 1207.11*

1) The disclosure is only required for entities listed on the SGX-ST, where the aggregate value of all properties for development, sale or for investment purposes held by the entity represent more than 15% of the value of the consolidated net tangible assets, or contribute more than 15% of the consolidated pre-tax operating profit. This disclosure may be included in other parts of the entity's annual report instead.

**Fair value disclosures for investment properties measured using the cost model**

*FRS 113.97*

2) For investment properties that are measured using the cost model, FRS 40.79(e) requires the fair value of the properties to be disclosed in the notes to the financial statements. In that case, the fair value of the properties (for disclosure purpose) should be measured in accordance with FRS 113.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

**For the financial year ended 31 December 2017**

## 16. Goodwill

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | ***Cost*** | S$'000 | S$'000 |
| FRS 103.B67(d)(i) | Balance at beginning of year | 24,060 | 23,920 |
| FRS 38.118(e)(i) FRS 103.B67(d)(ii) | Additional amounts recognised from business combinations occurring during the year (Note 18) | 478 | - |
| FRS 38.118(e)(ii) | Derecognised on disposal of a subsidiary (Note 18) | (3,080) | - |
| FRS 103.B67(d)(vii) | Classified as held for sale (Note 11) | (1,150) | - |
| FRS 38.118(e)(vii) FRS 103.B67(d)(vi) | Effect of foreign currency exchange differences | 212 | 140 |
| FRS 103.B67(d)(viii) | Balance at end of year | 20,520 | 24,060 |
| | ***Accumulated impairment losses*** | | |
| FRS 103.B67(d)(i) | Balance at beginning of year | - | - |
| FRS 38.118(e)(iv) FRS 36.126(a) FRS 103.B67(d)(v) | Impairment losses recognised in the year | (235) | - |
| FRS 103.B67(d)(viii) | Balance at end of year | (235) | - |
| | ***Net book value*** | 20,285 | 24,060 |

### (a) Allocation of goodwill to cash-generating units

FRS 36.135 Goodwill acquired through business combinations has been allocated for impairment testing purposes to the following cash-generating units (CGU):

- Electronics and appliance
- Health and beauty goods
- Construction

FRS 36.134(a) The carrying amount of goodwill (other than goodwill classified as held for sale and goodwill relating to discontinued operations) was allocated to cash-generating units as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Health and beauty goods | 9,620 | 9,620 |
| Electronics and appliances | 9,400 | 8,710 |
| Construction operations – other | 1,265 | 1,500 |
| | 20,285 | 19,830 |

## 16. Goodwill (cont'd)

### (a) Allocation of goodwill to cash-generating units (cont'd)

FRS 36.130(e), 134(c) and (d)(iii)

The recoverable amounts of the CGUs have been determined based on value in use[1] calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projections, budgeted gross margins, and the forecasted growth rates used to extrapolate cash flow projections beyond the five-year period are as follows:

| | *Electronics and appliance segment* | | *Health and beauty segment* | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Gross Margin | 29% | 30% | 50% | 60% |
| Growth rates | 5% | 4.5% | 6% | 5.5% |
| Pre-tax discount rates | 10% | 9.5% | 9.5% | 9.4% |

<u>Key assumptions used in the value in use calculations</u>

FRS 36.134(d)(i)

The calculations of value in use for both the CGUs are most sensitive to the following assumptions:

FRS 36.134(d)(i) and (ii)

*Gross margins* – Gross margins are based on past performance and expectations of market developments.

*Growth rates* – The forecasted growth rates are based on published industry reports and do not exceed the long-term average growth rate for the industries relevant to the CGUs.

FRS 36.134(d)(i), (ii) and (iv)

*Pre-tax discount rates* – The discount rates reflect specific risks relating to the relevant segments.

With regards to the assessment of value in use for the electronics and appliance CGU and health and beauty CGUs, the directors are of the view that reasonably possible changes in the above key assumptions will not cause the recoverable amounts of the CGUs to fall below the book values of the CGUs. The assessment of value in use for the construction CGU is discussed further in Note 16(b).

### (b) Impairment losses recognised in the period

FRS 36.130

During the year, the Group recorded an impairment change of S$235,000 (2016: Nil) in relation to goodwill attributable to the construction CGU. The recoverable amounts of the CGUs have been determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projections, budgeted gross margins, and the forecasted growth rates used to extrapolate cash flow projections beyond the five-year period are as follows:

| | 2017 | 2016 |
|---|---|---|
| Growth rates | 0.5% | 2% |
| Pre-tax discount rates | 10% | 9.5% |
| Gross Margin | 8% | 15% |

The main factor contributing to the impairment of the cash-generating unit was a change during the year in building regulations, requiring registration and certification of builders for government contracts, which increased operating costs in the construction sector. No write-down of the carrying amounts of other assets in the cash-generating unit was necessary.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 16. Goodwill (cont'd)

#### (b) Impairment losses recognised in the period (cont'd)

FRS 36.126(a)

The impairment loss has been included in the 'other expenses' line item in the consolidated statement of comprehensive income.

If the management's estimated gross margin used in the value in use calculation for the construction CGU at 31 December 2017 is increased/(decreased) by 5%, goodwill impairment charge will be increased/(decreased) by S$100,000.

If the management's estimated pre-tax discount rate applied to the discounted cash flows for the construction CGU at 31 December 2017 is increased/(decreased) by 1%, the carrying amounts of goodwill impairment charge of this CGU will be increased/(decreased) by S$54,000 (2016: S$ Nil).

**16. Goodwill (cont'd)**

**Guidance Notes**

FRS 36.134(e)

**Recoverable amount of cash-generating units ("CGU") containing goodwill or intangible assets with indefinite useful lives determined based on fair value less costs to sell**

1) In this illustration, the recoverable amounts of such CGUs were determined based in value in use calculations. If an entity uses fair value less costs of disposal ("FVLCOD") to measure the recoverable amount of CGU, the entity should disclose the methodology used. If FVLCOD is not determined using an observable market price, the entity should disclose:

   (i) each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.

   (ii) a description of management's approach to determining the value (or values) assigned to each key assumption, whether those values reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.

   (iiA) the level of the fair value hierarchy (see FRS 113) within which the fair value measurement is categorised in its entirety (without giving regard to the observability of 'costs of disposal').

   (iiB) if there has been a change in valuation technique, the change and the reason(s) for making it.

   If fair value less costs of disposal is measured using discounted cash flow projections, an entity shall disclose the following information:

   (iii) the period over which management has projected cash flows.

   (iv) the growth rate used to extrapolate cash flow projections.

   (v) the discount rate(s) applied to the cash flow projections.

   **Illustrative Note disclosure for fair value less cost of disposal**

   **Electronic products manufacturing and distribution**

FRS 36.134(c),(e)

The recoverable amount of this CGU was based on the fair value less costs of disposal, estimated using discounted cash flows. The fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation techniques used.

FRS 36.134(e)(i)

The key assumptions used in the assumption of the recoverable amount are set out below. The values assigned to the key assumptions represented management's assessment of future trends in the relevant industries and were based on historical data from both external and internal sources.

FRS 36.134(e)
FRS 36.134(e)(v)
FRS 36.134(e)(iv)
FRS 36.134(e)(i)

| *In percent* | **2017** | 2016 |
|---|---|---|
| Discount rate | **xx** | xx |
| Terminal value growth rate | **xx** | xx |
| Budgeted EBITDA growth rate | **xx** | xx |

FRS 36.134(e)(ii)

The discount rate was a post-tax measure estimated based on the historical industry average weighted-average cost of capital, with a possible debt leveraging of xx% at a market interest rate of x%.

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

**16. Goodwill (cont'd)**

**Guidance Notes**

**Illustrative Note disclosure for fair value less cost of disposal (cont'd)**

**Electronic products manufacturing and distribution (cont'd)**

*FRS 36.134(e)(ii) to (iii)*

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined based on management's estimate of the long-term compound annual EBITDA growth rate, consistent with the assumption that a market participant would make.

*FRS 36.134(e)(ii)*

Budgeted EBITDA was estimated taking into account past experience, adjusted as follows.

- Revenue growth was projected taking into account the management's best estimates of sales volume and price growth for the next five years taking into account the Group's historical performance and current economic conditions. It was assumed that sales price would increase in line with forecasted inflation over the next five years.
- Various scenarios have been developed and the EBITDA resulting from each scenario have been factored into management's final estimates on a probability-weighted basis, based on probabilities assigned to each scenario.
- The budgeted EBITDA takes into account the estimated costs of a restructuring that is anticipated in 2018.

*FRS 36.134(f)*

The estimated recoverable amount of the CGU exceeded its carrying amount by approximately S$ XXX (2016: S$ XXX). Management has identified that a reasonably possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

| | | **Change required for carrying amount to equal recoverable amount** | |
|---|---|---|---|
| | *In percent* | **2017** | 2016 |
| *FRS 36.134(f)(iii)* | Discount rate | **xx** | xx |
| *FRS 36.134(f)(iii)* | Budgeted EBITDA growth rate | **(xx)** | (xx) |

Notes: Provided specified criteria are met, if the most recent detailed calculation made in a preceding period of the recoverable amount of a CGU (group of units) is used in the impairment test for that unit (group of units) in the current period, the disclosures required in the financial statements by paragraphs 134 and 135 relate to the carried forward calculation of recoverable amount.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 17. Other intangible assets

| | | Deferred development expenditure S$'000 | Trademarks S$'000 | Computer licenses S$'000 | Total S$'000 |
|---|---|---|---|---|---|
| | ***Cost*** | | | | |
| FRS 38.118(e) | Balance at 1 January 2016 | 2,860 | 9,816 | 2,820 | 15,496 |
| | Additions - internally developed | 250 | - | - | 250 |
| | Balance at 31 December 2016 | 3,110 | 9,816 | 2,820 | 15,746 |
| | Additions - internally developed | 215 | - | - | 215 |
| FRS 38.118(e) | Balance at 31 December 2017 | 3,325 | 9,816 | 2,820 | 15,961 |
| | ***Accumulated amortisation*** | | | | |
| FRS 38.118(e) | Balance at 1 January 2016 | (716) | (1,515) | (929) | (3,160) |
| FRS 38.118(e)(vi) | Amortisation expense | (358) | (303) | (600) | (1,261) |
| | Balance at 31 December 2016 | (1,074) | (1,818) | (1,529) | (4,421) |
| FRS 38.118(e)(vi) | Amortisation expense | (388) | (303) | (600) | (1,291) |
| FRS 38.118(e) | Balance at 31 December 2017 | (1,462) | (2,121) | (2,129) | (5,712) |
| | As 31 December 2017 | 1,863 | 7,695 | 691 | 10,249 |
| | As 31 December 2016 | 2,036 | 7,998 | 1,291 | 11,325 |

Deferred development expenditure relates to energy savings projects for the electronics and appliance segment and have an average remaining amortisation period of 4 years (2016: 5 years). Computer license has remaining amortisation period of 1.5 years (2016: 2.5 years).

FRS 38.122(b)

Trademarks relate to "excellence" and "superior" brand names for the Group's specialised electronics and appliance that were acquired in business combinations. The remaining useful life of these trademarks are 25 years (2016: 26 years).

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

**For the financial year ended 31 December 2017**

## 18. Investment in subsidiaries

| | | Company | |
|---|---|---|---|
| | | 2017 | 2016 |
| | | S$'000 | S$'000 |
| FRS 27.10(a) | Shares at cost | 1,125,000 | 1,100,000 |
| | Impairment losses | (1,000,000) | (1,000,000) |
| | | 125,000 | 100,000 |

### Composition of the Group

FRS 112.10(a)(i)
FRS 27R.17(b)

Details of the Company's significant subsidiaries[1,9] are as follows:

| Name | Principal activities | Principal place of business and operation[10] | Proportion of ownership interest[11] | |
|---|---|---|---|---|
| | | | 2017 | 2016 |
| A Limited[(a)] | Manufacture and sale of bags | Singapore | Nil | 100% |
| B Electronics Limited[(a)] | Manufacture and sale of electronics and appliance | Singapore | 90% | 100% |
| C (Singapore) Pte Ltd[(a)] | Manufacture and sale of health and beauty goods | Singapore | 45% | 45% |
| D (Singapore) Pte Ltd[(a)] | Construction, manufacture and sale of cars | Singapore | 100% | 100% |
| E (PRC) Co. Ltd.[(b)] | Manufacture of health and beauty goods | People's Republic of China | 70% | 50% |
| F Electronics Limited[(c)] | Manufacture of electronics and appliance | Mauritius | 100% | 100% |
| G Sdn Bhd[(d)] | Manufacture and sale of electronics and appliance | Malaysia | 80% | - |
| H Sdn Bhd[(d)] | Manufacture and sale of electronics and appliance | Malaysia | 100% | - |

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*(a) Audited by Moore Stephens LLP, Singapore.[2,3]*
*(b) Audited by China Wall CPA Company Limited, People's Republic of China.[2,3]*
*(c) Not required to be audited under the laws of the country of incorporation.*
*(d) Audited by Moore Stephens LLP, Malaysia.[2,3]*

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

**18. Investment in subsidiaries (cont'd)**

**Interest in subsidiaries with material non-controlling interests**

FRS 112.10(a)(ii)
FRS 112.12(a) to (f)
FRS 112.B11

The Group has the following subsidiaries that have material non-controlling interests:

| Name of subsidiary | Place of incorporation and principal place of business | Proportion of ownership interests held by non-controlling interests | | Profit allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| C (Singapore) Pte Ltd | Singapore | 55% | 55% | 1,219 | 1,052 | 10,119 | 8,900 |
| E (PRC) Co. Ltd | People's Republic of China | 30 % | 50% | 922 | 1,614 | 7,854 | 8,776 |
| Individually immaterial subsidiaries with non-controlling interests | | | | | | 5,480 | 2,329 |
| | | | | | | 23,453 | 20,005 |

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

## 18. Investment in subsidiaries (cont'd)

FRS 112.12(g)
FRS 112.B10
FRS 112.B11

Summarised financial information[12] in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

**C (Singapore) Pte Ltd**

| | 2017 | 2016 |
|---|---|---|
| | S$'000 | S$'000 |
| Current assets | 21,000 | 19,748 |
| Non-current assets | 6,100 | 5,284 |
| Current liabilities | (4,100) | (4,354) |
| Non-current liabilities | (4,550) | (4,445) |
| Equity attributable to owners of the Company | 8,331 | 7,333 |
| Non-controlling interests | 10,119 | 8,900 |

| | 2017 | 2016 |
|---|---|---|
| | S$'000 | S$'000 |
| Revenue | 3,445 | 3,890 |
| Expenses | (1,228) | (1,977) |
| Profit for the year | 2,217 | 1,913 |
| Profit attributable to owners of the Company | 998 | 861 |
| Profit attributable to the non-controlling interests | 1,219 | 1,052 |
| Profit for the year | 2,217 | 1,913 |
| Total comprehensive income attributable to owners of the Company | 998 | 861 |
| Total comprehensive income attributable to the non-controlling interests | 1,219 | 1,052 |
| Total comprehensive income for the year | 2,217 | 1,913 |
| Net cash inflow from operating activities | 2,899 | 1,745 |
| Net cash (outflow)/inflow from investing activities | (150) | 854 |
| Net cash (outflow) from financing activities | (2,500) | (155) |
| Net cash inflow | 249 | 2,444 |

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 18. Investment in subsidiaries (cont'd)

Summarised financial information[12] in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

**E (PRC) Co. Ltd**

| | 2017 | 2016 |
|---|---|---|
| | S$'000 | S$'000 |
| Current assets | 26,782 | 30,500 |
| Non-current assets | 9,777 | 8,460 |
| Current liabilities | (1,314) | (3,855) |
| Non-current liabilities | (4,888) | (4,774) |
| Equity attributable to owners of the Company | 22,503 | 20,353 |
| Non-controlling interests | 7,854 | 8,776 |

| | 2017 | 2016 |
|---|---|---|
| | S$'000 | S$'000 |
| Revenue | 5,849 | 5,977 |
| Expenses | (2,777) | (2,749) |
| Profit for the year | 3,072 | 3,228 |
| Profit attributable to owners of the Company | 2,150 | 1,614 |
| Profit attributable to the non-controlling interests | 922 | 1,614 |
| Profit for the year | 3,072 | 3,228 |
| Total comprehensive income attributable to owners of the Company | 2,150 | 1,614 |
| Total comprehensive income attributable to the non-controlling interests | 922 | 1,614 |
| Total comprehensive income for the year | 3,072 | 3,228 |
| Net cash inflow from operating activities | 3,889 | 1,977 |
| Net cash (outflow)/inflow from investing activities | (225) | 1,050 |
| Net cash (outflow) from financing activities | (3,788) | (285) |
| Net cash (outflow)/inflow | (124) | 2,742 |

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

**18. Investment in subsidiaries (cont'd)**

FRS 112.9(b)

The Group owns 45% equity shares of C (Singapore) Pte Ltd. However, based on the contractual arrangements between the Group and other investors, the Group has the power to appoint and remove the majority of the board of directors of C (Singapore) Pte Ltd. The relevant activities of C (Singapore) Pte Ltd are determined by the board of directors of C (Singapore) Pte Ltd based on simple majority votes. Therefore, the directors of the Group concluded that the Group has control over C (Singapore) Pte Ltd.

FRS 36.126(a)
FRS 36.130(a) to (c), (e), (g)
FRS 36.134(d)(iv)

During the last financial year, management performed an impairment test for the investment in D (Singapore) Pte Ltd, as this subsidiary had been persistently making losses. An impairment loss of S$ Nil (2016: S$1,000,000,000) was recognised for the year ended 31 December 2017 to write down this subsidiary to its recoverable amount. The recoverable amount of the investment in D (Singapore) Pte Ltd has been determined based on a value calculation using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projection and the forecasted growth rate used to extrapolate cash flow projections beyond the five-year period are 10% (2016: 7.5%) per annum and 0.5% (2016: 2%) per annum, respectively.

FRS 103.B64(a) to (d)

**(a) Acquisition of subsidiaries[4,5,7]**

| | Principal activity | Date of acquisition | Proportion of shares acquired | Consideration transferred |
|---|---|---|---|---|
| | | | (%) | S$'000 |
| **2017** | | | | |
| G Sdn Bhd | Manufacture and sale of electronics and appliance | 15/07/16 | 80 | 505 |
| H Sdn Bhd | Manufacture and sale of electronics and appliance | 30/11/16 | 100 | 687 |
| | | | | 1,192 |

The subsidiaries were acquired to expand the Group's electronics and appliance business.

The Group has elected to measure the non-controlling interest[8] at the non-controlling interest's proportionate share of the acquired subsidiaries' identifiable net assets.

FRS 103.B64(f)

*Consideration transferred*

| | G Sdn Bhd | H Sdn Bhd |
|---|---|---|
| | S$'000 | S$'000 |
| Cash | 430 | 287 |
| Transfer of land and buildings at fair value at date of acquisition | - | 400 |
| Contingent consideration arrangement (i)[6] | 75 | - |
| Total (FRS 7.40(a)) | 505 | 687 |

FRS 103.B64(g)

The contingent consideration requires the Group to pay the vendors an additional S$300,000 if G Sdn Bhd's profit before interest and tax ("PBIT"), in each of the years 2018 and 2019, exceeds S$500,000. G Sdn Bhd's PBIT for the past three years has been S$350,000 on average and the directors do not consider it probable that this payment will be required. S$75,000 represents the estimated fair value of this obligation.

The Group transferred property, plant and equipment with an aggregate fair value of S$400,000 as part of the purchase consideration for H Sdn Bhd.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

**18. Investment in subsidiaries (cont'd)**

**(a) Acquisition of subsidiaries (cont'd)**

FRS 103.B64(m)

Acquisition-related costs amounting to S$145,000 (G Sdn Bhd: S$65,000; H Sdn Bhd: S$80,000) have been excluded from the consideration transferred and have been recognised as an expense in the period in the consolidated statement of comprehensive income.

