Delivering Performance. Realising Growth Potential.

ANNUAL REPORT 2018

Manufacturing

- Shinsei steel flanges
- Awarded ISO 9001:2008, TUV, CRN, ClassNK, SASOL certification and approval for international product standard compliance
- Serve a wide base of customers

Distribution

- Warehouse holds over 10,000 stainless steel pipes, flanges, buttwelded fittings, low/ high pressure fittings, valves, stub ends, and flat products
- Awarded: ISO 9001:2008 standards for quality management operation as stainless steel producer and stockist
- Over 650 customers across the region

Environmental and Engineering Services

- Construct and operate industrial wastewater treatment plants in PRC
- Consulting service in water resource management, including governmental and commercial operators in Singapore
- Construct and supply rural wastewater treatment equipment in PRC

Distribution

Established since

1977

with **41 years** solid track records

Contents

Our Vision

To be a global leader in stainless steel piping products, known for our outstanding quality and unique upstream and downstream capabilities, from manufacturing to distribution to engineering construction and environmental business.

Manufacturing

Manufacturing Operations are Certified & Awarded with

ISO 9001:2008

TUV, CRN, ClassNK and SASOL

Environmental and Engineering Services

Build-Own-Transfer ("BOT")
Build-Own-Operate ("BOO")
Private-Public-Partnership ("PPP")

>5,000 systems sold
+
First maiden PPP Project in Guangdong, China

7 wastewater treatment plants
+
1 fresh water suppy plant
+
2 new expansions

About AnnAik

Tracing its beginning to 1977, AnnAik Limited is today a manufacturer of forged steel flanges, and a distributor of over 10,000 stainless steel pipes, flanges, buttwelded fittings, low/high pressure fittings, valves, stub ends, and flat products. AnnAik also engages in providing environmental services in PRC and Singapore to governmental and commercial operators.

AnnAik's manufacturing operations are certified and awarded with ISO 9001:2008, TUV, CRN, ClassNK and SASOL certification and approval for international product standard compliance. The reliable quality of AnnAik's products under "SHINSEI" brand also make us greatly sought after by a wide base of customers from around the world.

Similarly, the Distribution Division serves over 650 customers globally. Awarded: ISO 9001:2008 standards for quality management operation as stainless steel producer and stockist, AnnAik also went on to achieve bizSAFE Level 3 accreditation in 2014.

In 2005, the Group diversified into environmental business by securing contracts to build wastewater treatment plants in PRC. Today, the Group not only has seven wastewater treatment plants and one fresh water supply plant in PRC under Build-Own-Transfer ("BOT") or Build-Own-Operate ("BOO") concept, we have also expanded our service offerings to include consulting services in water resource management to governmental and commercial operators in Singapore, as well as the construction and supply of rural wastewater treatment equipment and system in PRC.

Notably, AnnAik's capabilities in both upstream and downstream activities have enabled us to enhance our efficiency and cost competitiveness in our business operations. Furthermore, the use of our products in diverse industries ranging from heavy-duty to light-duty industries such as marine engineering, shipbuilding and repair, oil and gas, petrochemical, semiconductor as well as the utilities sector has empowered the Group to build a sustainable business.

The contact person for the Sponsor is Mr Tang Yeng Yuen, Vice President, Head of Corporate Finance, Hong Leong Finance Limited, at 16 Raffles Quay, #01-05 Hong Leong Building, Singapore 048581, telephone: +65 6415-9886.

Chairman's Message

Dear Shareholders,

2018 started on a positive note with signs of broad-based global economic recovery. But as the year progressed, downside risks increased with weakening growth momentum. The situation was further compounded by arising political trade tensions between U.S and China and other geopolitical issues, including Brexit and NAFTA.

Delivering Performance

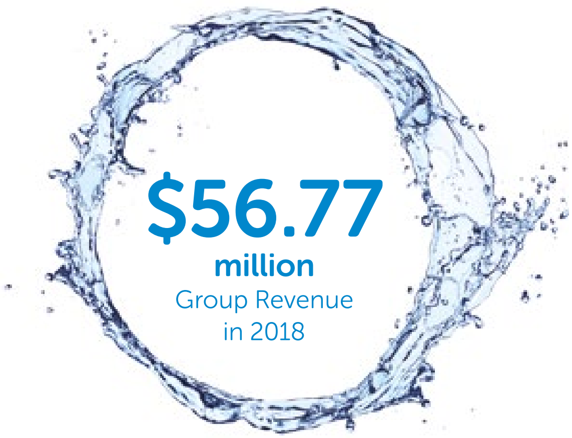
Despite the challenging operating environment, AnnAik was able to build on our transformation strategy started in 2016 to achieve $1.22 million profit attributable to owners of the Company for the financial year ended 31 December 2018. Notwithstanding the absence of the one-off gain on dilution of interest in investment amounting to $4.58 million in 2017, the Group had turned around from a $1.96 million operating loss in 2017 to a $1.22 million operating profit in 2018.

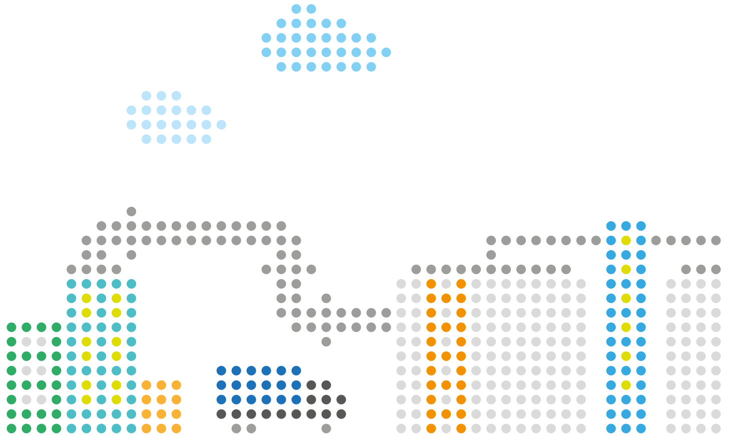
A few notable developments during the year had contributed to the improvement in the Group's operating results. Amongst which, the successful completion of our restructuring exercise for the steel flanges manufacturing division significantly lowered the operating cost incurred in 2018. The completion and securing of environmental projects under the EPC model by an associate company for rural wastewater treatment, improved utilisation rate of ChangXing HengYi Wastewater Treatment Co., Ltd and LinXing Water Supply Co., Ltd, as newly set up industrial wastewater treatment plants also contributed positively to results of the environmental division and the overall performance of the Group in 2018.

Realising Growth Potential

After two years of sluggish demand for steel products worldwide, the steel industry saw signs of recovery as countries in the region embarked on infrastructure development projects. Additionally, low stock levels, prior

Notwithstanding the absence of the one-off gain on dilution of interest in investment in 2017, the Group had turned around from a $1.96 million operating loss in 2017 to a $1.22 million operating profit in 2018.





industry consolidation and tight supply capacities created a demand vacuum for steel products, pushing prices and gross profit margin for steel products to increase in 2018. Under the influence of these market forces, AnnAik achieved higher gross profit margin for our steel flanges manufacturing and steel products distribution divisions in 2018.

In addition, besides stepping up our sales efforts for Metal Wang Pte Ltd and AnnAik Pte Ltd in the steel products distribution division, AnnAik also successfully tap into opportunities in the Korean market through our new subsidiary – Handel Co., Ltd. Concurrently, we also diversified our focus beyond the oil and gas industry to healthcare and high-tech infrastructural projects. Resultantly, the Group's revenue increased 15.06% from $49.34 million in 2017 to $56.77 million in 2018.

Looking Ahead

The world economy continues to be plagued by much uncertainty and pessimism in 2019. The negative sentiment has caused many companies to delay or put off their global investment plans as evidenced in the scale back of new major oil and gas, offshore and marine and downstream projects in the region. Although China's ambitious Belt and Road initiative is expected to spur capital investment and trade globally, the project has yet to generate significant benefits to date, as it is still primarily focused on using Chinese resources for infrastructure construction.

Fortunately, the change in the Group's direction for the past few years is gaining traction. On one hand, our investment in the environmental industry provides stability for the Group with its recurrent income model; on the other, it has enabled AnnAik to diversify our business from the traditional steel products business to the growing environmental industry. Today, the environmental division has become a growth engine for the Group.

Foreseeably, global trade pattern will continue to change and sustainability will increasingly become a key priority for many countries. Given our strong head start in the industry, AnnAik is well positioned to seize arising opportunities in different parts of China and the region. Therefore, we will build upon our advantage by increasing our investment in the environmental division to strengthen AnnAik's presence and capabilities.