FRS 103.B64(i)

*Assets acquired and liabilities assumed at the date of acquisition*

The fair value of the identifiable assets and liabilities of the acquired subsidiaries as at the acquisition date were:

FRS 7.40(d)

| | G Sdn Bhd | H Sdn Bhd | Total |
|---|---|---|---|
| | S$'000 | S$'000 | S$'000 |
| Cash and cash equivalents | 200 | - | 200 |
| Trade and other receivables | 87 | 105 | 192 |
| Inventories | - | 57 | 57 |
| Plant and equipment | 143 | 369 | 512 |
| Trade and other payables | (63) | (35) | (98) |
| Deferred tax liabilities | (17) | - | (17) |
| Total identifiable net assets at fair value | 350 | 496 | 846 |
| Consideration transferred | 505 | 687 | 1,192 |
| Plus: non-controlling interests (FRS 103.B64(o)(i)) | 132 | - | 132 |
| Less: fair value of identifiable net assets acquired | (350) | (496) | (846) |
| Goodwill arising on acquisition (Note 16) | 287 | 191 | 478 |

FRS 103.B67(a)

The initial accounting for the acquisition of G Sdn Bhd has only been provisionally determined at the end of the reporting period. At the date of finalisation of these financial statements, the necessary market valuations and other calculations have not been finalised and they have therefore only been provisionally determined based on the directors' best estimate of the likely fair values.

FRS 103.B64(h)

The receivables acquired (which principally comprised trade receivables) in these transactions with a fair value of S$87,000 (G Sdn Bhd) and S$105,000 (H Sdn Bhd) had gross contractual amounts of S$104,000 and S$120,000 respectively. The best estimate at acquisition date of the contractual cash flows not expected to be collected are S$10,000 (G Sdn Bhd) and S$8,000 (H Sdn Bhd).

*Goodwill arising on acquisition*

FRS 103.B64(e)

Goodwill arose in the acquisition of G Sdn Bhd and H Sdn Bhd because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of G Sdn Bhd and H Sdn Bhd. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

FRS 103.B64(k)

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 18. Investment in subsidiaries (cont'd)

#### (a) Acquisition of subsidiaries (cont'd)

FRS 103.B64(o)

*Non-controlling interests*

During the year, the Group's subsidiary company, acquired an additional 20% equity interest in E (PRC) Co. Ltd. from its non-controlling interest for a cash consideration of S$943,000. The effect of the change in the Group's ownership interest in E (PRC) Co. Ltd. on the equity attributable to owners of the Company is summarised below:

FRS 112.18

| | 2017<br>S$'000 |
|---|---|
| Consideration paid for acquisition of non-controlling interests | 943 |
| Decrease in equity attributable to non-controlling interests | (731) |
| Decrease in equity attributable to owners of the Company | 212 |

*Impact of acquisitions on the results of the Group*

FRS 103.B64(q)(i)
FRS 103.61

Included in the profit for the year is S$35,000 attributable to the additional business generated by G Sdn Bhd, and S$13,000 attributable to H Sdn Bhd. Revenue for the period includes S$2.3 million in respect of G Sdn Bhd and S$2.8 million in respect of H Sdn Bhd.

FRS 103.B64(q)(ii)

Had these business combinations been effected at 1 January 2017, the revenue of the Group from continuing operations would have been S$145 million, and the profit for the year from continuing operations would have been S$19.7 million. The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined Group on an annualised basis and to provide a reference point for comparison in future periods.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 18. Investment in subsidiaries (cont'd)

#### (b) Disposal of subsidiary

On 28 August 2017, the Group disposed of A Limited which carried out its entire bag manufacturing operations.

*Consideration received*

| | | 2017 |
|---|---|---|
| | | S$'000 |
| FRS 7.40(b) | Consideration received in cash and cash equivalents | 7,854 |
| FRS 7.43<br>FRS 7.44 | Deferred sales proceeds not received as at year end (Note 24) | 960 |
| FRS 7.40(a) | Total consideration received | 8,814 |

*Analysis of asset and liabilities over which control was lost*

| | | 2017 |
|---|---|---|
| | | S$'000 |
| FRS 7.40(d) | Cash and cash equivalents | 288 |
| | Trade receivables | 1,034 |
| | Inventories | 2,716 |
| | Property, plant and equipment | 5,662 |
| | Goodwill | 3,080 |
| | Payables | (5,315) |
| | Deferred tax liabilities | (471) |
| | Net assets disposed of | 6,994 |

*Gain on disposal of subsidiary*

| | | 2017 |
|---|---|---|
| | | S$'000 |
| | Consideration received | 8,814 |
| | Net assets disposed of | (6,994) |
| | Cumulative exchange differences in respect of the net assets of the subsidiary and related hedging instruments reclassified from equity on loss of control of subsidiary | 120 |
| FRS 112.19 | Gain on disposal of subsidiary | 1,940 |

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 18. Investment in subsidiaries (cont'd)

#### (b) Disposal of subsidiary (cont'd)

FRS 112.18

The gain on disposal is included in the profit for the year from discontinued operations in the consolidated statement of comprehensive income (see Note 10 Discontinued operations).

*The aggregate cash inflow arising from disposal of subsidiary*

| | 2017 |
|---|---|
| | S$'000 |
| Consideration received in cash and cash equivalents | 7,854 |
| Less: cash and cash equivalent balances disposed of | (288) |
| | 7,566 |

#### (c) Change in the Group's ownership interest in subsidiary

FRS 112.18

During the year, the Group disposed of 10% of its interest in B Electronics Limited, reducing its continuing interest to 90%. The proceeds on disposal of S$213,000 were received in cash.

An amount of S$179,000 (being the proportionate share of the carrying amount of the net assets of B Electronics Limited) has been transferred to non-controlling interests (see Note 31 Non-controlling interests). The difference of S$34,000 between the increase in non-controlling interests and the consideration received has been credited to retained earnings.

The following summarises the effect of the change in the Group's ownership interest in B Electronics Limited on the equity attributable to owners of the Company:

| | 2017 |
|---|---|
| | S$'000 |
| Proceeds from sale of 10% ownership interest | 213 |
| Net assets attributable to non-controlling interests | (179) |
| Increase in equity attributable to parent | 34 |

#### (d) Significant restrictions

Cash and cash equivalents of S$200,000 held by E (PRC) Co Ltd in which the Group has a material non-controlling interest, are subject to local exchange control regulations. These regulations place restriction on the amount of currency being exported other than through dividends.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 18. Investment in subsidiaries (cont'd)

**Guidance Notes**

**Listing of companies in the Group**

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1) In the SGX-ST Listing Manual, a subsidiary or associate is considered significant if its net tangible assets represent 20% or more of the issuer's consolidated net tangible assets, or its pre-tax profits account for 20% or more of the issuer's consolidated pre-tax profits. In the absence of a formal definition in FRS, it is preferable to adopt this definition set out in the SGX-ST Listing Manual.

SGX 717

2) Companies listed on the Singapore Exchange are also required to disclose name(s) of auditing firm(s) of its significant subsidiaries and associates. It is a good practice for listed companies to inform the auditing firm(s) that their name(s) will be disclosed in the financial statements.

3) It shall be noted that under the SGX-ST Listing Manual, an issuer may appoint different auditors for its subsidiaries or significant associates provided that:

SGX 716

(i) the issuer's board and audit committee are satisfied that the appointment would not compromise the standard and effectiveness of the audit of the issuer; or

(ii) the issuer's subsidiary or associate, is listed on a stock exchange.

**Initial accounting for business combination incomplete**

FRS 103.B67(a)

4) The following is the suggested illustrative disclosure for adjustments to initial accounting for a business combination that was determined provisionally in the previous reporting period:

*"The purchase price allocation of the acquisition of Acquiree Group ("Acquiree") in the financial year ended 31 December 2016 was provisional as the Group had sought an independent valuation for the land and buildings owned by Acquiree. The results of this valuation had not been received at the date the 2016 financial statements were authorised for issue. The valuation of lands and buildings was received in April 2017 and showed that the fair value at the date of the acquisition was S$ XXX, an increase of S$ XXX compared to the provisional value.*

*The 2016 comparative information has been restated to reflect this adjustment. The value of lands and buildings increased by S$ XXX, there was an increase in the deferred tax liability of S$ XXX and an increase in non-controlling interest of S$ XXX. There was also a corresponding reduction in goodwill of S$ XXX, to give total goodwill arising on the acquisition of S$ XXX. The depreciation charge on the buildings from the acquisition date to 31 December 2016 increased by S$ XXX."*

**Acquisition of individually immaterial business combination**

FRS 103.B65

5) For individually immaterial business combinations occurring during the reporting period that are material collectively, an entity shall disclose in aggregate the information required by FRS 103R.B64(e) to (q).

**Contingent liability in business combination**

6) The following is the suggested illustrative Note disclosure where an entity recognised contingent liabilities in a Business Combination:

FRS 103.B64(j)
FRS 103.56

*"A contingent liability with a fair value of S$ XXX has been recognised as at acquisition date. The contingent liability arose from [describe circumstances giving rise to liability]. The outcome of the contingency expected to be finalised in [expected dated]. As at the reporting date, the contingent liability has been remeasured to S$ XXX, which is based on the expected probable outcome."*

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

**For the financial year ended 31 December 2017**

## 18. Investment in subsidiaries (cont'd)

**Guidance Notes**

**Bargain purchases**

FRS 103.B64(n)

7) If an acquisition resulted in a bargain purchase instead of goodwill recognised, the acquirer shall disclose the amount of the gain recognised and the line item in the consolidated statement of comprehensive income in which the gain is recognised, and a description of the reasons why the transaction resulted in a gain.

**Non-controlling interest**

8) In this illustration, the Group has elected to measure non-controlling interest arising from acquisition of subsidiaries at the non-controlling interest's proportionate share of acquired subsidiaries' identifiable net assets. The following is an illustrative disclosure when an entity chooses to measure non-controlling interest arising in a business combination at fair value:

*"Fair value of non-controlling interest in acquiree*

FRS 103.B64(o) (ii)

*The fair value of the non-controlling interest in acquiree, an unlisted company, was estimated by applying a valuation methodology based on the income approach and corroborated by a separate valuation methodology based on the market approach. The significant fair value estimates are:*

- *Discount rates ranging from XX% to XX%;*
- *Long-term sustainable growth rates ranging from XX% to XX%; and*
- *Adjustments for lack of control and marketability that market participants would consider when estimating the fair value of the non-controlling interest in acquiree."*

FRS 112.B2

9) An entity shall decide, in the light of its circumstances, how much detail it provides to satisfy the information needs of users, how much emphasis it places on different aspects of the requirements and how it aggregates the information. It is necessary to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and obscuring information as a result of too much aggregation.

FRS 112.12(b)
FRS 27.17(b)(ii)

10) An entity shall disclose the country of incorporation if different from the principal place of business of the subsidiary.

FRS 112.12(d)
FRS 27.17(b)(iii)

11) An entity shall disclose the proportionate of voting rights if different from the proportion of ownership interests held.

FRS 112.B11

12) The summarised financial position presented shall be the amounts before the inter-company eliminations.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 19. Investment in associates[1,2,3,4]

FRS 112.21(a)(i) The Group's material investment in associates are summarised below:

| Name of associate | Principal activity | Place of incorporation and operation | Proportion (%) of ownership Interest | |
|---|---|---|---|---|
| | | | 2017 | 2016 |
| AA Limited (i) | General trading | Singapore | 35 | 35 |
| BB Co. Ltd (ii) | Electronics manufacturing | People's Republic of China | 17 | 17 |

FRS 112.21(a)(iv) (i) Pursuant to a shareholder agreement, the Company has the right to cast 37% of the votes at shareholder meetings of AA Limited. AA Limited is audited by Moore Stephens LLP, Singapore.

FRS 113.97
FRS 112.21(b)(iii)

The fair value of the Group's interest in AA Limited, which is listed on the Stock Exchange of Singapore, is S$2.2 million (2016: S$2 million). The fair value measurement is classified within Level 1 of the fair value hierarchy.

FRS 112.9(e) (ii) Although the Group holds less than 20% of the equity shares of BB Co. Ltd, and it has less than 20% of the voting power in shareholder meetings, the Group exercises significant influence by virtue of its contractual right to appoint two directors to the board of directors of that Company. BB Co., Ltd is audited by a member firm of the Moore Stephens network in China.

## 19. Investment in associates[1,2,3,4] (cont'd)

FRS 112.21(b)(ii)
FRS 112.B12
FRS 112.B14(a)

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with FRSs adjusted by the Group for equity accounting purposes.

**AA Limited**

| | 2017 | 2016 |
|---|---|---|
| | S$'000 | S$'000 |
| Current assets | 9,500 | 9,230 |
| Non-current assets | 4,800 | 3,345 |
| Current liabilities | (3,482) | (2,789) |
| Non-current liabilities | (3,978) | (4,337) |

| | 2017 | 2016 |
|---|---|---|
| | S$'000 | S$'000 |
| Revenue | 2,900 | 2,448 |
| Profit or loss from continuing operations | 1,391 | 1,002 |
| Profit/(loss) for the year | 1,391 | 1,002 |
| Total comprehensive income for the year | 1,391 | 1,002 |
| Dividends received from the associate during the year | 30 | 25 |

FRS 112.B14(b)

Reconciliation of the above summarised financial information to the carrying amount of the interest in AA Limited recognised in the consolidated financial statements:

| | 2017 | 2016 |
|---|---|---|
| | S$'000 | S$'000 |
| Net assets of the associate | 6,840 | 5,449 |
| Proportion of the Group's ownership in AA Limited | 35% | 35% |
| Carrying amount of the Group's interest AA Limited | 2,394 | 1,907 |

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 19. Investment in associates[1,2,3,4] (cont'd)

FRS 112.21(b)(ii)
FRS 112.B12
FRS 112.B14(a)

**BB Co. Ltd**

| | 2017 | 2016 |
|---|---|---|
| | S$'000 | S$'000 |
| Current assets | 14,079 | 12,448 |
| Non-current assets | 16,350 | 16,225 |
| Current liabilities | (14,882) | (13,187) |
| Non-current liabilities | (5,107) | (8,098) |

| | 2017 | 2016 |
|---|---|---|
| | S$'000 | S$'000 |
| Revenue | 5,200 | 6,500 |
| Profit or loss from continuing operations | 3,052 | 5,194 |
| Profit (loss) for the year | 3,052 | 5,194 |
| Total comprehensive income for the year | 3,052 | 5,194 |

FRS 112.B14(b)

Reconciliation of the above summarised financial information to the carrying amount of the interest in BB Co. Ltd recognised in the consolidated financial statements:

| | 2017 | 2016 |
|---|---|---|
| | S$'000 | S$'000 |
| Net assets of the associate | 10,440 | 7,388 |
| Proportion of the Group's ownership in BB Co. Ltd | 17% | 17% |
| Carrying amount of the Group's interest BB Co. Ltd | 1,775 | 1,256 |

FRS 112.21(c)(ii)
FRS 112.B16

***Aggregate information of associates that are not individually material***

| | 2017 | 2016 |
|---|---|---|
| | S$'000 | S$'000 |
| The Group's share of profit (loss) from continuing operations | 180 | 355 |
| The Group's share of total comprehensive income | 180 | 355 |
| Aggregate carrying amount of the Group's interests in these associates | 1,031 | 677 |

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

**For the financial year ended 31 December 2017**

## 19. Investment in associates[1,2,3,4] (cont'd)

**Guidance Notes**

**Illustrative Note disclosure where the significant restrictions on associate apply**

FRS 112.22(a)

1) An entity shall also disclose the nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements, regulatory requirements or contractual arrangements between investors with joint control of or significant influence or an associate) on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends, or to repay loans and advances. The nature and extent of any significant restrictions (i.e. resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances.

   Illustrative Note disclosure where the significant restrictions on associate apply:

   *"The Group's associated companies in certain countries are subject to foreign exchange controls such that payment of dividends declared or principal repayment in respect of foreign currency denominated obligations are subject to the approval of the relevant government authorities."*

FRS 112.22(c)

**Unrecognised share of losses of an associate**

2) The following is the suggested Note disclosure where the entity has unrecognised share of losses of an associate if the investor has discontinued recognition of its share of losses of an associate:

   *"The Group has not recognised its share of losses of an associate amounting to S$ XXX (2016: S$ XXX) because the Group's cumulative share of losses exceeds its interest in that entity and the Group has no obligation in respect of those losses. The cumulative unrecognised losses amount to S$ XXX (2016: S$ XXX) at the reporting date."*

**Reporting dates of financial statements of associates**

FRS 112.22(b)
FRS 28.34

3) The reporting date of the financial statements of an associate should be disclosed, when such financial statements are used in applying the equity method and are as of a reporting date or for a period that is different from that of the investor, as well as the reason for using a different reporting date of different period.

   FRS 28 *Investments in Associates and Joint Ventures* allows a difference between the end of reporting period of the associates and that of investor however it shall be no more than 3 months.

   The following is the suggested illustrative Note disclosure where the reporting date of financial statements of an associate is different from that of the investor:

   *"For the current financial year, the Group recognised its share of the associate's operating results based on its audited financial statements drawn up to the most recent reporting date, which is 30 November 2017. The associate company, being listed on the SGX-ST, is unable to release information other than those publicly published."*

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 19. Investment in associates[1,2,3,4] (cont'd)

**Guidance Notes**

**Illustrative Note disclosure upon loss of significant influence in an associate**

4) *"Change in the Group's ownership interest in an associate*

FRS 28.22

*In the prior year, the Group held a 40% interest in xx Pte Ltd and accounted for the investment as an associate. In December 2017, the Group transferred a 30% interest in xx Pte Ltd to a third party for proceeds of S$ XXX (received in January 2018). The Group has retained the remaining 10% interest as an available-for-sale investment whose fair value at the date of disposal was S$ XXX.*

| | *Group* *2017* |
|---|---|
| *Proceeds of disposal* | *S$ XXX* |
| *Plus: fair value of investment retained (10%)* | *S$ XXX* |
| *Less: carrying amount of investment on the date of loss of significant influence* | *S$ XXX* |
| *Gain/loss recognised on disposal of interest in a former associate in profit or loss* | *S$ XXX* |

*Sale proceeds of S$ XXX have not been received in cash at the end of the reporting period.*

*The profit recognised in the year comprises a realised profit of S$ XXX and an unrealised profit of S$ XXX. A current tax expense of S$ XXX arose on the gain realised in the period, and a deferred tax expense of S$ XXX has been recognised in respect of the portion of the profit recognised that is not taxable until the remaining interest is disposed of."*

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 20. Investment in Joint venture

Joint venture

FRS 112.21(a)

Details of the Group's material joint venture at the end of the reporting period as follows:

| Name of joint venture | Principal activity | Place of incorporation and principal place of business | Proportion (%) of ownership interest held by the Group | |
|---|---|---|---|---|
| | | | 2017 | 2016 |
| MS Electronics Co. Limited | Manufacture of electronics and appliance | People's Republic of China | 33.5 | 33.5 |

FRS 112.21(b)(i)

The above joint venture is accounted for using the equity method in these consolidated financial statements.

FRS 112.B14

Summarised financial information[1,2] in respect of the Group's material joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with FRSs.

FRS 112.21(b)(ii)
FRS 112.B12
FRS 112.B14(a)

**MS Electronics Limited**

Summarised statement of financial position

| | 2017 | 2016 |
|---|---|---|
| | S$'000 | S$'000 |
| Cash and cash equivalents | 1,500 | 1,450 |
| Trade receivables | 3,282 | 4,539 |
| Non-current assets | 11,056 | 10,100 |
| Total assets | 15,838 | 16,089 |
| Current financial liabilities | (3,413) | (2,835) |
| Non-current financial liabilities | (5,852) | (7,523) |
| Total liabilities | (9,265) | (10,358) |
| Net assets | 6,573 | 5,731 |

## 20. Investment in Joint venture (cont'd)

FRS 112.21(b)(ii)
FRS 112.B12
FRS 112.B14(a)

**MS Electronics Limited**

Summarised statement of comprehensive income

| | 2017 S$'000 | 2016 S$'000 |
|---|---|---|
| Revenue | 2,124 | 2,005 |
| Operating expenses | (1,258) | (1,728) |
| Interest expense | (24) | (35) |
| Profit before tax | 842 | 242 |
| Income tax expense | - | - |
| Profit after tax | 842 | 242 |
| Other comprehensive income | - | - |
| Total comprehensive income | 842 | 242 |

FRS 112.B13

The above profit (loss) for the year include the following:

| | 2017 | 2016 |
|---|---|---|
| Depreciation and amortisation | (75) | (56) |
| Interest expense | (24) | (35) |

FRS 112.B14(b)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

| | 2017 S$'000 | 2016 S$'000 |
|---|---|---|
| Net assets of the joint venture | 6,573 | 5,731 |
| Proportion of the Group's ownership interest in the joint venture | 33.5% | 33.5% |
| Carrying amount of the Group's interest in the joint venture | 2,202 | 1,920 |

***Significant restriction***

FRS 112.22(a)

MS Electronics Co. Ltd is incorporated and operates in People's Republic of China (PRC). As a result of remittance controls in PRC, there are specific restrictions on the amount and timing of cash dividends that MS Electronics Co. Ltd is able to remit out of PRC to the Group.