Comparatively, the steel flanges manufacturing and steel products distribution divisions are facing strong headwinds as a result of the rise of trade protectionism policies.

These unpredictable changes in trading policies have made international trading challenging and uncertain. As a countermeasure, AnnAik will look to tap into domestic capital spending to sustain growth and demand. Concurrently, we will also seek out new partners in existing markets while exploring avenues to engage new customers.

In Appreciation

AnnAik had a productive year in 2018. We managed to deliver creditable results despite challenging macroeconomic circumstances. This is an achievement that belonged to not only AnnAik, but also our shareholders, customers and business partners. Their continued support, trust and confidence in us have strengthened our resolve to work harder and do better. Of course, we also recognise that these results would have been impossible without invaluable contributions from our Board, management and staff.

Confronting the challenges ahead, AnnAik remains committed to realising our strategic objectives and achieving our profitability goals. Thus, apart from keeping a strong focus on our existing businesses, we will also adapt our strategy in tandem with shifts in the economic landscape so as to stay competitive and ready to take advantage of new growth opportunities.

James Ow Chin Seng
Executive Chairman cum CEO

Group Structure

As at 31 December 2018

ANNAIK LIMITED

MANUFACTURING BUSINESS

- 92% Shinsei Holdings Pte Ltd
  - 100% Shinsei Industry Sdn Bhd
    - 100% Shinsei Resources Recovery Sdn Bhd

DISTRIBUTION BUSINESS

- 100% Ann Aik Pte Ltd
- 100% Wesco Steel Pte Ltd
- 50% Ichinose Emico Valves (S) Pte Ltd
- 100% AnnAik & Partners (S) Pte Ltd
  - 100% AnnAik Pipes & Fittings (Shanghai) Co., Ltd
- 60% Metal Wang Pte Ltd
  - 60% Handel Co., Ltd

ENVIRONMENTAL & ENGINEERING BUSINESS

- 100% Anxon Environmental Pte Ltd
  - 60% AngWei Environmental Ecological & Engineering (Shanghai) Co., Ltd 上海昂为环境生态工程有限公司
    - 100% ChangXing LiJiaXiang New Era Wastewater Treatment Co., Ltd 长兴李家巷新世纪污水处理有限公司
      - 100% ChangXing HengYi Wastewater Treatment Co., Ltd 长兴恒益水质净化有限公司
      - 100% ChangXing Annyi Wastewater Treatment Co., Ltd 长兴安益水质净化有限公司
  - 60% ChangXing AngWei Environmental & Ecological Engineering Co., Ltd 长兴昂为环境生态工程有限公司
  - 42% Shuanglin (Huzhou) Wastewater Treatment Co., Ltd 湖州双林水质净化有限公司
- 100% Anxon Eco Holdings Pte Ltd
  - 88% ChangXing LinSheng Wastewater Treatment Co., Ltd 长兴林盛水质净化有限公司
    - 100% ChangXing WuSheng Wastewater Treatment Co., Ltd 长兴吴盛水质净化有限公司
    - 85% LinXing Water Supply Co., Ltd 长兴县林城镇林兴自来水有限公司
    - 80% ChangXin LinYi Wastewater Treatment Co., Ltd 长兴林益中水回用有限责任公司
- 51% Pioneer Environmental Technology Pte Ltd
  - 80% Suzhou Pioneer Environmental Technology Pte Ltd 苏州派宁环保科技有限公司
    - 30% Wuhan Pioneer Environmental Technology Pte Ltd 武汉派宁环保技术有限公司
- 55% Anxon Engineering Pte Ltd
- 100% Anxon Envirotech Pte Ltd
  - 25% Shanghai Onway Environmental Development Co., Ltd 上海昂未环保发展有限公司
    - 100% Zhejiang Xinyu Environmental Technology Pte Ltd 浙江新禹环境科技有限公司

● Rural Wastewater Treatment Business ● Industrial & Municipal Wastewater Treatment Business ● Hazardous Wastewater Treatment Business

Board of Directors

Mr. Ow Chin Seng, PBM
Executive Chairman cum CEO

Date of appointment: 31 March 1990
Date of last re-election: 25 April 2017

Mr. Ow Chin Seng joined the Company in 1978. As Executive Chairman cum CEO, Mr. Ow is primarily responsible for the business and strategic development of the Group. With over 40 years of experience in the hardware and steel industry, Mr. Ow has been instrumental in the strategic direction and development of the Group.

Mr. Ow is currently the President of Singapore-China Business Association, Vice-Chairman of Trade Association & Membership Affairs Committee of SCCCI, Council member of Singapore-Zhejiang Economic & Trade Council and Immediate past president of Singapore Metal & Machinery Association. He is also active in public service activities, serving as a member on the committees of several public organisations, such as Advisor of School Advisory Committee for Pei Tong Primary School, Patron of Bukit Gombak Constituency Citizen's Consultative Committee and Advisor of Singapore Wushu Dragon & Lion Dance Federation. He was awarded the title of Pingat Bakti Masyarakat (PBM) during the National Day Award Ceremony in 2007.

Mr. Ow Eei Meng Benjamin
Executive Director cum
Deputy Chief Executive Officer

Date of appointment: 1 March 2015
Date of last re-election: 30 April 2018

Mr. Benjamin Ow worked in the Company's IT department from 2007 to 2008 before going on to pursue further studies. Rejoining the Company in February 2013 as Assistant to Executive Chairman cum CEO and Supply Chain Manager of Distribution Business in Singapore, Mr. Ow was subsequently appointed as an Executive Director in March 2015 and as Deputy Chief Executive Officer in July 2018. His current roles are to assist the Chief Executive Officer in managing the strategic direction of the Company and oversee operations. Mr. Ow holds a Master of Commerce from Macquarie University, Australia and Degree in Computing from the National University of Singapore.

Mr. Ng Kim Keang
Executive Director cum
Chief Operating Officer

Date of appointment: 3 January 2005
Date of last re-election: 30 April 2018

Mr. Ng Kim Keang joined the Company in January 2003 as Financial Controller, and was promoted to Executive Director in January 2005 and Chief Operating Officer in March 2015. Currently, Mr. Ng is responsible for managing the overall operations and the finance and accounting matters of the Group. Prior to joining the Company, Mr. Ng worked in Deloitte & Touche, Malaysia, and Ernst & Young, Singapore. Mr. Ng holds a Bachelor of Commerce from the University of Adelaide, Australia, and is a full member of CPA Australia and CA Singapore.

Ms. Tan Poh Hong
Independent Director

Date of appointment: 26 July 2018
Date of last re-election: not applicable

Ms. Tan Poh Hong was the Chief Executive Officer of Agri-Food & Veterinary Authority (AVA) of Singapore from 2009 to 2017. During her tenure, she transformed and expanded the organisation's mandate to manage and strengthen Singapore's food security.

Prior to AVA, Ms. Tan was the Deputy CEO of the Housing and Development Board (HDB) from 2004 to 2009 where she managed 4,700 officers in the Estates and Corporate Groups. She held various positions when she was with HDB, including oversight of corporate governance, organisational development and transformation, human resource management, public communications, and community engagement. Personally, she engages with Singapore Red Cross and the Industrial & Services Cooperative Society Ltd (ISCOS) as its Vice-Chairman. She holds a BSc (Hons) in Estate Management from the National University of Singapore (1981), and a Master of Business Administration (with Distinction) from New York University (1988). She was awarded the Public Administration Medal (Gold) in 2013, and the Public Service Medal in 1999 by the Singapore Government.

Present directorship in listed companies: Sheng Siong Group Ltd and Centurion Corporation Limited

Past directorships held over preceding three years in listed companies: Nil

Mr. Lee Bon Leong, BBM, JP
Independent Director

Date of appointment: 31 July 2003
Date of last re-election: 28 April 2016

Mr. Lee Bon Leong is a Senior Partner in Lee Bon Leong & Co (Advocates & Solicitors). He has a Master of Laws degree from the University of Singapore.

Mr. Lee has been appointed as a Justice of the Peace by the President of Singapore since November 1998 and serves as a member of the Board of Visiting Justices and the Board of Inspection. He had been a member of the Panel for the Disciplinary Committee of Enquiry, Public Service Commission. Mr. Lee is the Vice-Chairman and Trustee of the Inmates' Families Support Fund and Chairman of the Home Detention Advisory Committee 2. Mr. Lee was conferred the Public Service Star (BBM) award in 2012. In April 2016, Mr. Lee was appointed as Chairman of the Board of Visitors for the SCDF and SPF Detention Barracks.