**Guidance Notes**

1) In this illustration, the Group does not have joint operation. The following disclosure is required for a material joint operation:

FRS 112.21(a)

*"The Group has a material joint operation, Project xx. The Group has a xx% share in the ownership of a property located in Central District, PRC. The property upon completion will be held for leasing purposes. The Group is entitled to a proportionate share of the rental income received and bears a proportionate share of the joint operation's expenses."*

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

FRS 107.7

### 21. Other financial assets

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| FRS 107.8(a) ***Financial assets carried at fair value through profit or loss*** | | |
| Held for trading financial assets | 543 | 1,250 |
| | 543 | 1,250 |
| FRS 107.8(b) ***Held-to-maturity investments*** | | |
| 1.2% SGD government bond (a) | 5,500 | 3,450 |
| FRS 107.8(d) ***Available-for-sale financial assets*** | | |
| Listed equity securities (Singapore) | 4,204 | 3,105 |
| Unquoted equity security (b) | 4,752 | 4,752 |
| | 8,956 | 7,857 |
| | 14,999 | 12,557 |
| Current | 8,996 | 7,805 |
| Non-current | 6,003 | 4,752 |
| | 14,999 | 12,557 |

(a) The SGD government bond bears interest of 1.2% per annum payable every six months, and mature in October 2018.

FRS 112.9(d)

(b) The Group holds 20% of the ordinary share capital of Freeflow Limited, a company involved in the refining and distribution of oil products. The directors of the Group do not consider that the Group is able to exert significant influence over Freeflow Limited as the other 80% of the ordinary share capital is controlled by one shareholder, who also manages the day-to-day operations of that Company.

**Guidance Notes**

**Investments pledged as security**

FRS 107.14

1) In this illustration, none of the financial assets are pledged as collateral for liabilities or contingent liabilities. The following disclosure should be considered for financial asset that are pledged:

*"The Group's investment in government bonds amounting to S$ XXX (2016: S$ XXX) has been pledged as security for a bank loan (Note X to the financial statements). Under the terms and conditions of the loan, the Group is prohibited from disposing of this investment or subjecting it to further charges without furnishing a replacement security of similar value."*

FRS 107.7

## 21. Other financial assets (cont'd)

**Guidance Notes**

**Impairment losses**

2) In this illustration, it is assumed that there are no impairment losses arising from other financial assets. The following disclosure can be considered if the entity has recognised any impairment losses.

FRS 107.20(e)

*"During the financial year, the Group recognised the following impairment losses:*

- *Impairment loss of S$ XXX (2016: S$ XXX) and S$ XXX (2016: S$ XXX) for quoted and unquoted equity instruments classified as available-for-sale financial assets respectively as there were "significant" or "prolonged" decline in the fair value of these investments below their costs. The Group treats "significant" generally as X% and "prolonged" as greater than X months.*

- *Impairment loss of S$ XXX (2016: S$ XXX) pertaining to unquoted equity instruments carried at cost, reflecting the write-down in the carrying value of this private equity investment in a Singapore company that was placed under receivership.*

- *Impairment loss of S$ XXX (2016: S$ XXX) for unquoted debt securities after taking into considerations the probability of default or significant delay in repayments by the debtors."*

**Reclassification of financial assets at cost or amortised cost to fair value**

FRS 107.12

3) If the entity has reclassified any financial asset measured at cost or amortised cost to fair value or reclassified any financial asset at fair value, rather than at cost or amortised cost, FRS 107 requires disclosure of the amount and reason for the reclassification.

FRS 1.77

## 22. Derivatives

FRS 107.7
FRS 107.22(b)

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| ***Derivatives financial instruments*** | | |
| Cash flow hedges | | |
| Interest rate swaps (Note 40(f)) | 280 | 174 |
| Foreign currency forward contracts | 240 | 226 |
| | 520 | 400 |
| | | |
| Non-Current | 312 | 263 |
| Current | 208 | 137 |
| | 520 | 400 |

FRS 39.100

Currency forwards are transacted to hedge certain currency exposures of the Group. Please refer to Note 40(e) for details.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 23. Inventories

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | | S$'000 | S$'000 |
| FRS 2.36(b) | Raw materials, at cost | 10,713 | 10,322 |
| | Work in progress, at cost | 4,490 | 4,354 |
| | Finished trading goods, at cost or net realisable value | 15,500 | 14,306 |
| | | 30,703 | 28,982 |

FRS 2.36(d)
FRS 2.38

The cost of inventories recognised as an expense and included in "cost of sales" in respect of continuing operations amounted to S$87,897,000 (2016: S$91,840,000).

FRS 2.36(e)
FRS 2.36(f)
FRS 2.36(g)

The cost of inventories recognised as an expense includes S$2,340,000 (2016: S$1,860,000) in respect of write-downs of inventory to net realisable value, and has been reduced by S$500,000 (2016: S$400,000) in respect of the reversal of such write-downs. Previous write-downs have been reversed as the inventories were sold above the carrying amounts in 2017.

**Guidance Notes**

FRS 2.36(h)

1) If an entity has pledged its inventory as security for its banking facilities, the following should be disclosed:

*"Inventories of S$ XXX (2016: S$ XXX) of the Group and S$ XXX (2016: S$ XXX) of the Company have been pledged as security for bank overdrafts of the Group and the Company (Note X to the financial statements)".*

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 24. Trade and other receivables

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | | S$'000 | S$'000 | S$'000 | S$'000 |
| FRS 107.37.b<br>FRS 107.IG29.b | Trade receivables[2] | 18,034 | 16,880 | 14,002 | 12,003 |
| | Allowance for impairment losses | (798) | (838) | - | - |
| | | 17,236 | 16,042 | 14,002 | 12,003 |
| | Deferred sale proceeds from bag operations (Note 18(b)) | 960 | - | - | - |
| FRS 11.42(a) | Amounts due from customers under construction contracts (Note 27) | 235 | 225 | - | - |
| FRS 24.18(b) | Loan to related parties | 5,254 | 3,647 | | |
| FRS 24.18(b) | Loan to an associate | 59 | 25 | - | - |
| | | 23,744 | 19,939 | 14,002 | 12,003 |

Trade receivables are non-interest bearing and the average credit period is 60 days.

FRS 107.31

The loan to an associate is unsecured, interest bearing at SIBOR plus 1.5% and will be repayable in full on 31 December 2018. Loan to related parties is unsecured, interest-free and repayable on demand.

FRS 107.37

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the end of the reporting period but against which the Group has not recognised an allowance for impairment losses because there has not been a significant change in credit quality and the amounts (which include interest accrued after the receivable is over 60 days outstanding) are still considered recoverable. The Group does not hold any collateral[1] or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

FRS 107.37(a)

Ageing of past due but not impaired

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| 60 - 90 days | 1,100 | 700 |
| 90 - 120 days | 462 | 333 |
| Total | 1,562 | 1,033 |
| Average age (days) | 84 | 85 |

FRS 107.16

Movement in the allowance for impairment losses

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | | S$'000 | S$'000 |
| | Balance at beginning of the year | 838 | 628 |
| FRS 107.20(e) | Impairment losses recognised on receivables | 63 | 430 |
| | Amounts written off during the year as uncollectible | - | (196) |
| | Impairment losses reversed | (103) | (24) |
| | Balance at end of the year | 798 | 838 |

## 24. Trade and other receivables (cont'd)

FRS 107.33(a)
FRS 107.33(b)

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

FRS 107.37(b)

Included in the allowance for impairment are individually impaired trade receivables with a balance of S$63,000 (2016: S$430,000) due to the respective trade debtors going into liquidation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances[1].

If the present value of estimated future cash flows from past due receivables declines by a further 10%, the Group's allowance for impairment will increase by S$156,000 (2016: S$103,000). An increase in the present value will have an equal and opposite effect.

**Receivables subject to an enforceable master netting arrangement**

FRS 107.13E

The Group has arrangements with certain counterparties whereby the Group both purchases electronic raw materials from and sells electronic equipment to the same counterparty. Some of these arrangements require both parties to settle the net amount due to or from each other on a monthly basis. For such arrangements, the receivables and payables from each counterparty are presented on a net basis. Other arrangements do not permit the Group or the counterparty to settle the amount due to or from each other on a net basis, however a master netting arrangement provides both parties with the right to set-off in the case of default, insolvency or bankruptcy of the other party. For such arrangements, the related receivables and payables are not set off in the statement of financial position.

FRS 107.13(c)

| | Related amounts set off in the statement of financial position | | Net amounts - financial assets presented in the statement of financial position | Related amounts not set off in the statement of financial position | | |
|---|---|---|---|---|---|---|
| | Gross amounts – financial assets | Gross amounts – financial liabilities | | Financial assets/ (liabilities) | Cash collateral received | Net amount |
| | *(a)* | *(b)* | *(c) = (a)-(b)* | *(di)* | *(dii)* | *e = (c)+(d)* |
| Financial Assets | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| At 31 December 2017 | | | | | | |
| Trade receivables | 4,500 | (3,300) | 1,200 | - | - | 1,200 |
| At 31 December 2016 | | | | | | |
| Trade receivables | 3,800 | (2,500) | 1,300 | - | - | 1,200 |

| | Related amounts set off in the statement of financial position | | | Related amounts not set off in the statement of financial position | | |
|---|---|---|---|---|---|---|
| | Gross amounts – financial liabilities | Gross amounts – financial assets | | Financial assets/ (liabilities) | Cash collateral pledged | Net amount |
| | *(a)* | *(b)* | *(c) = (a)-(b)* | *(di)* | *(dii)* | *e = (c)+(d)* |
| Financial Liabilities | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| At 31 December 2017 | | | | | | |
| Trade payables | 3,300 | (3,300) | - | - | - | - |
| At 31 December 2016 | | | | | | |
| Trade payables | 2,500 | (2,500) | - | - | - | - |

**24. Trade and other receivables (cont'd)**

**Guidance Notes**

**Collateral and other credit enhancements obtained**

FRS 107.36(b)

1) FRS 107 requires an entity to disclose the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (i.e. a quantification of the extent to which collateral and other credit enhancement mitigate the credit risk). This disclosure is in addition to the existing requirement to describe the existence and nature of such collateral.

FRS 107.38

When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements, and such assets meet the recognition criteria in other Standards, the following disclosure can be considered:

i. the nature and carrying amount of the assets; and

ii. when the assets are not readily convertible to cash, its policies for disposing of such assets or for using them in its operations.

Illustrative disclosure:

*"During the financial year, the Group obtained assets by taking possession of collateral held as security as follows:*

| *Nature of assets* | *Carrying amount* |
|---|---|
| *Inventories* | *S$ XXX* |
| *Property, plant and equipment* | *S$ XXX* |

*Repossessed items are sold as soon as practicable, with the proceeds used to reduce outstanding receivables. They are presented within "other current assets" on the statements of financial position".*

**Transfers of financial assets**

2) FRS 107 requires disclosure for transactions involving transfers of financial assets, where an asset is transferred but is not derecognised or where an asset is derecognised but the entity continues to have a continuing involvement to the asset after the sale.

FRS 107.B30A

The above disclosures may be required even if the continuing involvement arises only because of servicing contracts (e.g. the Company continues to act as intermediary between factoring bank and debtor customers). Specifically, if the servicing contracts give the entity an interest in the future performance of the transferred asset, such disclosures will be required.

*Illustrative disclosure for a transferred asset but is not derecognised - factored receivables (with recourse)*

FRS 107.42A, 42B, 42D

*"During the period, the group transferred $xxx (2016: $xxx) of trade receivables to an unrelated entity ("transferee"). As part of the transfer, the group provided a credit guarantee to the transferee over those receivables. Accordingly, the group continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (Note x). At the end of the reporting period, the carrying amount of the transferred short-term receivables is $xxx. The carrying amount of the associated liability is $xxx.*

*The transferee of the trade receivables has recourse to the Group on those trade receivables. The fair values of the transferred receivables and the associated liabilities as at 31 December 2017 are as follows:*

| | *2017* | *2016* |
|---|---|---|
| | *S$'000* | *S$'000* |
| *Transferred trade receivables – at fair value* | *xxx* | *xxx* |
| *Secured borrowings (Note X) – at fair value* | *(xxx)* | *(xxx)* |
| *Net position* | *xxx* | *xxx* |

## 25. Finance lease receivables

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Current finance lease receivables | 208 | 198 |
| Non-current finance lease receivables | 820 | 707 |
| | 1,028 | 905 |

FRS 17.47(f)
FRS 107.7

The Group enters into finance leasing arrangements which is denominated in S$ for its electronic equipment. The average term of finance leases entered into is 5 years.

FRS 17.47(a)

| | Group | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Minimum lease payments | Present value of payments | Minimum lease payments | Present value of payments |
| | 2017 | 2016 | 2017 | 2016 |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| Not later than one year | 280 | 208 | 273 | 198 |
| Later than one year and not later than five years | 1,076 | 820 | 915 | 707 |
| Total minimum lease payments | 1,356 | 1,028 | 1,188 | 905 |
| FRS 17.47(b) Less: Unearned finance income | (328) | - | (283) | - |
| Present value of minimum lease payments receivable | 1,028 | 1,028 | 905 | 905 |

FRS 17.47(c)

Unguaranteed residual values of assets leased under finance leases at the reporting date are estimated at S$35,000 (2016: S$40,000).

FRS 107.7

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate contracted is approximately 9% (2016: 10%) per annum.

FRS 107.15

Finance lease receivable balances are secured over the electronic equipment leased. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

FRS 107.36(c)

The finance lease receivables in the current and prior periods are neither past due nor impaired.

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

## 26. Cash and cash equivalents[2]

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| Cash on hand | 580 | 450 | 430 | 300 |
| Cash at bank *(FRS 7.45)* | 4,562 | 14,550 | 8,097 | 8,612 |
| Short-term bank deposit[1] | 3,429 | 4,778 | - | - |
| | 8,571 | 19,778 | 8,527 | 8,912 |

For the purposes of the consolidated cash flow statement/statement of cash flows, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts.

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Cash and short-term bank deposit | 8,571 | 19,778 |
| Bank overdraft (Note 32) | (538) | (378) |
| | 8,033 | 19,400 |
| Cash and bank balances included in a disposal group held for sale (Note 11) | 175 | - |
| Cash and cash equivalents | 8,208 | 19,400 |

**Guidance Notes**

**Cash equivalents for the purpose of presenting statement of cash flows/cash flow statements**

*FRS 7.7*

1) Under FRS 7, cash equivalents are defined as "short-term highly liquid investments that are readily convertible to a known amount of cash and which are subject to an **insignificant risk of changes in value**. An investment normally qualifies as a cash equivalent when it has a short maturity of, say, **three months or less from the date of acquisition**.

**Cash not available for use**

*FRS 7.49*

2) There may be circumstances in which cash and bank balances held by an entity are not subject to restrictions. An example is when a subsidiary that operates in a country where exchange controls or other legal restrictions apply. When this occurs, the following disclosure can be considered:

*FRS 7.48*

*"Included in cash and cash equivalents are bank deposits amounting to S$ XXX (2016: S$ XXX) which are not freely remissible for use by the Group because of currency exchange restrictions."*

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

## 27. Construction contracts

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Contracts in progress: | | |
| FRS 11.40(a) Aggregate amounts of costs incurred and recognised profits (less recognised losses) to date | 1,500 | 1,369 |
| Less: progress billings and advances | (1,296) | (1,154) |
| | 204 | 215 |
| Presented as: | | |
| FRS 11.42(a) Gross amount due from customers under construction contracts (Note 24) | 235 | 225 |
| FRS 11.42(b) Gross amount due to customers under construction contracts (Note 37) | (31) | (10) |
| | 204 | 215 |
| FRS 11.40(b) Advances received from customers for contract work | 12 | - |
| FRS 11.40(c) Retention sums on construction contract included in trade receivables | 70 | 65 |

## 28. Issued capital

| | Group and Company | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Number of shares | Share capital | Number of shares | Share capital |
| | '000 | S$'000 | '000 | S$'000 |
| FRS 1.79(a)(ii) **Fully paid ordinary shares** | | | | |
| FRS 1.79(a)(iv) Balance at beginning of year | 23,730 | 48,672 | 23,730 | 48,672 |
| Issue of shares under employee share option plan (Note 41) | 314 | 314 | - | - |
| Issue of shares | 108 | 108 | - | - |
| Share buy-back | (6,752) | (16,697) | - | - |
| Share buy-back costs | - | (277) | - | - |
| Income tax relating to share buy-back costs | - | 84 | - | - |
| Share issue costs | - | (6) | - | - |
| Balance at end of year | 17,400 | 32,198 | 23,730 | 48,672 |

FRS 1.79(a)(v)

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

The shares bought back in the current year were purchased out of capital and cancelled immediately.

## 29. Reserves

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | | S$'000 | S$'000 | S$'000 | S$'000 |
| FRS 1.79(a)(iv) | General | 807 | 807 | - | - |
| | Revaluation of property, plant and equipment | 1,198 | 1,201 | - | - |
| | Investments revaluation | 593 | 527 | - | - |
| | Equity-settled employee benefits | 230 | 338 | - | - |
| | Cash flow hedging | 317 | 278 | - | - |
| | Foreign currency translation | 186 | 225 | - | - |
| | Option premium on convertible bond | 592 | - | - | - |
| | | 3,923 | 3,376 | - | - |

### (a) General reserve

FRS 1.79(b) The general reserve comprises of amounts transferred from retained earnings.

FRS 1.91
FRS 1.106A

### (b) Revaluation reserve

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | | S$'000 | S$'000 |
| FRS 1.79(a)(iv) | Balance at beginning of year | 1,201 | 51 |
| FRS 16.77(f) | Increase arising on revaluation of properties | - | 1,643 |
| FRS 1.90 | Deferred tax liability arising on revaluation | - | (493) |
| | Transferred to retained earnings | (3) | - |
| | Balance at end of year | 1,198 | 1,201 |

FRS 1.79(b) The revaluation reserve arises on the revaluation of land and buildings.

FRS 1.106A

### (c) Fair value adjustment

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | | S$'000 | S$'000 |
| FRS 1.106A | Balance at beginning of year | 527 | 470 |
| FRS107.20(a)(ii) | Net gain arising on revaluation of available-for-sale financial assets | 94 | 81 |
| FRS 1.90 | Income tax relating to gain arising on revaluation of available-for-sale financial assets | (28) | (24) |
| | Balance at end of year | 593 | 527 |

FRS 1.79(b)
FRS 1.82A

The fair value adjustment represents cummulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

### 29. Reserves (cont'd)

#### (d) Equity-settled employee benefits reserve

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | | S$'000 | S$'000 |
| FRS 1.106(d) | Balance at beginning of year | 338 | - |
| | Arising on share-based payments | 206 | 338 |
| | Issue of ordinary shares | (314) | - |
| | Balance at end of year | 230 | 338 |

FRS 1.79(b)

The equity-settled employee benefits reserve relates to share options granted to employees under the employee share option plan. Please refer to Note 41 for information about share-based payments to employees.

FRS 1.106A

#### (e) Cash flow hedging reserve

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | | S$'000 | S$'000 |
| FRS 1.106A | Balance at beginning of year | 278 | 258 |
| FRS 107.23(c) | Gain/(loss) recognised on cash flow hedges: | | |
| | • Forward foreign exchange contracts | 209 | (41) |
| | • Interest rate swaps | 227 | 357 |
| FRS 1.90 | Income tax related to gains/losses recognised in other comprehensive income | (131) | (95) |
| FRS 107.23(d) | Reclassified to profit or loss: | | |
| | • Forward foreign exchange contracts (reclassified to other expenses) | (3) | - |
| | • Interest rate swaps (reclassified to finance costs) | (120) | (86) |
| | Income tax related to amounts reclassified to profit or loss | 37 | 26 |
| FRS 107.23(e) | Transferred to initial carrying amount of hedged item: | | |
| | • Forward foreign exchange contracts | (257) | (201) |
| FRS 1.90 | Income tax related to amounts transferred to initial carrying amount of hedged item | 77 | 60 |
| | Balance at end of year | 317 | 278 |

FRS 1.79(b)

The cash flow hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative gain or loss on the hedging instrument is reclassified to profit or loss only when the hedged transaction affects the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the Group's accounting policy.

## 29. Reserves (cont'd)

### (f) Foreign currency translation reserve

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | | S$'000 | S$'000 |
| FRS 1.106A | Balance at beginning of year | 225 | 140 |
| FRS 1.7(c) | Exchange differences arising on translating the net assets of foreign operations | 75 | 121 |
| FRS 1.90 | Deferred tax relating to gains arising on translating the net assets of foreign operations | (22) | (36) |
| FRS 39.102(a) | Loss on hedging instrument designated as a hedge of the net assets of foreign operations | (12) | - |
| FRS 1.90 | Deferred tax relating to loss on hedge of the net assets of foreign operations | 4 | - |
| | Gain/loss reclassified to profit or loss on disposal of foreign operation | (166) | - |
| FRS 1.90 | Income tax related to gain reclassified on disposal of foreign operation | 51 | - |
| FRS 39.102 | Gain/loss on hedging instrument reclassified to profit or loss on disposal of foreign operation | 46 | - |
| FRS 1.90 | Income tax related to gain/loss on hedging instruments reclassified on disposal of foreign operation | (15) | - |
| | | 186 | 225 |

FRS 1.79(b)
FRS 1.82A

Exchange differences relating to the translation of the results and the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. S$) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Gains and losses on hedging instruments that are designated as hedges of net investments in foreign operations are included in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve (in respect of translating both the net assets of foreign operations and hedges of foreign operations) are reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

### (g) Option premium on convertible bond

| | | Group | |
|---|---|---|---|
| | | 2017 | 2016 |
| | | S$'000 | S$'000 |
| FRS 1.106(d) | Balance at beginning of year | - | - |
| | Recognition of option premium on issue of convertible bond | 834 | - |
| | Related income tax | (242) | - |
| | Balance at end of year | 592 | - |

FRS 1.79(b)

The option premium on convertible bond of S$ 592,000 (net of income tax of S$ 242,000) represents the equity component (conversion rights) of convertible bond issued during the year (see Note 33 Convertible Bond).

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

## 30. Dividends

| | Group and Company | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| *Ordinary dividends paid* | | |
| FRS 1.107 Final dividend paid in respect of the previous financial year of 29 cents (2016: 27 cents) per share | 5,560 | 6,479 |

FRS 1.137
FRS 10.13

At the Annual General Meeting on 21 April 2018, a final dividend of 20 cents per share amounting to a total of S$3.8 million will be recommended. These financial statements do not reflect this dividend, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2018. The payment of this dividend will not have any tax consequences for the Group.

## 31. Non-controlling interests

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| FRS 1.106A Balance at beginning of year | 20,005 | 17,242 |
| Share of profit for the year[1] | 4,000 | 2,763 |
| Partial disposal of interests in subsidiaries to non-controlling interests, without loss of control (Note 18) | 179 | - |
| Acquisition of non-controlling interests (Note 18) | (731) | - |
| Balance at end of year | 23,453 | 20,005 |

**Guidance Notes**

**Unrecognised share of losses of a subsidiary**

1) Losses incurred by a subsidiary should be allocated to non-controlling interests in full, even if the non-controlling interests turn into deficit.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 32. Borrowings[1,2]

| | Group 2017 | Group 2016 |
|---|---|---|
| | S$'000 | S$'000 |
| ***Unsecured*** | | |
| Bank overdrafts | 515 | 309 |
| Loans from related parties | 19,619 | 38,563 |
| Convertible bond (Note 33) | 4,116 | - |
| FRS 107.8(f) | 24,250 | 38,872 |
| ***Secured*** | | |
| Bank overdrafts | 23 | 69 |
| Bank loans | 15,959 | 17,415 |
| Loan from a finance company | 562 | 633 |
| Finance lease liabilities (Note 38) | 14 | 89 |
| | 16,558 | 18,206 |
| FRS 107.8(f) | 40,808 | 57,078 |
| Current | 20,541 | 25,554 |
| Non-current | 20,267 | 31,524 |
| | 40,808 | 57,078 |

(a) Loan from related parties bear interest of 8.0% - 8.2% per annum (2016: 8.0% - 8.2% per annum). The loan will mature in 31 December 2018.

FRS 107.7

(b) The Group has obtained fixed rate loans from a finance company with remaining maturity periods not exceeding 2 years (2016: 3 years). The weighted average effective interest rate on the loans is 7.5% per annum (2016: 8% per annum).

(c) Bank loans are secured by a mortgage over the Group's freehold land and buildings (see Note 14 Property, plant and equipment). The weighted average effective interest rate on the bank loans is 8.30% per annum (2016: 8.32% per annum).

FRS 7.44A, 44C-44E

(d) The reconciliation of movements of liabilities to cash flows arising from financing activities[3] is presented below:

| | 1 January 2017 | Cash flows – Proceeds | Cash flows – Repayments | Non-cash changes – Equity portion | Non-cash changes – Acquisition of subsidiary | Other change | 31 December 2017 |
|---|---|---|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| Bank borrowings | 18,426 | 8,651 | (10,018) | - | - | - | 17,059 |
| Finance lease liabilities | 89 | - | (75) | - | - | - | 14 |
| Loan from related parties | 38,563 | - | (18,944) | - | - | - | 19,619 |
| Convertible loans | - | 4,839 | - | (834) | - | 111 | 4,116 |
| Contingent consideration | - | - | - | - | 75 | - | 75 |
| | 57,078 | 13,490 | (29,037) | (834) | 75 | 111 | 40,883 |

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

**32. Borrowings[1,2] (cont'd)**

**Guidance Notes**

**Classification of loan as "current" debt at the reporting date**

1) Illustrative Note disclosure for breach of loan covenant is provided below:

(a) *"During the current financial year, the Company has breached a covenant of a bank loan. The Company did not fulfill the requirement to maintain debt to capital ratio at X.XX for a credit line of S$ XXX. The credit line is fully drawn down and presented as current liability at the reporting date. The bank is contractually entitled to request for immediate repayment of the outstanding loan amount in the event of breach of covenant.*

*Bank A had not requested for immediate repayment of the outstanding loan amount as at the date when these financial statements are authorised for issue. Management commenced renegotiation of the loan agreement terms in December 2017. As of the date the financial statements are authorised for issue, the renegotiation is still in progress."*

(b) *"During the current financial year, the Company has breached a covenant of a bank loan. The Company did not fulfill the requirement to maintain debt to capital ratio at X.XX for a credit line of S$ XXX. The credit line is fully drawn down and presented as current liability at the reporting date. The bank is contractually entitled to request for immediate repayment of the outstanding loan amount in the event of breach of covenant.*

*In January 2017, the Company settled the loan with Bank A out of the proceeds of a new loan from Bank B, which has a maturity period of three years. The loan with Bank A is presented as current liability as at 31 December 2017. Management expects that the Company will be able to meet all contractual obligations from borrowings on a timely basis going forward."*

FRS 1.75

**Classification of loan as "non-current" debt at the reporting date**

2) Illustrative Note disclosure is provided below:

*"During the current financial year, the Company breached a loan covenant as it did not maintain a debt to capital ratio of xx in relation to a loan of S$ XXX. The credit line is fully drawn down and presented as current liability at the reporting date. The bank is contractually entitled to request for immediate repayment of the outstanding loan amount in the event of breach of covenant.*

*In December 2017, Bank A agreed to provide a rectification period up to 30 June 2019 for the entity to rectify the breach. Bank A agreed not to demand repayment during this period. As a result, the Company continued to present the loan as a non-current liability as at 31 December 2017. Management expects that the Company will be able to meet all contractual obligations from borrowings on a timely basis going forward."*

**Changes in liabilities arising from financing activities**

FRS 7.44C

3) The disclosure requirement also applies to changes in financial assets (for example, assets (such as interest rate swaps) that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities. The illustrative disclosure is provided below:

".....

| | **1 January 2017** | **Cash flows** | **Non-cash changes** Fair value changes | **31 December 2017** |
|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 |
| Interest rate swaps fair value hedging | - | - | XX | XX |

....."

## 33. Convertible bond

| | 2017 |
|---|---|
| | S$'000 |
| Proceeds of issue | 4,839 |
| Liability component at date of issue | (4,005) |
| Equity component (Note 29) | 834 |

FRS 107.7

The Company issued S$ denominated convertible bond on 1 October 2017 for S$4,839,000 with coupon payments of 1% payable annually The bond can be converted to 4,839,000 ordinary shares on 31 August 2019. If the bond is not converted, it will be redeemed on 31 August 2019 at S$4,839,000.

FRS 39.47

The liability component is measured at amortised cost. The interest expense for the year (S$111,000) is calculated by applying an effective interest rate of 11.6% to the liability component for the 3-month period since the bond was issued.

## 34. Other financial liabilities

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Financial guarantee contracts | 36 | 18 |
| Contingent consideration (Note 18) | 75 | - |
| | 111 | 18 |

The contingent consideration related to the acquisition of a subsidiary (Note 18). There has been no change in the fair value of the contingent consideration since the acquisition date.

FRS 107.22(b)

## 35. Derivatives

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Cash flow hedge | | |
| Interest rate swaps (i) | 5 | - |
| Foreign currency forward contracts (ii) | 75 | - |
| | 80 | - |

(i) Interest rate swaps

The Group entered into interest rate swaps to hedge floating quarterly interest payments on borrowings that will mature on 31 December 2019. The fair value gains and losses on the interest rate swaps are disclosed in Note 29.

FRS 107.22

(ii) Currency forwards

The Group entered into hedge highly probable forecast transactions denominated in foreign currency expected to occur at various dates within three months from the reporting date. The currency forwards have maturity dates that coincide within the expected occurrence of these transactions. The fair value gains and losses on the currency forwards are disclosed in Note 29.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

**For the financial year ended 31 December 2017**

## 36. Provisions

**Other provisions**

| | | Warranties | Onerous leases | Total |
|---|---|---|---|---|
| | | S$'000 | S$'000 | S$'000 |
| FRS 37.84(a) | Balance at 1 January 2017 | 677 | 361 | 1,038 |
| FRS 37.84(b) | Additional provisions recognised | 555 | 152 | 707 |
| FRS 37.84(c) | Reductions arising from payments | (210) | (190) | (400) |
| FRS 37.84(d) | Unused amounts reversed | (10) | (105) | (115) |
| FRS 37.84(e) | Unwinding of discount and effect of changes in the discount rate | 10 | 18 | 28 |
| FRS 37.84(a) | Balance at 31 December 2017 | 1,022 | 236 | 1,258 |

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Current | 747 | 611 |
| Non-current | 511 | 427 |
| | 1,258 | 1,038 |

FRS 37.85

(a) A provision is recognised for expected warranty claims on certain electronic components sold during the last two years, based on past experience of the level of repairs and returns. It is expected that these costs will be incurred in the next three financial years. Assumptions used to calculate the provision for maintenance warranties were based on the current sales levels and current information available about returns based on the three-year warranty period for the relevant electronic components sold.

FRS 1.98(g)

During the financial year, based on the earlier mentioned statistics and warranty claims experience, management concluded that the provision for maintenance warranties exceeded the amount necessary to cover warranty claims on products sold during the last three years. Accordingly, S$10,000 (2016: Nil) of the warranty provision has been reversed.

FRS 37.85

(b) The provision for onerous lease contracts represents the Group's present obligation under non-cancellable onerous operating lease contracts. The unexpired term of the leases range from 2 to 4 years.

## 37. Trade and other payables

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | | S$'000 | S$'000 | S$'000 | S$'000 |
| | Trade payables | 20,513 | 17,580 | 3,553 | 3,084 |
| | Other payables and accruals | 2,975 | 7,400 | 480 | 450 |
| FRS 11.42(b) | Amounts due to customers under construction contracts (see Note 27) | 31 | 10 | - | - |
| | | 23,519 | 24,990 | 4,033 | 3,534 |

Trade and other payables are non-interest bearing. Trade payables are normally settled on a 60-day terms.

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

## 38. Obligations under finance leases

### Leasing arrangements

*FRS 17.31(e)*

*FRS 107.7*

Finance leases relate to manufacturing equipment with lease terms of 5 years. The Group has options to purchase the equipment for a nominal amount at the conclusion of the lease agreements. The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

### Finance lease liabilities

*FRS 17.31(b)*

| | Group | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Minimum lease payments | Present value of payments | Minimum lease payments | Present value of payments |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| Not later than one year | 6 | 5 | 58 | 50 |
| Later than one year but not later than five years | 12 | 9 | 50 | 39 |
| | 18 | 14 | 108 | 89 |
| Less future finance charges | (4) | - | (19) | - |
| Present value of minimum lease payments | 14 | 14 | 89 | 89 |

| | 2017 | 2016 |
|---|---|---|
| | S$'000 | S$'000 |
| Current (Note 32) | 5 | 50 |
| Non-current (Note 32) | 9 | 39 |
| | 14 | 89 |

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

## 39. Employee benefits

| **Employee benefits expense** | **Group** | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Salaries and bonuses | 8,001 | 10,400 |
| Other short-term benefits | 204 | 190 |
| Share-based payments (Note 41) | 206 | 338 |
| Post-employment benefits | | |
| - Defined contribution plans | 160 | 148 |
| - Defined benefit plans | 1,232 | 579 |
| | 9,803 | 11,655 |

### (a) Defined contribution plans

The Group makes contribution to Central Provident Fund in respect of its Singapore employees.

*FRS 19.43*

The employees of the Group's subsidiaries that operate in People's Republic of China (PRC) are members of a state-managed retirement benefit plan operated by the government of PRC. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

*FRS 19.53*

The total expense recognised in the consolidated statement of comprehensive income is S$160,000 (2016: S$148,000) which represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2017, contributions of S$8,000 (2016: S$8,000) due in respect of the 2017 (2016) reporting period had not been paid over to the plans. The amounts were paid subsequent to the end of the reporting period.

### (b) Defined benefit plans

*FRS 19.139*

The Group operates a funded defined benefit plans for qualifying employees of its subsidiaries in PRC. Under the plans, the employees are entitled to retirement benefits varying between 40% and 45% of final salary on attainment of a retirement age of 65. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2017 by Mr. Chen Feng, Fellow of the Institute of Actuaries of PRC. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

*FRS 19.144*

The principal assumptions used for the purposes of the actuarial valuations were as follows:

| | **Valuation at** | |
|---|---|---|
| | 2017 | 2016 |
| | % | % |
| Discount rate(s) | 5.52 | 5.20 |
| Expected return on plan assets | 12.08 | 10.97 |
| Expected rate(s) of salary increase | 5.00 | 5.00 |

## 39. Employee benefits (cont'd)

### (b) Defined benefit plans (cont'd)

FRS 19.120
FRS 19.135

Amounts recognised in comprehensive income in respect of these defined benefit plans are as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Service cost: | | |
| Current service cost (FRS 19.141) | 1,068 | 442 |
| Net interest expense | 164 | 137 |
| Components of defined benefit costs recognised in profit or loss | 1,232 | 579 |
| Remeasurement on the net defined benefit liability: | | |
| Return on plan assets (excluding amounts included in net interest expense) | (206) | (203) |
| Actuarial gains and losses arising from changes in demographic assumptions | (25) | 5 |
| Actuarial gains and losses arising from changes in financial assumptions | (302) | 198 |
| Actuarial gains and losses arising from experience adjustments | (43) | (23) |
| Components of defined benefit costs recognised in other comprehensive income | (576) | (23) |
| Total | 656 | 556 |

FRS 19.140

The amount included in the consolidated statement of financial position arising from the entity's obligation in respect of its defined benefit plans is as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Present value of funded defined benefit obligation | 5,905 | 5,808 |
| Fair value of plan assets | (4,202) | (4,326) |
| | 1,703 | 1,482 |

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 39. Employee benefits (cont'd)

#### (b) Defined benefit plans (cont'd)

FRS 19.141

Movements in the present value of the defined benefit obligation in the current year were as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Opening defined benefit obligation | 5,808 | 5,814 |
| Current service cost | 1,068 | 442 |
| Interest cost | 302 | 323 |
| Remeasurement (gains)/losses: | | |
| Actuarial gains and losses arising from changes in demographic assumptions | (25) | 5 |
| Actuarial gains and losses arising from changes in financial assumptions | (302) | 198 |
| Actuarial gains and losses arising from experience adjustments | (43) | 23 |
| Exchange differences on foreign plans | (283) | (367) |
| Benefits paid | (620) | (610) |
| Closing defined benefit obligation | 5,905 | 5,828 |

FRS 19.141

Movements in the fair value of the plan assets in the current year were as follows:

| | | |
|---|---|---|
| Opening fair value of plan assets | 4,326 | 4,788 |
| Interest income | 138 | 186 |
| Remeasurement gain/(loss): | | |
| Return on plan assets (excluding amounts included in net interest expense) | 206 | 203 |
| Exchange differences on foreign plans | 152 | (241) |
| Benefits paid | (620) | (610) |
| Closing fair value of plan assets | 4,202 | 3,986 |

FRS 19.142

The fair value of the plan assets at the end of the reporting period for each category are as follows:

| | Fair value of plan assets | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Equity investments in consumer industry | 1,033 | 1,008 |
| Debt instruments AAA | 2,073 | 1,846 |
| Residential properties in China | 1,096 | 1,132 |
| Total | 4,202 | 3,986 |

FRS 19.142

All equity and debt instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 39. Employee benefits (cont'd)

#### (b) Defined benefit plans (cont'd)

FRS 19.145(a)

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and life expectancy. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate increases/(decreases) by 1%, the defined benefit obligation would decrease by S$740,000/(increase by S$730,000).

- If the expected salary growth increases/(decreases) by 1%, the defined benefit obligation would increase by S$130,000/(decrease by S$120,000).

- If the life expectancy increases/(decreases) by one year, the defined benefit obligation would increase by S$155,000/(decrease by S$160,000).

FRS 19.145(b)

When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit obligation liability recognised within the statement of financial position.

FRS 19.145(c)

There has been no changed in the methods and types of assumptions used in preparing the sensitivity analysis from the previous year.

FRS 19.146

At each reporting date, an Asset-Liability Matching (ALM) study is performed by the pension fund's asset manager in which the consequences of the strategic investment policies are analysed. The strategic investment policy of the pension fund can be summarised as follows:

- a targeted strategic asset mix comprising 30% equity securities, 45% government bond and 25% other investments; and

- interest rate risk is managed with the objective of reducing the cash flow interest rate risk by 25% through the use of debt instruments (government bonds) and interest rate swaps.

There has been no change in the process used by the Group to manage its risk from prior periods.

FRS 19.147(a) – (c)

The fund is fully funded by the Group's subsidiaries. The funding requirements are based on the funds' and actuarial measurement framework set out in the funding policies of the plan. In this framework, the funding of the plan is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions above.

The average duration of the benefit obligation of members at 31 December 2017 is 15.8 years (2016: 15.2 years). The Group expects to pay of S$0.88 million in contributions (2016: S$0.75 million) to its defined benefit plans in 2018.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

## 40. Financial instruments

FRS 1.134
FRS 1.135

### (a) Capital risk management[1,2,3]

The primary objective of the Group's capital management is to ensure it maintains healthy capital ratios in order to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group is not subject to any externally imposed capital requirements.

The Group's risk management committee reviews the capital structure of the Group and makes adjustment to it, in light of changes in economic conditions. The committee considers the cost of capital and the risks associated with each class of capital. The Group monitors capital using gearing ratio and keeps the ratio between 18% - 40%. The net debt to capital ratio as at 31 December 2017 of 19% (see below) was at the lower end of the target range. The Group's debt includes long- and short-term borrowings. Capital includes all capital and reserves of the Group that are managed as capital.

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | S$'000 | S$'000 |
| Debt | 40,808 | 57,078 |
| Cash and bank balances | (8,571) | (19,778) |
| Net debt | 32,237 | 37,300 |
| Total capital | 171,797 | 166,962 |
| Net debt to capital | 19% | 22% |

**Guidance Notes**

**Capital risk management**

1) This illustration illustrates the capital risk disclosure for a reporting entity that monitors its capital using a net debt to capital ratio. Other entities may use different and/or more complex methods to monitor capital. An entity decides, in light of its circumstances, which measures are more suitable to monitor its capital and how much detail it should disclose. For instance, some entities may monitor capital based on Return on Capital Employed, Economic Value Added, or dividend pay-out ratio.

FRS 1 .136

2) An entity may be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may also operate in several jurisdictions. When an aggregate disclosure will not provide useful information, the entity shall disclose separate information for each capital requirement to which the entity is subject.

3) The word "capital" denotes the Company's overall funding, it does not mean "equity capital".
If an entity has a capital deficit, it should not define capital as total issued capital and fully paid up ordinary shares less accumulate losses. Other cash flows which the entity has treated as capital for managing the entity should be disclosed. If an entity has material borrowings which were considered part of capital management, qualitative and quantitative terms such as gearing ratios should be presented to enable the reader to evaluate the entity's objectives, policies and processes for managing capital.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 40. Financial instruments (cont'd)

#### (b) Categories of financial instruments

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | | S$'000 | S$'000 | S$'000 | S$'000 |
| | ***Financial assets*** | | | | |
| FRS 107.8(a) | Fair value through profit or loss ("FVTPL") | | | | |
| FRS 107.8(a) | - Held for trading | 543 | 1,250 | - | - |
| | Derivative instruments in designated hedge accounting relationships | 520 | 400 | - | - |
| FRS 107.8(b) | Held-to-maturity investments | 5,500 | 3,450 | - | - |
| FRS 107.8(d) | Available-for-sale financial assets | 8,956 | 7,857 | - | - |
| FRS 107.8(c) | Loans and receivables | | | | |
| | - Cash and bank balances (including cash and bank balances in a disposal group held for sale) | 8,746 | 19,778 | 8,527 | 8,912 |
| | - Trade and other receivables | 23,744 | 19,939 | 14,002 | 12,003 |
| | - Trade receivables associated with assets held for sale | 1,872 | - | - | - |
| | - Finance lease receivables | 1,028 | 905 | - | - |
| | ***Financial liabilities*** | | | | |
| | Fair value through profit or loss ("FVTPL") | | | | |
| FRS 107.8(e) | - Derivative instruments in designated hedge accounting relationships | 80 | - | - | - |
| | Contingent consideration | 75 | - | - | - |
| | Financial guarantee contracts | 36 | 18 | - | |
| FRS 107.8(f) | Amortised cost | | | | |
| | - Trade and other payables | 23,488 | 24,890 | 4,033 | 3,534 |
| | - Borrowings | 40,808 | 57,078 | - | - |
| | - Liabilities associated with assets held for sale | 2,059 | - | - | - |

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

**40. Financial instruments (cont'd)**

**(c) Financial risk management objectives**

FRS 107.31-33

The Group and the Company is exposed to financial risks arising from its operations and the use of financial instruments. The board of directors reviews and agrees policies and procedures for the management of these risks, which are executed by the Chief Financial Officer, Head of Treasury and Head of Credit Control. The Audit Committee provides independent oversight to the effectiveness of the risk management process. These risks[1] include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The following sections provide details regarding the Group's and Company's exposure to the above mentioned financial risks and the objectives, policies and processes for the management of these risks.

**Guidance Notes**

**Nature and extent of risks arising from financial instruments**

FRS 107.33
FRS 107.34
FRS 107.IG17

1) The disclosures in response to FRS 107 illustrated in this Note are based on assumed circumstances of MS Singapore Limited and may not be applicable or relevant to other entities. Each entity should customise the information disclosed according to the specific circumstances, financial risk exposures, and risk management policies and procedures relevant to the entity.

**(d) Market risk**

FRS 107.33(a)
FRS 107.33(b)

Market price risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market prices (other than interest or exchange rates). The Group is exposed to equity price arising from its investment in quoted equity securities. The Group diversifies its investment portfolio within limits set by the Group. Any deviation from the policy is required to be approved by the Investment portfolio committee.

FRS 107.(40) and B25-B28

Sensitivity analysis

If quoted equity prices for the SGX listed equities classified as available-for-sale financial asset, had increased/(decreased) by 10% with all other variables including tax rate being held constant, the Group's other comprehensive income would have increased/(decreased) by S$295,000 (2016: S$314,000).

FRS 107.33(c)

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

**40. Financial instruments (cont'd)**

**(e) Foreign currency risk**

FRS 107.33

The Group has transactional currency exposures arising from sales and purchases that are denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

FRS 107.34

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities based on the information provided to key management the end of the reporting period are as follows:

| **Group** | **Liabilities** | | **Assets** | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| RMB | 5,200 | 6,140 | 1,450 | 1,560 |
| USD | 1,505 | 1,200 | 1,150 | 1,048 |
| MYR | 2,548 | 1,615 | 1,688 | 1,556 |

| **Company** | **Liabilities** | | **Assets** | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| USD | 1,300 | 1,750 | 4,500 | 3,600 |

*Sensitivity analysis for foreign currency risk*[1,2,3]

FRS 107.40, AG B18, AG B23

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

| | | **Group** | |
|---|---|---|---|
| | | 2017 | 2016[4,5] |
| | | S$'000 | S$'000 |
| | | Profit after tax/Equity | Profit after tax/Equity |
| USD/SGD | - Strengthened by 8% (2016: 3%) | (28) | (5) |
| | - Weakened by 8% (2016: 3%) | 28 | 5 |
| RMB/SGD | - Strengthened by 3% (2016: 3%) | (113) | (137) |
| | - Weakened by 3% (2016: 3%) | 113 | 137 |
| MYR/SGD | - Strengthened by 11% (2016: 2%) | (95) | (1) |
| | - Weakened by 11% (2016: 2%) | 95 | 1 |

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

**40. Financial instruments (cont'd)**

**(e) Foreign currency risk (cont'd)**

*Forward foreign exchange contracts*

*FRS 107.22*
*FRS 107.33*
*FRS 107.34*

The Group enters into forward foreign exchange contracts to cover specific foreign currency payments and receipts within 60% to 70% of the exposure generated. The Group also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions out to 6 months within 30% to 40% of the exposure generated. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

In the current year, the Group has designated certain forward contracts as a hedge of its net investment in E (PRC) Co. Ltd., which has RMB as its functional currency. The Group's policy has been reviewed and, due to the increased volatility in RMB, it was decided to hedge up to 45% of the net assets of the E (PRC) Co. Ltd. for forward foreign currency risk arising on translation of the foreign operation. The Group utilises a rollover hedging strategy, using contracts with terms of up to 6 months. Upon the maturity of a forward contract, the Group enters into a new contract designated as a separate hedging relationship.

*FRS 107.34(a)*

The following tables detail the notional principal amounts and remaining terms of forward foreign currency contracts outstanding at the end of the reporting period:

*Cash flow hedges*

| Outstanding contracts | Average exchange rate | | Notional principal value | | Assets fair value | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | | | S$'000 | S$'000 | S$'000 | S$'000 |
| Sell USD - Less than 3 months | 1.35 | 1.25 | 2,500 | 2,045 | 109 | 102 |
| Buy RMB - Less than 3 months | 4.50 | 4.00 | 1,500 | 1,225 | 64 | 62 |
| Sell MYR - Less than 3 months | 0.36 | 0.38 | 1,500 | 1,230 | 67 | 62 |
| | | | 5,500 | 4,500 | 240 | 226 |

| Outstanding contracts | Average exchange rate | | Notional principal value | | Liabilities fair value | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | | | S$'000 | S$'000 | S$'000 | S$'000 |
| Buy USD - Less than 1 year | 1.33 | 1.21 | 1,950 | - | (75) | - |

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 40. Financial instruments (cont'd)

#### (e) Foreign currency risk (cont'd)

*Forward foreign exchange contracts* (cont'd)

FRS 107.23(b)

At the start of the third quarter of 2017, the Group reduced its forecasts on sales of electronic equipment to People's Republic of China due to increased local competition and higher shipping costs. The Group had previously hedged S$1.079 million of future sales of which S$97,000 are no longer expected to occur, and S$982,000 remain highly probable. Accordingly, the Group has reclassified S$3,000 of gains on foreign currency forward contracts relating to forecast transactions that are no longer expected to occur from the cash flow hedging reserve to profit or loss.

FRS 107.24(c)

At 31 December 2017, no ineffectiveness has been recognised in profit or loss arising from hedging the net investment in E (PRC) Co. Ltd.

**Guidance Notes**

**Sensitivity analysis – narrative text or tabular form**

FRS 107.IG36

1) Instead of using a table format, the entity may disclose as follows:

"*At 31 December 2017, if the USD has strengthened/(weakened) by X% (2016: X%) against the SGD with all other variables including tax rate being held constant, the Group's and Company's equity will be S$ XXX (2016: S$ XXX) higher/(lower) and S$ XXX (2016: S$ XXX) higher/(lower) respectively as a result of currency translation gains/losses on securities classified as available-for-sale. The Group's and Company's profit after tax will be S$ XXX (2016: S$ XXX) higher/(lower) and S$ XXX (2016: S$ XXX) higher/(lower), as a result of currency translation gains/losses on the remaining USD denominated financial instruments……*"

Where the impacts to profit after tax and/or equity are different even though the exchange rates may have strengthened or weakened by the same percentage, the table format disclosure will likely be more useful. For example, if the reporting entity holds option-based financial instruments, the upside and downside impacts may be different.

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

**40. Financial instruments (cont'd)**

**(e) Foreign currency risk (cont'd)**

**Guidance Notes**

**Foreign currency inter-company receivables and payables**

2) Foreign currency inter-company receivables and payables should be included in the sensitivity analyses. This is because even though the intra-group receivables and payables are eliminated in the consolidated statements of financial position, the effect on profit or loss on their revaluation under FRS 21 *The Effect of Changes in Foreign Exchange Rates* is not fully eliminated. However it must be noted that the foreign exchange revaluation effects of a foreign currency inter-company loan which is part of the net investment in a foreign operation are deferred in equity until disposal (or partial disposal) of the foreign operation. Such foreign currency revaluation effects should not be included in the sensitivity analysis for foreign currency risks as they represent a translation risk rather than a transaction risk.

**Equity investments that are denominated in foreign currencies**

*FRS 107.B23*

3) Currency risk is not considered separately for financial instruments that are non-monetary. The foreign currency exposure arising from investing in non-monetary financial instruments would be considered and reflected in the other price risk disclosures as part of the fair value gains and losses.

**Disclosure at reporting date needs to be representative for the period**

*FRS 107.35*
*FRS 107.IG20*

*FRS 107.42*
*FRS 107.IG37 FRS 107.IG38*
*FRS 107.IG39*
*FRS 107.IG40*

4) If the quantitative data disclosed as at the reporting date are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative. For example, if an entity typically has a large exposure to a particular currency, but at year-end unwinds the position, the entity might disclose a graph that shows the exposure at various times during the period, or disclose the highest, lowest and average exposures. Similarly, when the sensitivity analyses disclosed are unrepresentative of a risk inherent in a financial instrument (for example because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.

**Changes in financial risk management/exposure from the previous period**

*FRS 107.33(c)*

5) An entity needs to include disclosures on the following if there are changes from the previous period:
   (a) the exposures to each type of risk arising from financial instruments; and/or
   (b) the entity's objectives, policies and processes for managing the risk and the methods used to measure the risk.

   For instance, if there has been a change in the hedging policy, this should be disclosed accordingly.

## 40. Financial instruments (cont'd)

FRS 107.33

### (f) Interest rate risk

FRS 107.33(a-b) and IG16

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring the most cost-effective hedging strategies are applied.

FRS 107.34

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in this Liquidity risk section.

FRS 107.40(b)
FRS 107.34(a)

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. 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.

FRS 107.40(a)

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2017 would decrease/increase by S$45,000 (2016: decrease/increase by S$63,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

FRS 107.33(c)

The Group's sensitivity to interest rates has decreased during the current period mainly due to the reduction in variable rate debt instruments and the increase in interest rate swaps to swap floating rate debt to fixed rate.

*Interest rate swap contracts*

FRS 107.22
FRS 107.33
FRS 107.34

The Group uses interest rate swaps to hedge variable quarterly interest payments on borrowings that will mature on 31 December 2019. Fair value gains and losses on the interest rate swaps recognised in other comprehensive income reclassified to profit or loss as part of interest expense over the period of the borrowings.

FRS 107.34(a)

The following tables[1] detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period:

*Cash flow hedges*

| Outstanding receive floating for fixed contracts | Average contracted fixed interest rate | | Notional principal value | | Assets fair value | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | % | % | S$'000 | S$'000 | S$'000 | S$'000 |
| Less than 1 year | 6.45 | 6.30 | 1,000 | 900 | 72 | 37 |
| 1 to 2 years | 6.15 | 6.05 | 3,500 | 2,900 | 208 | 137 |

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 40. Financial instruments (cont'd)

FRS 107.33

#### (f) Interest rate risk (cont'd)

FRS 107.34(a)

The following tables[1] detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period: (cont'd)

| Outstanding receive floating for fixed contracts | Average contracted fixed interest rate | | Notional principal value | | Liabilities fair value | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | % | % | S$'000 | S$'000 | S$'000 | S$'000 |
| Less than 1 year | 6.50 | - | 1,500 | - | (5) | - |

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the local interbank rate of People's Republic of China. The Group will settle the difference between the fixed and floating interest rate on a net basis.

FRS 107.22

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

**Guidance Notes**

**Source of interest rate risk**

FRS 107.B22

1) Interest rate risk arises on interest-bearing financial instruments recognised in the reporting date (i.e. loans and receivables and debt instruments issued) and on some financial instruments not recognised in the statements of financial position (i.e. some loan commitments).

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 40. Financial instruments (cont'd)

#### (g) Credit risk[1,2]

FRS 107.33
FRS 107.B8

Credit risk refers to the risk that 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 only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. 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 counterparty limits that are reviewed and approved by the risk management committee annually.

FRS 107.B8

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 and, where appropriate, credit guarantee insurance cover is purchased.

FRS 107.34

Of the trade receivables balance at the end of the year, S$6.9 million (2016: S$5.9 million) is due from a customer, the Group's largest customer. There are no other customers who represent more than 5% of the total balance of trade receivables. Other than a major customer and the largest customer of the Group, the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

FRS 107.B10(c)

In addition, the Group is exposed to credit risk in relation to financial guarantees given to banks provided by the Group. The Group's maximum exposure[3,4] in this respect is the maximum amount the Group could have pay if the guarantees are called on. As at 31 December 2017, an amount of S$36,000 (2016: S$18,000) has been recognised in the consolidated financial position as financial liabilities (Note 34).

FRS 107.36(b)

*Collateral held as security and other credit enhancements*

The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risk associated with the finance lease receivables is mitigated because the finance lease receivables are secured over the leased storage equipment. The carrying amount of the finance lease receivables amounts to S$1.02 million (31 December 2016: S$0.9 million) and the fair value of the leased assets is estimated to be approximately S$1 million (31 December 2016: S$0.9 million). The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

FRS 107.36(c)

Trade and other receivables that are neither past due nor impaired are with credit-worthy debtors. Cash at banks and short-term deposits, other financial assets and derivatives that are neither past due nor impaired are placed or entered into with reputable financial institutions.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

**40. Financial instruments (cont'd)**

**(g) Credit risk[1,2] (cont'd)**

**Guidance Notes**

**Class versus category of financial instrument**

FRS 107.36

1) An entity is required to make certain credit risk exposures by class of financial instrument. A 'class' of financial instruments is not the same as a 'category' of financial instruments. Categories are defined in FRS 39 as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets, financial liabilities at fair value through profit or loss and financial liabilities measured at amortised cost.

   Classes are expected to be determined at a lower level than the categories in FRS 39 and reconciled to the statements of financial position as required by FRS 107.6. However, the level of detail for each class shall be determined on an entity-specific basis. Items are treated as one class when they share similar characteristics.

**Quantitative disclosures on credit risk**

FRS 107.34

2) The quantitative disclosures on credit risk exposure shall be based on information provided internally to key management personnel of the entity. This publication illustrates the disclosure where

   (a) management monitors the credit risk exposures only on the major classes of financial assets, which are bank deposits and trade receivables; and

   (b) the credit risk exposures on trade receivables are analysed and reported to key management by geographical areas and by types of customers.

   Other measures such as industry sector, credit rating and group of closely related counterparties might be used by another reporting entity.

FRS 107.36

3) A disclosure of amount that best represents maximum exposure to credit risk is not required when this amount is represented by the carrying amount of the financial instrument. The disclosure of fair value is replaced by a description of financial effect of collateral and other credit enhancements.

**Credit risk relating to financial assets or financial liabilities at fair value through profit or loss**

FRS 107.9
FRS 107.10
FRS 107.11

4) In this illustration, no financial instrument has been designated as financial assets or financial liabilities at fair value through profit or loss. If an entity has designated a loan or receivable or financial liability as at fair value through profit or loss, further disclosures are required in FRS 107 paragraphs 9 to 11.

## 40. Financial instruments (cont'd)

### (h) Liquidity risk

*FRS 107.33(a-b)*
*FRS 107.39 and IG5*

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting the financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

*FRS 107.34(a)*
*FRS 107.34(c) and AG B8*

The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available.

**Non-derivative financial liabilities**

*FRS 107.39(a-b) and AG B11D*

The table below summarises the maturity profile of the Group's financial liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

| | 1 year or less | 1 to 5 years | Total | Carrying amount |
|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | |
| ***31 December 2017*** | | | | |
| ***Financial liabilities*** | | | | |
| Trade and other payables | 23,519 | - | 23,519 | 23,519 |
| Finance lease liabilities | 6 | 12 | 18 | 14 |
| Borrowings | 25,773 | 25,430 | 51,203 | 40,794 |
| Financial guarantee contracts | 2,500 | - | 2,500 | 36 |
| | 51,798 | 25,442 | 77,240 | 64,363 |

| | 1 year or less | 1 year or less | 1 to 5 years | Carrying amount |
|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | |
| ***31 December 2016*** | | | | |
| ***Financial liabilities*** | | | | |
| Trade and other payables | 24,990 | - | 24,990 | 24,990 |
| Finance lease liabilities | 58 | 50 | 108 | 89 |
| Borrowings | 30,344 | 37,432 | 67,776 | 56,989 |
| Financial guarantee contracts | 1,500 | - | 1,500 | 18 |
| | 56,892 | 37,482 | 94,374 | 82,086 |

The carrying amounts of the Company's financial liabilities with a maturity of less than one year are approximate to the contractual undiscounted cash flow amounts.

*FRS 107.39(b)*

**Derivative financial instruments**

The following table details the liquidity analysis for derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflow) on the derivative instrument that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 40. Financial instruments (cont'd)

#### (h) Liquidity risk (cont'd)

FRS 107.39(b)

**Derivative financial instruments (cont'd)**
**Group**

| | S$'000 |
|---|---|
| 2017 | |
| Net settled: | |
| Interest rate swaps | 275 |
| Gross settled: | |
| Foreign exchange forward contract | |
| Gross inflow | 7,450 |
| Gross outflow | (7,285) |
| | 165 |
| 2016 | |
| Net settled: | |
| Interest rate swaps | 174 |
| Gross settled: | |
| Foreign exchange forward contract | |
| Gross inflow | 4,500 |
| Gross outflow | (4,274) |
| | 226 |

FRS 107.B11C

The maximum amount of the financial guarantee contracts are allocated to the earliest period in which the guarantee could be called.

FRS 107.B11(c)

The amounts for financial guarantee contracts are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that such an amount will not 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.

FRS 107.39(c)

The Group has access to financing facilities of which S$9,268,000 were unused at the end of the reporting period (2016: S$12,617,000). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

## 41. Share-based payments

FRS 102.44
FRS 102.45

The Group has established a share option scheme for executive and senior employees to purchase shares in the Company. The scheme was approved by members of the Company at a previous annual general meeting. Under the scheme, executives and senior employees with more than five years of service to the Group may be granted options to purchase ordinary shares at an exercise price of S$1 per ordinary share.

Share options granted under the Company's employee share option plan carry no rights to dividends and no voting rights.

The share options were granted during the current and prior reporting periods:

| Options series | Number | Grant date | Expiry date | Exercise price | Fair value at grant date |
|---|---|---|---|---|---|
| | | | | S$ | S$ |
| • Issued 31 March 2016 | 290,000 | 31/03/16 | 30/03/17 | 1.00 | 1.16 |
| • Issued 30 September 2017 | 220,000 | 30/09/17 | 29/09/18 | 1.00 | 0.94 |

All options vested on their date of issue and expire within twelve months of their issue, or upon the resignation of the executive or senior employee, whichever is the earlier.

FRS 102.46
FRS 102.47(a)

The weighted average fair value of the share options granted during the financial year is S$0.94 (2016: S$1.16). Options were priced using a binomial option pricing model. The significant inputs into the model were as follows:

Inputs into the model

| | Issued 31/3/16 | Issued 30/9/17 |
|---|---|---|
| Grant date share price | 2.41 | 2.16 |
| Exercise price | 1.00 | 1.00 |
| Expected volatility | 15.30% | 13.31% |
| Option life | 1 year | 1 year |
| Dividend yield | 13.20% | 13.40% |
| Risk-free interest rate | 5.13% | 5.45% |

Expected volatility is based on the historical share price volatility over the past 5 years.

### 41. Share-based payments (cont'd)

FRS 102.45(b)

The following reconciles the share options outstanding at the beginning and end of the year:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| | | S$ | | S$ |
| Balance at beginning of year | 290,000 | 1.00 | - | - |
| Granted during the year | 220,000 | 1.00 | 290,000 | 1.00 |
| Exercised during the year | (314,000) | 1.00 | - | - |
| Balance at end of year | 196,000 | 1.00 | 290,000 | 1.00 |

FRS 102.45(c)

The following share options were exercised during the year:

| Options | Number exercised | Exercise date | Share price at exercise date |
|---|---|---|---|
| | | | S$ |
| • Issued 31 March 2016 | 290,000 | 10/02/2017 | 2.50 |
| • Issued 30 September 2017 | 24,000 | 19/12/2017 | 3.20 |
| | 314,000 | | |

FRS 102.45(d)

The share options outstanding at the end of the year had a weighted average exercise price of S$1 (2016: S$1), and a weighted average remaining contractual life of 272 days (2016: 89 days).

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 42. Related party transactions

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Group and other related parties at terms agreed between the parties.

FRS 24.18
FRS 24.21

| | 2017<br>S$'000 | 2016<br>S$'000 |
|---|---|---|
| (a) Sales and purchases of goods | | |
| Sales of goods to: | | |
| - holding company | 550 | 440 |
| - related companies | 1,350 | 1,020 |
| - associates | 344 | 151 |
| Purchases of goods from: | | |
| - holding company | 330 | 288 |
| - related companies | 410 | 350 |
| - associates | 100 | - |
| | 3,084 | 2,249 |

FRS 24.17

| | 2017<br>S$'000 | 2016<br>S$'000 |
|---|---|---|
| (b) Compensation of key management personnel | | |
| Short-term employee benefits | 1,725 | 1,545 |
| Share-based payment | 141 | 293 |
| Other short-term benefits | 195 | 83 |
| | 2,061 | 1,921 |
| Comprise amounts paid to: | | |
| Directors of the Company | 1,100 | 1,095 |
| Other key management personnel | 961 | 826 |
| | 2,061 | 1,921 |

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 43. Operating lease arrangements

**The Group as lessee**

*Leasing arrangements*

FRS 17.35(d) The Group entered into lease of land and certain equipment. These leases have average tenure of between 3 to 20 years. There is no renewal option or contingent rental.

FRS 17.35(a) Future minimum rental payable under non-cancellable operating leases as at the end of the reporting periods are as follows:

| | 2017 | 2016 |
|---|---|---|
| | S$'000 | S$'000 |
| Not later than 1 year | 1,560 | 1,670 |
| Later than 1 year but not later than 5 years | 2,800 | 3,568 |
| Later than 5 years | 3,500 | 4,800 |
| | 7,860 | 10,038 |

**The Group as lessor**

*Leasing arrangements*

FRS 17.56(c) The Group leased out its investment properties under operating leases with lease terms of between 4 to 5 years. The lessee does not have an option to purchase the property at the expiry of the lease period.

FRS 17.56(a) Future minimum rental receivables under non-cancellable operating leases as at the end of the reporting period are as follows:

| | Year Ended 2017 | Year Ended 2016 |
|---|---|---|
| | S$'000 | S$'000 |
| Not later than 1 year | 17 | 17 |
| Later than 1 year but not later than 5 years | 51 | 68 |
| | 68 | 85 |

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

## 44. Fair value measurement

### Fair value of financial instruments[1,3]

### A. Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis

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

*FRS 113.76*
- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;

*FRS 113.81*
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (i.e. derived form prices); and

*FRS 113.86*
- Level 3 – Unobservable inputs for the asset or liability.

*FRS 113.73*

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

*FRS 113.93(a)*
*FRS 113.93(b)*
*FRS 113.93(d)*

The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

| | Group | | | |
|---|---|---|---|---|
| | Fair value measurements at the end of the reporting period using | | | |
| **2017** | Level 1 | Level 2 | Level 3 | Total |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| **Financial assets:** | | | | |
| Held for trading non-derivative financial assets | 543 | - | - | 543 |
| Available-for-sale financial assets: | | | | |
| *Quoted equity securities* | 4,204 | - | - | 4,204 |
| *Unquoted equity securities*[8] (a) | - | - | 4,752 | 4,752 |
| Total available-for-sale financial assets | 4,204 | - | 4,752 | 8,956 |
| Derivatives | | | | |
| *Forward currency forward contracts* | - | 240 | - | 240 |
| *Interest rate swaps* | - | 280 | - | 280 |
| Total derivatives | - | 520 | - | 520 |
| **Financial assets as at 31 December 2017** | 4,747 | 520 | 4,752 | 10,019 |
| **Financial liabilities:** | | | | |
| Derivatives | | | | |
| *Forward currency forward contracts* | - | (75) | - | (75) |
| *Interest rate swaps* | - | (5) | - | (5) |
| Total derivatives | - | (80) | - | (80) |
| Contingent consideration (b) | - | - | (75) | (75) |
| **Financial liabilities as at 31 December 2017** | - | (80) | (75) | (155) |

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

**44. Fair value measurement (cont'd)**

**Fair value of financial instruments[1,3] (cont'd)**

**A. Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis (cont'd)**

| | Group | | | |
|---|---|---|---|---|
| | Fair value measurements at the end of the reporting period using | | | |
| **2016** | Level 1 | Level 2 | Level 3 | Total |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| **Financial assets:** | | | | |
| Held for trading non-derivative financial assets | 1,250 | - | - | 1,250 |
| Available-for-sale financial assets: | | | | |
| Equity securities: | | | | |
| *Quoted equity securities* | 3,105 | - | - | 3,105 |
| *Unquoted equity securities* (a) | - | - | 4,752 | 4,752 |
| Total available-for-sale financial assets | 3,105 | - | 4,752 | 7,857 |
| Derivatives | | | | |
| *Forward currency forward contracts* | - | 226 | - | 226 |
| *Interest rate swaps* | - | 174 | - | 174 |
| Total derivatives | - | 400 | - | 400 |
| **Financial assets as at 31 December 2016** | 4,355 | 400 | 4,752 | 9,507 |

Level 1 fair value measurements

The fair value of available-for-sale securities traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

Level 2 fair value measurements

Derivatives

Forward currency contracts and interest rate swaps are valued using Discounted cash flow. The models incorporates various inputs including the foreign exchange spot and forward rates, interest rate curves and forward rate curves, and credit quality of the counterparties.

## 44. Fair value measurement (cont'd)

**Fair value of financial instruments[1,3] (cont'd)**

**A. Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis (cont'd)**

Level 3[2,5] fair value measurements

FRS 113.93(d)
FRS 113.93(h)(i)

| Valuation techniques and key inputs | Significant unobservable inputs | Relationship of unobservable inputs to fair value |
|---|---|---|
| (a) Discounted cash flow (Note 1) | - Long-term revenue growth rates 4% (2016: 4.5%). | The higher the revenue growth rate, the higher the fair value. |
| | - Long-term pre-tax operating margin 5% (2016: 4%). | The higher the per-tax operating margin, the higher the fair value. |
| | - Weighted average cost of capital, determined using a Capital Asset Pricing Model 10.5% (2016: 10.8%). | The higher the weighted average cost of capital, the lower the fair value. |
| | - Discount for lack of marketability, determined by reference to the share price of listed entities in similar industries 5% (2016: 5%) | The higher the discount, the lower the fair value. |
| (b) Discounted cash flow (Note 2) | Discount rate of 18% | The higher the discount rate, the lower the fair value. |
| | Probability-adjusted revenue and profits, with a range from S$120,000 to S$180,000 and a range from S$58,000 to S$85,000 respectively. | The higher the amounts of revenue and profit, the higher the fair value. |

FRS 113.93(h)(ii)

Note 1: If the above unobservable inputs to the valuation models were 5% (2016: 5%) higher/lower while all the other variables were held constant, the carrying amount of the shares would decrease/increase by S$300,000 (2016: decrease/increase by S$238,000).

Note 2: If the discount rate was 9% higher/lower while all other variables were held constant, the carrying amount of the contingent consideration payable would decrease/increase by S$7,000 (2016: S$ Nil). If the estimates of probability – adjusted revenues and profits were to be increased/decreased by 9%, the carrying amount of the contingent consideration payable would increase/decrease by S$7,000 (2016: S$ Nil).

FRS 113.93(c)

There were no transfers[4] between Level 1 and 2 in the period.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 44. Fair value measurement (cont'd)

**Fair value of financial instruments[1,3] (cont'd)**

**B. Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)**

FRS 107.25
FRS 107.29(a)

Except as detailed in the following table (Fair value hierarchy), the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

| | Group | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| ***Financial assets*** | S$'000 | S$'000 | S$'000 | S$'000 |
| Finance lease receivables | 820 | 815 | 707 | 699 |
| Held-to-maturity investments | 5,500 | 5,420 | 3,450 | 3,100 |
| ***Financial liabilities*** | | | | |
| Financial guarantee contracts | 36 | 30 | 18 | 10 |
| Financial liabilities held at amortised cost: | | | | |
| Convertible bond | 4,144 | 4,150 | - | - |
| Fixed rate loans | 562 | 610 | 633 | 629 |

FRS 113.97
FRS 113.93(b)

*Fair value hierarchy*

| | Group 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| **Financial assets** | | | | |
| *Finance lease receivables* | - | 815 | - | 815 |
| *Held-to-maturity investments* | 5,420 | - | - | 5,420 |
| **Total** | **5,420** | **815** | **-** | **6,235** |
| **Financial liabilities** | | | | |
| *Financial guarantee contracts* | - | - | 30 | 30 |
| *Financial liabilities held at amortised cost:* | | | | |
| - convertible bond | - | 4,150 | - | 4,150 |
| - Fixed rate loans | - | - | 610 | 610 |
| **Total** | **-** | **4,150** | **640** | **4,790** |

## 44. Fair value measurement (cont'd)

**Fair value of financial instruments[1,3] (cont'd)**

**B. Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required) (cont'd)**

FRS 113.97
FRS 113.93(b)

*Fair value hierarchy*

| | Group | | | |
|---|---|---|---|---|
| | 2016 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| | S$'000 | S$'000 | S$'000 | S$'000 |
| **Financial assets** | | | | |
| *Finance lease receivables* | - | 699 | - | 699 |
| *Held-to-maturity investments:* | 3,100 | - | - | 3,100 |
| **Total** | **3,100** | **699** | **-** | **3,799** |
| **Financial liabilities** | | | | |
| *Financial guarantee contracts* | - | - | 10 | 10 |
| *Financial liabilities held at amortised cost:* | | | | |
| - Fixed rate loans | - | - | 629 | 629 |
| **Total** | **-** | **-** | **639** | **639** |

FRS 113.97
FRS 113.93(d)

The fair values of the financial assets and financial liabilities included in the level 2 and level 3[6] categories above have been determined by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at reporting date.

FRS 113.93(e)
FRS 107.27B(c)

**C. Reconciliation of Level 3 fair value measurements[5]**

Movements in the financial assets during the financial year are as follows:

**31 December 2017**

| **Group** | Available-for-sale financial assets - unquoted S$'000 |
|---|---|
| Opening balance | 4,752 |
| Total gains or losses in other comprehensive income recognised in fair value adjustments (FRS 113.93(e)(ii)) | - |
| Closing balance | 4,752 |

**31 December 2016**

| **Group** | Available-for-sale financial assets - unquoted S$'000 |
|---|---|
| Opening balance | 4,750 |
| Total gains or losses in other comprehensive income (FRS 113.93(e)(ii)) | 2 |
| Closing balance | 4,752 |

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

## Notes to the Financial Statements

### For the financial year ended 31 December 2017

**44. Fair value measurement (cont'd)**

**Fair value of financial instruments[1,3] (cont'd)**

FRS 113.93(g)

**D. Valuation policies and procedures[7]**

The Group has an established control framework with respect to the measurement of fair values. This framework includes a valuation team that reports directly to the Chief Financial Officer, and has overall responsibility for all significant fair value measurements, including Level 3 fair values.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair value, then the valuation team assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of FRS, including the level in the fair value hierarchy the resulting fair value estimate should be classified.

Significant valuation issues are reported to the Group Audit Committee.

**Guidance Notes**

**Fair value of financial assets and liabilities**

FRS 107.6
FRS 107.25
FRS 107.29

1) FRS 107.25 requires the fair value of each class of financial assets and liabilities to be disclosed in a way that permits it to be compared with its carrying amount. However, disclosures of fair value are not required:

   - When the carrying amount is a reasonable approximation of fair value (i.e. short-term trade and other receivables and payables, and long-term loans that are re-priced to market rate);
   - For an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, that is measured at cost in accordance with FRS 39 because its fair value cannot be measured reliably; or
   - For a contract containing a discretionary participation feature (as described in FRS 104) if the fair value of that feature cannot be measured reliably.

FRS 113.93(h)(ii)

2) For financial assets and financial liabilities whose recurring fair value measurements are categorised within Level 3, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change the fair value determined **significantly**, an entity should state that fact and disclose the effect of those changes. The entity should also disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair values are recognised in other comprehensive income, total equity.

FRS 113.94

3) An entity shall determine appropriate classes of assets and liabilities on the basis of the following:

   a. The nature, characteristics and risks of asset or liability; and
   b. The level of the fair value hierarchy within which the fair value measurement is categorised.

   The number of classes may need to be greater for fair value measurements categorised within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided requires judgement. A class of assets and liabilities will often require greater disaggregation than the line items presented in the statements of financial position. If another FRS specifies the class for an asset or a liability, an entity may use that class in providing the disclosures required in FRS 113 if that class meets the requirements in this paragraph.

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

**44. Fair value measurement (cont'd)**

**Fair value of financial instruments[1,3] (cont'd)**

**Guidance Notes**

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

*FRS 113.93(c)*

4) Transfers between Level 1 and Level 2

FRS 113 requires disclosures of the amount of any transfers between Level 1 and Level 2 of the fair value hierarchy for assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level.

In this illustration, there were no assets or liabilities transferred between Level 1 and Level 2.

Illustrative disclosure if an entity has transfers of assets or liabilities between Level 1 and Level 2.

*"The following table shows transfers from Level 1 to Level 2 of the fair value hierarchy for assets and liabilities which are recorded at fair value.*

| | *Group* |
|---|---|
| | *2017* |
| | *S$'000* |
| *Financial assets held-for-trading* | |
| - *Quoted equity securities* | *XXX* |

*The above financial assets were transferred from Level 1 to Level 2 as they were delisted from the stock exchange and therefore ceased to be actively traded during the year and fair values were consequently measured using valuation techniques and using observable market inputs."*

*FRS 113.93(e)(iv)*

5) Transfers into or out of Level 3

FRS 113 requires disclosures of the amount of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the equity's policy for determining when transfer between levels are deemed to have occurred. Transfers into Level 3 shall be disclosed and discussed separately from the transfers out of Level 3.

In this illustration, there were no assets or liabilities transferred from Level 1 and Level 2 to Level 3 during the financial period ended 31 December 2017.

Illustrative disclosure if there were transfers of assets and liabilities into Level 3.

*During the financial year ended 31 December 2017, the Group transferred certain financial instruments from Level 2 to Level 3 of the fair value hierarchy. The carrying amount of the total financial assets transferred was S$ XXX. The reason for the transfers from Level 2 to Level 3 is that inputs to the valuation models for the other debt securities ceased to be observable. Prior to transfer, the fair value of the instruments was determined using observable market transactions or binding broker quotes for the same or similar instruments. Since the transfer, these instruments have been valued using valuation models incorporating significant non market-observable inputs.*

Illustrative disclosure if there were transfers of assets and liabilities out Level 3.

*"The Group also transferred an unquoted equity security from Level 3 to Level 1 of the fair value hierarchy. The carrying amount of the total financial assets transferred was S$ XXX.*

*The security was transferred from Level 3 into Level 1 as it was listed on stock exchange during the financial year. Prior to the transfer, the fair value of the security was determined using valuation model incorporating significant non market-observable inputs. Since the transfer, the fair value of the security is determined based on market price quoted in the stock exchange."*

*FRS 1.112*
*FRS 1.113*
*FRS 1.10(e)*
*FRS 1.51(b)(c)*

**44. Fair value measurement (cont'd)**

**Fair value of financial instruments[1,3] (cont'd)**

**Guidance Notes**

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

*FRS 113.93(d)*

6) In this illustration, there has been no change in valuation technique for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy. If there has been a change in valuation technique (e.g. changing from a market approach to an income approach or use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it.

*FRS 113.93(g)*

7) For recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a description of valuation processes used by the entity including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period.

*FRS 113.IE65*

An entity might disclose the following:

(a) for the group within the entity that decides the entity's valuation policies and procedures:

i. its description;

ii. to whom that group reports; and

iii. the internal reporting procedures in place (e.g. whether and, if so, how pricing, risk management or audit committees discuss and assess the fair value measurements;

(b) the frequency and methods for calibration, back testing and other testing procedures of pricing models;

(c) the process for analysing changes in fair value measurements from period to period;

(d) how the entity determined the third-party information, such as broker quotes or pricing services, used in the fair value measurement was developed in accordance with FRS 113; and

(e) the methods used to develop and substantiate the unobservable inputs used in a fair value measurement.

**Financial instruments whose fair value cannot be reliably measured**

*FRS 107.30(d)*

8) FRS 107 requires the disclosure of fair value information for financial instruments whose fair value cannot be reliably measured to include disclosure of whether and how the entity intends to dispose of such financial instruments.

*FRS 107.30(e)*

If financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amounts at the time of derecognition, and the amount of gain or loss recognised shall be disclosed.

## 44. Fair value measurement (cont'd)

### Fair value of financial instruments[1,3] (cont'd)

**Guidance Notes**

**Financial instruments whose fair value cannot be reliably measured (cont'd)**

8) Illustrative disclosure if an entity has investments in equity securities carried at cost:

*"Investment in equity securities carried at cost*

*Fair value information has not been disclosed for the Group's investment in equity securities that are carried at cost because fair value cannot be measured reliably. These equity securities represent ordinary shares in a Middle-east high-technology company that is not quoted on any market and does not have any comparable industry peer that is listed. In addition, the variability in the range of reasonable fair value estimates derived from valuation techniques is significant. The Group does not intend to dispose of this investment in the foreseeable future. The Group intends to eventually dispose of this investment through sale to institutional investors."*

## 45. Capital commitment

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

| | | 2017 | 2016 |
|---|---|---|---|
| | | S$'000 | S$'000 |
| FRS 16.74(c) | Commitments in respect of property, plant and equipment | 1,888 | 2,989 |

## 46. Contingent liabilities

Legal claim

FRS 11.45

On 30 November 2017, a customer has commenced an action against the Group in respect of construction works claimed to be sub-standard. The estimated payout is S$250,000 should the action be successful. A trial date has not yet been set and therefore it is not practicable to state the timing of any payment. The Group has been advised by its legal counsel that it is possible, but not probable, that the action will succeed and accordingly no provision for any liability has been made in these financial statements.

FRS 1.112
FRS 1.113
FRS 1.10(e)
FRS 1.51(b)(c)

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 47. Events occurring after the reporting period

FRS 10.21
FRS 10.22(a)
FRS 103 App B66

On 15 March 2018[1], the Group acquired 100% of Wonderful Ltd, a company incorporated in Hong Kong which is engaged in electronics manufacturing, for a cash consideration of S$2,500,000. The fair value of the identifiable net assets of Wonderful Ltd at the date of acquisition has been provisionally determined to be S$2,250,000. Acquisition-related costs of S$100,000 have been incurred and will be included in administrative expenses in the statement of comprehensive income for the year ending 31 December 2018. Details of the assets acquired and liabilities assumed, non-controlling interest that will be recognised, revenue and profit contribution of Wonderful Ltd and the effect of the cash flows for the Group are not disclosed, as the accounting for this acquisition is still incomplete at the time that these financial statements have been authorised for issue. Wonderful Ltd will be consolidated with effect from 15 March 2018.

**Guidance Notes**

**Business Combinations occurring after reporting date but before the financial statements are authorised for issue**

1) FRS 103 (revised) requires an acquirer to disclose the same information for business combinations occurring after reporting date but before the financial statements are authorised for issue as what is disclosed for business combinations occurring during the reporting period. The only exception is if the accounting for such business combination is incomplete at the time the financial statements are authorised for issue, in which case the acquirer shall describe which disclosures could not be made and the reasons why.

### 48. Approval of financial statements

FRS 10.17

The financial statements were approved by the board of directors and authorised for issue on 15 March 2018.

# Appendix I – Presentation of profit or loss and other comprehensive Income – Two statements

**For the year ended 31 December 2017**

This illustrative report illustrates the presentation of profit or loss and other comprehensive income in **two statements** and the classification of expenses within profit or loss by function.

| | **Consolidated Income Statement**<br>**For the year ended 31 December 2017** | Notes | 2017<br>S$'000 | 2016<br>S$'000 |
|---|---|---|---|---|
| FRS 1.51(d)(e) | | | | |
| | **Continuing operations** | | | |
| FRS 1.82(a) | Revenue | [·] | xxx | xxx |
| FRS 1.99 | Cost of sales | | (xxx) | (xxx) |
| FRS 1.85 | Gross profit | | xxx | xxx |
| FRS 1.85 | Other income | [·] | xxx | xxx |
| FRS 1.99 | Distribution expenses | | (xxx) | (xxx) |
| FRS 1.99 | Administration expenses | | (xxx) | (xxx) |
| FRS 1.82(b) | Finance costs | [·] | (xxx) | (xxx) |
| FRS 1.99 | Other operating expenses | | (xxx) | (xxx) |
| FRS 1.82(c) | Share of profits of associates | [·] | xxx | xxx |
| FRS 1.85 | Profit before tax | | xxx | xxx |
| FRS 1.82(d) | Income tax expense | [·] | (xxx) | (xxx) |
| FRS 1.85 | Profit for the year from continuing operations | [·] | xxx | xxx |
| | **Discontinued operations** | | | |
| FRS 1.82(ea) | Profit for the year from discontinued operations | [·] | **xxx** | **xxx** |
| FRS 1.81A(a) | **TOTAL PROFIT FOR THE YEAR** | | **xxx** | **xxx** |
| | Profit for the year attributable to: | | | |
| FRS 1.81B(b)(ii) | Owners of the Company | | xxx | xxx |
| FRS 1.81B(b)(i) | Non-controlling interests | | xxx | xxx |
| | | | **xxx** | **xxx** |
| | **Earnings per share** | | | |
| | From continuing and discontinued operations | | | |
| FRS 33.66 | Basic (cents per share) | | x.x | x.x |
| FRS 33.66 | Diluted (cents per share) | | x.x | x.x |
| | From continuing operations | | | |
| FRS 33.66 | Basic (cents per share) | | x.x | x.x |
| FRS 33.66 | Diluted (cents per share) | | x.x | x.x |

# Appendix I – Presentation of profit or loss and other comprehensive Income – Two statements

**For the year ended 31 December 2017**

This illustrative report illustrates the presentation of profit or loss and other comprehensive income in **two statements** and the classification of expenses within profit or loss by function.

| | Consolidated statement of comprehensive income<br>For the year ended 31 December 2017 | Notes | 2017 | 2016 |
|---|---|---|---|---|
| *FRS 1.51(d)(e)* | | | S$'000 | S$'000 |
| *FRS 1.81A(a)* | **PROFIT FOR THE YEAR** | | **xxx** | **xxx** |
| *FRS 1.81A(b)* | **Other comprehensive income, net of income tax** | | | |
| *FRS 1.82A(a)* | **Items that will not be reclassified subsequently to profit or loss:** | | | |
| | Gains on revaluation of property, plant and equipment | [·] | xxx | xxx |
| | Remeasurement of defined benefit obligation | [·] | xxx | xxx |
| | | | xxx | xxx |
| *FRS 1.82A(b)* | **Items that will be reclassified subsequently to profit or loss:** | | | |
| | Exchange differences on translating foreign operations | [·] | (xxx) | xxx |
| *FRS 107.20(a)(ii)* | Net gain on fair value changes of available-for-sale financial assets | [·] | xxx | xxx |
| *FRS 107.20(a)(ii)* | Cash flow hedges | [·] | | |
| | - Fair value gain on effective hedges | | xxx | xxx |
| | - Reclassification | | (xxx) | (xxx) |
| | Exchange differences on translating foreign operations | [·] | | |
| | - Gains on translation of foreign operations | | xxx | xxx |
| | - Reclassification | | xxx | xxx |
| *FRS 1.81A(b)* | Other comprehensive income for the year, net of tax | | xxx | xxx |
| *FRS 1.81A(c)* | **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **xxx** | **xxx** |
| | Profit for the year attributable to: | | | |
| *FRS 1.81B(a)(ii)* | Owners of the Company | | xxx | xxx |
| *FRS 1.81B(a)(i)* | Non-controlling interests | | xxx | xxx |
| | | | **xxx** | **xxx** |

# Appendix II – Effect of adopting new or amended FRS

## Illustrative Disclosure:

The effect of adopting FRS xx on the Group's financial position, profit or loss and cash flows is summarised below. The changes in accounting policies had an immaterial impact on earnings per share for the current and comparative periods.

| **Consolidated Statement of financial position** | ***As previously reported*** | ***Effect of adopting of FRS xx*** | ***As restated*** | ***As previously reported*** | ***Effect of adopting of FRS xx*** | ***As restated*** |
|---|---|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| | **Year ended 1 January 2016** | | | **Year end 31 December 2016** | | |
| ***Non-current assets*** | | | | | | |
| Property, plant and equipment | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Investment property | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Goodwill | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Other intangible assets | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Investments in subsidiaries | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Investment in associates | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Investment in joint venture | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Finance lease receivables | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Other financial assets | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Total non-current assets | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| ***Current assets*** | | | | | | |
| Inventories | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Trade and other receivables | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Finance lease receivables | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Other financial assets | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Current tax assets | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Derivatives | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Cash and bank balances | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Total current assets | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Total assets | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| ***Current liabilities*** | | | | | | |
| Trade and other payables | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Borrowings | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Other financial liabilities | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Derivatives | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Current tax liabilities | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Total current liabilities | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| ***Capital and reserves*** | | | | | | |
| Issued capital | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Reserves | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Retained earnings | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Non-controlling interests | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |
| Total equity | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] | [xxx] |

# Appendix II – Effect of adopting new or amended FRS

## <u>Illustrative Disclosure:</u> (cont'd)

| **Consolidated statement of comprehensive income** | ***As previously reported*** | ***Effect of adopting of FRS xx*** | ***As restated*** |
|---|---|---|---|
| | S$'000 | S$'000 | S$'000 |
| **Year ended 31 December 2016** | | | |
| Revenue | [xxx] | [xxx] | [xxx] |
| Cost of sales | [xxx] | [xxx] | [xxx] |
| Other income | [xxx] | [xxx] | [xxx] |
| Administrative expenses | [xxx] | [xxx] | [xxx] |
| Other operating expenses | [xxx] | [xxx] | [xxx] |
| Finance costs | [xxx] | [xxx] | [xxx] |
| Share of results of associates | [xxx] | [xxx] | [xxx] |
| Tax expense | [xxx] | [xxx] | [xxx] |
| Profit for the year | [xxx] | [xxx] | [xxx] |
| Non-controlling interests | [xxx] | [xxx] | [xxx] |
| Profit attributable to owners of the company | [xxx] | [xxx] | [xxx] |

| **Consolidated statement of cash flows** | ***As previously reported*** | ***Effect of adopting of FRS xx*** | ***As restated*** |
|---|---|---|---|
| | S$'000 | S$'000 | S$'000 |
| **Year ended 31 December 2016** | | | |
| Net cash generated from/used in operating activities | [xxx] | [xxx] | [xxx] |
| Net cash generated from/used in investing activities | [xxx] | [xxx] | [xxx] |
| Net cash generated from/used in financing activities | [xxx] | [xxx] | [xxx] |

# Appendix III – Other Disclosures to Notes to the Financial Statements

The following Other disclosures to Notes to the financial statements do not form part of the illustrative financial statements:

## a) Development Properties

*The following disclosure illustrates when an entity develops property which held in the ordinary course of their business. The entity has properties that are in progress at the reporting date whose revenue are recognised on a percentage of completion basis:*

**Note X Development Properties**

| | | Group | |
|---|---|---|---|
| | | *2017* | *2016* |
| | ***Statement of financial position:*** | *S$000* | *S$000* |
| INT FRS 115.21(a) | *Aggregate costs incurred and recognised to date* | *XXX* | *XXX* |
| | *Profit before tax recognised to date* | *XXX* | *XXX* |
| INT FRS 115.21(b) | *Advances received* | *(XXX)* | *(XXX)* |

| | | Group | |
|---|---|---|---|
| | | *2017* | *2016* |
| | ***Statement of comprehensive income:*** | *S$000* | *S$000* |
| FRS 2.36(d) | *Development properties recognised as an expense in cost of sales* | *XXX* | *XXX* |
| | *Provision for foreseeable losses on development properties* | *XXX* | *XXX* |

INT FRS 115.20

When an entity recognises revenue using the percentage of completion method for agreements that meet all the criteria in paragraph 14 of FRS 18 continuously as construction progresses (see paragraph 17 of the Interpretation), it shall disclose:

a) how it determines which agreements meet all the criteria in paragraph 14 of FRS 18 continuously as construction progresses;
b) the amount of revenue arising from such agreements in the period; and
c) the methods used to determine the stage of completion of agreements in progress.

**<u>List of development properties</u>**

SGX 1207.11

1) Where the aggregate value for all properties for development, sale or for investment purposes held by the entity represent more than XX% of the value of the consolidated net tangible assets, or contribute more than XX% of the consolidated pre-tax operating profit, entities listed on the SGX-ST are required to disclose further information regarding development properties.

Illustrative disclosure pursuant to requirements of SGX 1207.11:

| *"Description and location* | *% owned* | *Site area (sqm)* | *Gross floor area (sqm)* | *Stage of completion as at date of annual report (expected year of completion)* |
|---|---|---|---|---|
| *A 30-storey integrated developments with residential apartments, offices and retail components along Farrer Road, Singapore* | *XX%* | *XX* | *XX* | *XX% (XX year)* |
| *A 15-storey luxurious condominium (High Edge Tower) along Orchard Road, Singapore* | *XX%* | *XX* | *XX* | *XX% (XX year)* |
| *A 10-storey luxurious condominium (Royal Palace) development along Cheng Road, Beijing, People's Republic of China* | *XX%* | *XX* | *XX* | *XX% (XX year)"* |

# Appendix III – Other Disclosures to Notes to the Financial Statements

The following Other disclosures to Notes to the financial statements do not form part of the illustrative financial statements:

**b) *Service concession arrangements***

*"The Group entered into a service concession arrangement with the People's Republic of China ("PRC") government to construct a road, complete construction within two years and operate the road and maintain it to a specified standard for eight years. The terms of the arrangement also require the Group to resurface the road when the original surface has deteriorated below a specified condition. The Group estimates that it will have to undertake the resurfacing at the end of year 8.*

*INT FRS 29.6*

*The terms of the arrangement allows the Group to collect tolls from drivers using the road. The toll fees are determined by the PRC government annually based on the projected volume of traffic. In addition, the PRC government guarantees the Group minimum amount of S$ XXX and interest at a specified rate of X% to reflect the timing of cash receipts. The Group forecasts that vehicle numbers will remain constant over the duration of the contract and that it will receive tolls of S$ XXX in each of the years during which it operates the tolls.*

*INT FRS 29.6A*

*The amount of revenue and profits recognised during the financial year for the construction services provided under the arrangement amounts to S$ XXX (201x: S$ XXX) and S$ XXX (201x: S$ XXX) respectively."*

*INT FRS 29.6*
*INT FRS 29.7*

All aspects of a service concession arrangement shall be considered in determining the appropriate disclosures in the Notes to the financial statements. The operator and grantor shall disclose the following in each period individually for each service concession arrangement or in aggregate for each class of service concession arrangements. A class is a grouping of service concession arrangements involving services of a similar nature.

(a) A description of the arrangement;

(b) Significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows (i.e. the period of concession, re-pricing dates and the basis upon which re-pricing or re-negotiation is determined);

(c) The nature and extent (i.e. quantity, time period or amount as appropriate) of:

   (i) Rights to use specified assets;

   (ii) Obligations to provide or rights to expect provision of services;

   (iii) Obligations to acquire or build items of property, plant and equipment;

   (iv) Obligations to deliver or rights to receive specified assets at the end of the concession period;

   (v) Renewal and termination options; and

   (vi) Other rights and obligations (i.e. major overhauls);

(d) Changes in the arrangement occurring during the period; and

(e) How the service arrangement has been classified.

# Appendix III – Other Disclosures to Notes to the Financial Statements

The following Other disclosures to Notes to the financial statements do not form part of the illustrative financial statements:

**c) *Biological assets***

The following disclosure illustrates when an entity carries out agricultural activities such as sale of livestock.

*FRS 41.43*

Entities are encouraged, but not required, to provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets or between mature and immature biological assets. The basis for making such distinctions should be disclosed in that case.

"**Note X Biological assets**

**Reconciliation of carrying value**

*FRS 41.50 - 51*
*FRS 113.93(e)*

| | *Group* | |
|---|---|---|
| | *2017* | *2016* |
| | *$'000* | *$'000* |
| *At 1 January* | *xx* | *xx* |
| *Purchases* | *xx* | *xx* |
| *Sales* | *(xx)* | *(xx)* |
| *Net increase/(decrease) due to births/deaths* | *xx* | *(xx)* |
| *Gain/(loss) arising from changes in fair value less costs to sell* | *(xx)* | *(xx)* |
| *Effect of movements in exchange rates* | *xx* | *xx* |
| *At 31 December* | *xx* | *xx* |
| | | |
| *Non-current* | *xx* | *xx* |
| *Current* | *xx* | *xx* |
| | *xx* | *xx* |

*At 31 December 2017, livestock comprised xx cattle (2016: xx cattle). During the year, the Group sold xx cattle (2016: xx cattle).*

*FRS 41.41, 43, 46(b)(i)-(ii)*

*(i) Fair value hierarchy*

*The fair value measurements of livestock have been categorised as Level 2 fair values based on observable market sales data.*

*(ii) Valuation techniques*

*FRS 113.93(d), FRS 113.99*

*The Group's valuation techniques used in measuring Level 2 fair values are presented below.*

***Livestock***

*Livestock comprises cattle, characterised as commercial or breeders.*

*Market comparison technique: The fair values are based on the market price of livestock of similar age, weight, breed and genetic make-up."*

# Appendix III – Other Disclosures to Notes to the Financial Statements

The following Other disclosures to Notes to the financial statements do not form part of the illustrative financial statements:

## *d) Distributions of non-cash assets to owners*

The following disclosure illustrates when an entity applies INT FRS 117 *Distributions of Non-cash Assets to Owners* in accounting for distributions of non-cash assets to owners of the Company.

"***Accounting policy***

***Note X Share capital***

*"……………………*

***Distribution of non-cash assets to owners of the company***

INT FRS 117.11, 13

*The Group measures a liability to distribute non-cash assets as a dividend to the owners of the Company at the fair value of the assets to be distributed. At the end of each reporting date and at the date of settlement, the Group reviews and adjusts the carrying amount of the dividend payable, with any changes in the carrying amount of the dividend payable recognised directly in equity as adjustments to the amount of the distribution. On settlement of the dividend payable, the Group recognises the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable in the profit or loss."*

INT FRS 117.14

***"Note X Non-current assets and non-current liabilities distributed to owners***

INT FRS 117.16(a)

*On xx, the Company's shareholders approved the distribution of all the shares in MS Pte Ltd, one of the Group's wholly-owned subsidiaries, to the Company's shareholders. The operation of MS Pte Ltd comprise the Group's electronics activities. The Group and the Company recognised a dividend payable of $xxx, being the fair value of the net assets to be distributed. On xxx, the shares were distributed. As at 31 December 20x1, the disposal group (MS Pte Ltd) comprised assets of $xxx and liabilities of $xxx.*

| | ***Group and the Company*** |
|---|---|
| | *20x6* |
| | *$'000* |
| *Assets classified as held for distribution to owners* | |
| *Property, plant and equipment* | *xx* |
| *Intangible assets* | *xx* |
| *Trade and other receivables* | *xx* |
| *Inventories* | *xx* |
| | *xx* |
| *Liabilities classified as held for distribution to owners* | |
| *Trade and other payables* | *(xx)* |
| *Loans and borrowings* | *(xx)* |
| | *(xx)* |

INT FRS 117.16(b)

*There was no change in the fair value of the assets to be distributed between the date the distribution was approved and the date that the dividend was settled."*

# Appendix IV – Illustrative critical accounting judgements and key sources of estimation uncertainty

The following are examples of the types of disclosures that might be required in this area. The matters disclosed will be dictated by the circumstances of the individual entity, and by the significance of judgements and estimates made to the results and financial position of the entity.

## (a) Judgements made in applying accounting policies

***Allowances for Impairment of Trade and Other Receivables***

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

*An allowance is made for trade and other receivables, for estimated losses resulting from the subsequent inability of the customers to make required payments. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required in future periods. Management specifically analyses accounts receivables and analyses historical bad debt, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful receivables. At the end of each reporting date, the receivables are measured at amortised cost and their fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of each reporting date.*

*The carrying value of the trade and other receivables as of 31 December 201x amounted to S$ XXX (201x: S$ XXX). As at 31 December 201x and 201x, impairment loss on trade and other receivables has been recognised in the financial statements. Further details are given in Note X to the financial statements."*

***Determination of functional currency***

*"The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the entities in the Group, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices."*

***Operating lease commitments – as lessor***

*"The Group has entered into commercial property leases on its investment properties. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts the contracts as operating leases. The carrying value of the operating leases as of 31 December 201x amounted to S$ XXX (201x: S$ XXX). Further details are given in Note X to the financial statements."*

# Appendix IV – Illustrative critical accounting judgements and key sources of estimation uncertainty (cont'd)

## (a) Judgements made in applying accounting policies (cont'd)

***Disposal Group Held for Sale***

*"On 1 October 201x, the Board of Directors announced its decision to dispose of the rubber segment consisting of MS Co. Ltd. and, therefore classified it as disposal group for sale. The Board considered the subsidiary met the criteria to be classified as held for sale at that date for the following reasons:*

- *MS Co. Ltd. is available for immediate sale and can be sold to a potential buyer in its current condition.*
- *The Board had a plan to sell MS Co. Ltd. and had entered into preliminary negotiations with a potential buyer. Should negotiations with the party not lead to a sale, a number of other potential buyers have been identified.*
- *The Board expects negotiations to be finalised and the sale to be completed within 12 months.*

*The carrying value of the disposal group held for sale as of 31 December 201x amounted to S$ XXX (201x: S$ XXX). Further details are given in Note X to the financial statements."*

***Impairment of available-for-sale investments***

*"The Group reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.*

*For the financial year ended 31 December 201x, the amount of impairment loss recognised for available-for-sale financial assets was S$ XXX (201x: S$ XXX). Further details are given in Note X to the financial statements."*

***Revenue – Gross presentation***

*"The Group assesses at the end of the reporting date whether the Group acts as a principal or an agent. To determine whether the Group acts as a principal, the Group considers factors such if the Group has primary responsibility for providing the goods or services to the customer, bears inventory risks before, or after the customer order, during shipping or on return, has latitude in establishing prices, either directly or indirectly and bears the customer's credit risks for the amount receivable from the customer.*

*The Group has determined, based on an evaluation of the terms and conditions of the sales arrangements, that the Group acts as a principal and has presented the revenue as gross in the statement of comprehensive income."*

***Deferred taxation on investment properties***

*"For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under the business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on the fair value changes of the investment properties on disposal.*

***Discount rate used to determine the carrying amount of the Group's defined benefit obligation***

*"The Group's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded.*

# Appendix IV – Illustrative critical accounting judgements and key sources of estimation uncertainty (cont'd)

## (b) Key sources of estimation uncertainty

***Deferred tax assets***

*"Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.*

*The Group has tax loss carry forwards amounting to S$ XXX (201x: S$ XXX). These losses relate to subsidiaries that have a history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group. The subsidiary has no temporary taxable differences which could partly support the recognition of deferred tax assets. Also, there is no tax planning opportunity available that would further provide a basis for recognition. If the Group was able to recognise all unrecognised deferred tax assets profit would increase by S$ XXX.*

*If deferred tax assets increased/decreased by X% from management's estimates, the Group's profit would increase/decrease by S$ XXX and S$ XXX respectively."*

***Uncertain tax positions***

*"The Group is subject to income taxes in numerous jurisdictions. In determining the income tax liabilities, management is required to estimate the amount of capital allowances and the deductibility of certain expenses ("uncertain tax positions") at each tax jurisdiction.*

*The Group has significant open tax assessments with one tax authority at the reporting date. As management believes that the tax positions are sustainable, the Group has not recognised any additional tax liability on these uncertain tax positions. The maximum exposure of these uncertain tax positions is S$ XXX.*

***Construction contracts***

*The Group recognises contract revenue by reference to the stage of completion of the contract activity at the end of each reporting period, when the outcome of a construction contract can be estimated reliably. The stage of completion is measured by reference to the proportion that contract costs incurred for work performed to date to the estimated total contract costs. Significant assumptions are required to estimate the total contract costs that affect the stage of completion.*

*In making these estimates, management has relied on past experience and knowledge of the project engineers. The carrying amounts of assets and liabilities arising from construction contracts at the end of each reporting period are disclosed in Note X to the financial statements. If the estimated total contract cost had been X% higher than management estimate, the Group's revenue would have been $XXX (2016: $XXX) lower and amounts due to customers under construction contracts would have been correspondingly higher.*

# Appendix IV – Illustrative critical accounting judgements and key sources of estimation uncertainty (cont'd)

**(b) Key sources of estimation uncertainty (cont'd)**

***Development costs***

*"Development costs are capitalised in accordance with the accounting policy in Note X to the financial statements. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. The carrying amount of development costs capitalised at the reporting date was S$ XXX (201x: S$ XXX).*

*If the expected future cash generation of the project were to be XX% lower than management's estimate, the carrying amount of development costs would have been S$ XXX (201x: S$ XXX) lower."*

***Revenue recognition on development property under construction***

*"The Group recognises revenue for pre-completion sales of certain types of properties by reference to the stage of completion using the percentage of completion method. The stage of completion is measured based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred.*

*Significant assumptions are required to estimate the total contract costs and the recoverable variation works that affect the stage of completion and the revenue respectively. In making these estimates, management has relied on past experience and knowledge of the project engineers. The carrying amounts of assets and liabilities as well as the revenue from sale of development property (recognised on percentage of completion basis) are disclosed in Note X (Development Property) and Note Y (Revenue) to the financial statements respectively. A XX% difference in the total construction costs from management's estimates would result in approximately XX% (201x: XX%) variance in the Group's revenue."*

***Revaluation of investment property under construction ("IPUC")***

*"IPUC is measured at fair value if it can be reliably determined. If fair value cannot be reliably determined, then IPUC is recorded at cost. The fair value of IPUC is determined using either the Discounted Cash Flow Method or the Residual method. However, using either method to value IPUC also requires considering the significant risks which are relevant to the development process, including but not limited to construction and letting risks.*

*Key judgements and assumptions used for valuing IPUC are set out in Note X to the financial statements. The carrying amount of the investment property under construction at the end of the reporting period is disclosed in Note X to the financial statements. If fair value increase/decrease by X% from management's estimates, the Group's profit will decrease/increase by S$ XXX and S$ XXX respectively."*

***Fair Value of Biological Assets***

*"Biological assets are measured on initial recognition and at each reporting date at their fair value less cost of disposal. The fair value calculation is based on a discounted cash flow model as there is a lack of comparable market data because of the nature of the biological assets. Estimated cost of disposal include harvest costs, transportation cost and other related costs, measured at their appropriate market prices to be used as reference point in the relevant locations.*

*The Group has recognised a fair value gain (loss) of S$ XXX (201x: S$ XXX) arising from changes in fair value less estimated costs to sell of its biological assets during the financial year. A X% difference in the fair value of these assets from management's estimates would result in approximately X% (201x: X%) variance in the Group's profit before tax."*

# Appendix IV – Illustrative critical accounting judgements and key sources of estimation uncertainty (cont'd)

**(b) Key sources of estimation uncertainty (cont'd)**

***Provision for decommissioning***

*"As part of the purchase price allocation for the acquisition of xx Limited in 201x, the Group has recognised a provision for decommissioning obligations associated with a factory owned by xx Limited. In determining the amount of the provision, assumptions and estimates are made in relation to discount rates, the expected cost to dismantle and remove all plant from the site and the expected timing of those costs.*

*The carrying amount of the provision as at 31 December 201x is S$ XXX (201x: S$ XXX).*

*If the estimated pre-tax discount rate used in the calculation had been X% higher than management's estimate, the carrying amount of the provision would have been S$ XXX lower."*

***Provision for Litigation***

*"The Group has recognised provision for litigation which will be settled after twelve months from the financial year of the Group as disclosed in Note X to the financial statements. In determining the amount of provision, assumptions and estimates are made in relation to discount rates, estimated cost to settle the litigation and expected timing of settlement. The Group has recognised provision of S$ XXX (201x: S$ XXX) for litigation during the financial year.*

*If the provision increases/decreases by X% from management's estimates, the Group's profit will decrease/increase by S$ XXX and S$ XXX respectively."*

***Provision for Warranty***

*"The Group provides five-year warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily. Management estimates that related provision for future warranty claims based on historical warranty claim information, as well as the recent trends that suggest the past cost information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs. As at 31 December 201x, the carrying amount of the warranties was S$ XXX (201x: S$ XXX) as disclosed in Note xx Provisions.*

*If the provision increases/decreases by X% from management's estimates, the Group's profit will decrease/increase by S$ XXX and S$ XXX respectively."*

***Provision for Onerous Contracts***

*"The Group has entered into a non-cancellable operating lease contract which has become onerous. Management estimates that the provision on the onerous lease contract is based on the present value of the future lease payments that the Group is presently obliged to make." As at 31 December 201x, the carrying amount of onerous contract was S$ XXX (201x: S$ XXX) as disclosed in Note xx Provisions. If the provision increases/decreases by X% from management's estimates, the Group's profit will decrease/increase by S$ XXX and S$ XXX respectively.*

***Provision for waste electrical and electronic equipment ("PWEEE")***

*"The Group recognises a provision for liabilities associated with the participation in the market for PWEEE in accordance with the accounting policy stated in Note X to the financial statements. The Group has made assumptions in relation to historical waste, regarding the level of market participation, the quantity of products disposed of and the expected cost of disposal. In relation to future waste, the Group has made assumptions about the age profile of products in the market and the cost of disposal.*

*At 31 December 201x, the carrying amount of the provision PWEEE is S$ XXX (201x: S$ XXX).*

*If the provision increases/decreases by X% from management's estimates, the Group's profit will decrease/increase by S$ XXX and S$ XXX respectively."*

# Appendix V – Illustrative disclosures of new and revised financial reporting standards

The following illustrative disclosures summarise the key amendments to the revised financial reporting standards issued by the Accounting Standards Council (ASC) as at 31 October 2017.

**Revised financial reporting standards effective for annual periods beginning on or after 1 January 2017**

***Amendments to FRS 12 Income taxes – Recognition of deferred tax assets for unrealised losses***

*The amendments clarify the application of FRS 12 to unrealised losses on debt investments, and the assessment of future taxable profits against which deferred tax assets can be recognised. Specifically:*

1. *Deductible temporary differences will result from unrealised losses on debt investments measured at air value in financial statements, but measured at cost for tax purposes. This is regardless of how the entity intends to realise the investment.*

2. *Estimates of future taxable profits used to assess recoverability of deferred tax assets resulting from deductible temporary differences:*

    *(a) Includes profits on the recovery of assets for more than their carrying amount if such recovery is probable;*
    *(b) Includes only income types against which those temporary differences qualify to be deducted under tax legislation; and*
    *(c) Excludes tax deductions resulting from the reversal of those temporary differences.*

***FRS 112 Disclosure of Interests in Other Entities***

*The amendment clarifies that the disclosure requirements of FRS 112, except for paragraphs B10 to B16, are applicable to interests classified as held for sale, held for distribution to owners, or discontinued operations. The amendment is applicable with effect from annual periods beginning on or after 1 January 2017.*

# Appendix V – Illustrative disclosures of new and revised financial reporting standards

The following illustrative disclosures summarise the key amendments to the revised financial reporting standards issued by the Accounting Standards Council (ASC) as at 31 October 2017.

**Revised financial reporting standards not yet effective**

***Amendments to FRS 102 Classification and Measurement of Share-based Payment Transactions***

*The amendments clarify that the measurement of cash-settled share-based payment transactions that include vesting or non-vesting conditions should follow the same measurement principles used for measuring equity-settled share-based payments. Where a share-based payment is net-settled by withholding a specified portion of the shares to meet a statutory withholding obligation, the transaction should be accounted for as equity-settled in its entirety if it would have been classified as equity-settled if it had not included the net settlement feature.*

*The amendments also address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. As the modification date, the liability for the original cash-settled share-based payment would be derecognised, and the equity-settled share-based payment would be measured at its fair value as at the modification date and recognised to the extent that the services have been rendered up to that date; and the difference between the carrying amount of the liability as at the modification date, and the amount recognised in equity as at that date, would be recognised in profit or loss immediately. The amendments are effective for annual periods beginning on or after 1 January 2018. Early application is permitted.*

***Amendments to FRS 40 Investment Property***

*The amendment clarifies that transfers to and from investment properties are made only when there is evidence of a change in use, and cannot be solely based on intention. The amendment re-characterises the list of evidence in paragraphs 57(a) – (d) as a non-exhaustive list of examples, thereby permitting transfers on other circumstances. The amendment is prospectively applicable for annual periods beginning on or after 1 January 2018. Retrospective application is also allowed if possible without hindsight. Earlier application is permitted.*

***INT FRS 122 Foreign Currency Transactions and Advance Consideration***

*The interpretation prescribed the exchange rate that should be applied to the recognition of an asset, expense or income transacted in a foreign currency, in situations when a related non-monetary asset or liability arising from the payment or receipt of advance consideration was recognised prior to the recognition of the asset, expense or income. With limited exceptions, the Interpretation requires such exchange rates be based on the date of initial recognition of the related non-monetary asset or liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The Interpretation is applicable, either retrospectively or prospectively, for annual periods beginning on or after 1 January 2018. Earlier application is permitted.*

# Appendix V – Illustrative disclosures of new and revised financial reporting standards

The following illustrative disclosures summarise the key amendments to the revised financial reporting standards issued by the Accounting Standards Council (ASC) as at 31 October 2017.

**Revised financial reporting standards not yet effective**

***Amendments to FRS 104 Insurance Contracts***

*The amended FRS 104 will:*

- *provide entities that implement FRS 109 with the option to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from the accounting mismatches and temporary volatility that could occur when FRS 109 is applied; and*

- *provide entities with an optional temporary exemption from applying FRS 109 until 2021 if their activities are predominantly connected with insurance.*

***Improvements to FRSs December 2016***

- ***FRS 101 First-time Adoption of Singapore Financial Reporting Standards***

*The amendment removes certain short-term exemptions relating to financial instruments, employee benefits and investment entities that are only relevant for past reporting periods. The amendment is applicable for annual periods beginning on or after 1 January 2018.*

- ***FRS 28 Investments in Associates and Joint Ventures***

*The amendment clarifies that the following elections should be made separately for each investment in associate or joint venture:*

*a) Election by venture capital organisations, mutual funds, unit trusts and similar entities, to measure investments in associates and joint ventures at fair value through profit or loss at initial recognition; and*

*b) Election by investors that are not investment entities, when applying the equity method, to retain the fair value measurements applied by their investment entity associates and joint ventures to the subsidiaries of those associates and joint ventures.*

***Amendments to FRS 110 and FRS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

*The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in FRS 103 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.*

# Appendix VI – Differences between Financial Reporting Standards ("FRSs") and International Financial Reporting Standards ("IFRSs")

***As at 31 October 2017***

| **FINANCIAL REPORTING STANDARDS ("FRSs")** | | | |
|---|---|---|---|
| **FRSs** | **DESCRIPTION** | **IFRSs** | **DESCRIPTION** |
| FRS 16 *Property, Plant and Equipment* | FRS 16 has a transitional provision which exempts an entity, which had:<br>- revalued its property, plant and equipment before 1 January 1984; or<br>- performed any one-off revaluation on its property, plant and equipment between 1 January 1984 and 31 December 1996 (both dates inclusive), from complying with the requirement to keep the revaluation current by periodic valuation. | IAS 16 *Property, Plant and Equipment* | IAS 16 does not have such a transitional provision and therefore all property, plant and equipment that had been revalued prior to adoption of IAS 16 would have to be revalued on a periodic basis. |
| FRS 27 *Consolidated and Separate Financial Statements*<br><br>FRS 28 *Investments in Associates*<br><br>FRS 31 *Interests in Joint Ventures* | The requirement that the consolidated financial statements comply with IFRS is not required under FRS 27, FRS 28 and FRS 31. | IAS 27 *Consolidated and Separate Financial Statements*<br><br>IAS 28 *Investments in Associates*<br><br>IAS 31 *Interests in Joint Ventures* | One of the conditions for exemption from preparing:<br>– consolidated financial statements;<br>– equity accounting; or<br>– proportional consolidation,<br>under IAS 27, IAS 28 and IAS 31 is "the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with **IFRS**." |
| FRS 102 *Share-based Payment* | (i) FRS 102 replaces "7 November 2002" with "22 November 2002".<br>(ii) For non-listed companies, FRS 102 is effective only for annual periods beginning from 1 January 2006. | IFRS 2 *Share-based Payment* | IFRS 2 applies to:<br>(a) grants of shares, share options or other equity instruments that were granted after 7 November 2002 and had not yet vested at the effective date of IFRS 2.<br>(b) grants of shares, share options or other equity instruments that were made before 7 November 2002, which were subsequently modified.<br>IFRS 2 applies to all companies for financial periods beginning from 1 January 2005. |

# Appendix VI – Differences between Financial Reporting Standards ("FRSs") and International Financial Reporting Standards ("IFRSs")

***As at 31 October 2017***

| **FINANCIAL REPORTING STANDARDS ("FRSs") (cont'd)** | | | |
|---|---|---|---|
| **FRSs** | **DESCRIPTION** | **IFRSs** | **DESCRIPTION** |
| FRS 103 *Business Combinations* | Effective for annual periods on or after 1 July 2004. | IFRS 3 *Business Combinations* | IFRS 3 applies to the accounting for business combinations for which the agreement date is on or after 31 March 2004. |
| FRS 110 *Consolidated Financial Statements*<br><br>FRS 111 *Joint Arrangements*<br><br>FRS 112 *Disclosure of Interest in Other Entities*<br><br>FRS 27 *Separate Financial Statements*<br><br>FRS 28 *Investments in Associates and Joint Ventures*<br><br>(Collectively known as the Relevant Standards) | The mandatory effective date of the Relevant Standards has been revised from annual periods beginning on or after 1 January 2013 to annual periods beginning on or after 1 January 2014.<br><br>Earlier application of these standards continues to be permitted subject to the requirements of earlier application as set out in these standards. | IFRS 10 *Consolidated Financial Statements*<br><br>IFRS 11 *Joint Arrangements*<br><br>IFRS 12 *Disclosure of Interest in Other Entities*<br><br>IAS 27 *Separate Financial Statements*<br><br>IAS 28 *Investments in Associates and Joint Ventures*<br><br>(Collectively known as the Relevant Standards) | The effective date of these Relevant Standards is effective for annual periods beginning on or after 1 January 2013. |
| INT FRS 115 *Agreements for the Construction of Real Estate* | INT FRS 115 is effective for annual periods beginning from 1 January 2011.<br><br>INT FRS 115 is to be read together with the Accompanying Note on application of INT FRS 115 in Singapore. | IFRIC 15 *Agreements for the Construction of Real Estate* | IFRIC 15 applies to all companies for annual periods beginning from 1 January 2009.<br><br>IFRIC 15 does not have this Accompanying Notes. |

# Appendix VI – Differences between Financial Reporting Standards (“FRSs”) and International Financial Reporting Standards (“IFRSs”)

***As at 31 October 2017***

| **FINANCIAL REPORTING STANDARDS (“FRSs”) (cont’d)** | | | |
|---|---|---|---|
| **FRSs** | **DESCRIPTION** | **IFRSs** | **DESCRIPTION** |
| FRS 109 *Financial Instruments* | Effective for annual periods on or after 1 January 2018. | IFRS 9 *Financial Instruments* | IFRS 9 was issued by the International Accounting Standards Board (IASB) in July 2014 as part of its project to replace IAS 39 Financial Instruments: Recognition and Measurement. The IASB developed IFRS 9 in phases – classification and measurement, impairment and hedge accounting. Before IFRS 9 was issued, three earlier versions of the standard had been issued by the IASB. With all of the phases now completed, IFRS 9 permits the application of any of the earlier versions, but only if the date of initial application is before 1 February 2015.<br><br>Notwithstanding so, the ASC concluded that the application of an earlier version of the standard should not be permitted. |
| *Not applicable* | This interpretation has not yet been adopted in Singapore yet. | IFRIC 2 *Members’ Shares in Co-operative Entities and Similar Instruments* | This Interpretation applies to financial instruments within the scope of IAS 32, including financial instruments issued to members of co-operative entities that evidence the members’ ownership interest in the entity. This Interpretation does not apply to financial instruments that will or may be settled in the entity’s own equity instruments. An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2005. |

# Appendix VI – Differences between Financial Reporting Standards ("FRSs") and International Financial Reporting Standards ("IFRSs")

***As at 31 October 2017***

| FINANCIAL REPORTING STANDARDS ("FRSs") (cont'd) | | | |
|---|---|---|---|
| **FRSs** | **DESCRIPTION** | **IFRSs** | **DESCRIPTION** |
| FRS 12 Income Taxes | <u>Accounting for unremitted foreign income</u><br><br>Under Recommended Accounting Practice (RAP) 8 issued by the Institute of Chartered Accountants (ISCA), no deferred tax is accounted for temporary difference arising from <u>foreign income not yet remitted</u> to Singapore if:<br><br>a) the entity is able to control the timing of the reversal of the temporary difference; and<br>b) it is probable that the temporary difference will not reverse in the foreseeable future. | IAS 12 Income Taxes | Under paragraph 39 of IAS 12, an entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, except to the extent that both of the following conditions are satisfied:<br><br>a) the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference; and<br>b) it is probable that the temporary difference will not reverse in the foreseeable future. |

| IFRS and IFRIC have not yet been adopted under Singapore Financial Reporting Standards | |
|---|---|
| **IFRS/IFRIC** | **DESCRIPTION** |
| IFRS 17 *Insurance Contracts*, effective for annual periods beginning on or after 1 January 2021 | The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure.<br><br>The IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided.<br><br>Certain changes in the estimates of future cash flows and the risk adjustment are also recognised over the period that services are provided.<br><br>Entities will have an option to present the effect of changes in discount rates either in profit and loss or in OCI.<br><br>The standard includes specific guidance on measurement and presentation for insurance contracts with participation features. |
| Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* effective for annual periods beginning on or after 1 January 2019 | The amendments clarify that IFRS 9 *Financial Instruments,* including its impairment requirements, applies to long-term interests in an associate or joint venture to which the equity method is not applied but, in substance, form part of the net investment in an associate or joint venture. |

# Appendix VI – Differences between Financial Reporting Standards (“FRSs”) and International Financial Reporting Standards (“IFRSs”)

***As at 31 October 2017***

| FINANCIAL REPORTING STANDARDS (“FRSs”) (cont’d) | |
|---|---|
| **IFRS/IFRIC** | **DESCRIPTION** |
| Amendments to IFRS 9 *Prepayment Features with Negative Compensation and modifications of financial liabilities,* effective for annual periods beginning on or after 1 January 2019 | The amendments provide an exception for entities to measure particular financial assets with prepayment features that could result in negative compensation (i.e. prepayment amount that is substantially less than unpaid amounts of principal and interest) at amortised cost or fair value through other comprehensive income, subject to an assessment of the business model. Such financial assets with prepayment features pass the solely payments of principal and interest criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.<br><br>The amendments also include clarifications to the accounting for a modification or exchange of a financial liability that does not result in derecognition. It clarifies that an entity should recognise a gain or loss in profit or loss immediately at the date of such modification or exchange. |

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