Present directorship in listed companies: Asia Enterprises Holding Ltd and Megachem Ltd.

Past directorships held over preceding three years in listed companies: Nil

Mr. Lim Geok Peng
Independent Director

Date of appointment: 11 July 2017
Date of last re-election: 30 April 2018

Mr. John Lim Geok Peng is Audit and Assurance Partner as well as HR and Training Partner at PKF-CAP LLP. He graduated with Bachelor of Accountancy from National University of Singapore and is a practicing member of the Institute of Singapore Chartered Accountant as well as CPA (Australia).

Mr. Lim serves as a member of ACRA's Complaints and Disciplinary Committee. He is also appointed as a lay person on the Inquiry Panel of the Legal Profession Act. Previously, Mr. Lim was a member of the Public Accounting Practice Committee of the Institute of Singapore Chartered Accountant. He was also previously the Deputy Director and Head of the Practice Monitoring Division of ISCA, Co-Managing Director of a public accounting firm and CFO of a large non-profit organisation.

Present directorship in listed companies: Nil

Past directorships held over preceding three years in listed companies: Nil

Operations Review

2018 turned out to be a year with a mixed bag of opportunities and challenges for AnnAik. Although the optimistic outlook in the beginning of 2018 failed to deliver on recovery expectations, the Group was able to effectively adapt our strategy and capitalise on our strengths to achieve an improved performance in 2018.

For the financial year ended 31 December 2018, the Group registered profit attributable to owners of the Company amounting to $1.22 million. This represented a turnaround from the $1.96 million operating loss in 2017, which recorded a $2.62 million profit attributable to owners of the Company after accounting for the $4.58 million one-off gain on dilution of interest in investment. The improvement of operating results was attributable to higher turnover and gross profit from various business divisions.

Steel Products Distribution Division

The global steel industry turned around from bearish sentiments in the beginning of 2018 with the reactivation of previously delayed or aborted infrastructure projects. This development, together with low steel products stock level in the market and tight supply capacities, caused prices for steel products to increase in 2018.

Riding on the momentum of favourable market conditions, AnnAik saw an opportunity to diversify the offerings of our steel products distribution division beyond the oil and gas and offshore industries to establish a foothold in the rapidly expanding healthcare and high-tech sectors. This led to intensified sales efforts for Metal Wang Pte Ltd and AnnAik Pte Ltd, and the new subsidiary – Handel Co., Ltd – in Korea. The division went on to record higher sales from the India, Korea and Malaysia markets and significant revenue increase of 28.06% for 2018, demonstrating the success of these strategic moves.

Steel Flanges Manufacturing Division

In 2018, the Group continued to reap the benefits of restructuring the steel flanges manufacturing division. Besides maintaining a prudent and healthy stock level, the steel flanges manufacturing division also proactively managed shipment logistics to optimise shipment cost during the year. This, together with other cost management measures, significantly lowered the operating cost incurred by the division in 2018.

At the same time, similar to the steel products distribution division, the steel flanges manufacturing division was positively impacted by higher selling prices to contribute to a 20.41% increase in revenue for 2018 and a stable gross profit margin.

Environmental Division

For the environmental division, 2018 proved to be another good year. Despite facing fierce market competition in Singapore and China for its water resource management consulting services, and hence achieving lower turnover and gross profit margin for its hazardous wastewater treatment business; the division recorded improved gross profit and gross profit margin for the industrial wastewater treatment business.

The Group had done well to rise above various challenges posed by the macroeconomic landscape to deliver a strong performance in 2018.

Operations Review

The notable performance was mainly attributed to better utilisation rates and the achievement of economy of scale by newly set up and acquired plants – ChangXing HengYi Wastewater Treatment Co., Ltd and LinXing Water Supply Co., Ltd. In addition, the completion and securing of environmental projects under the EPC model by an associate company for rural wastewater treatment business also contributed to positive results for the environmental division and the overall performance of the Group in 2018.

Building Capabilities for Sustainable Advance

The Group had done well to rise above various challenges posed by the macroeconomic landscape to deliver a strong performance in 2018. However, many of the uncertainties, which arose in the second half of 2018, have rolled over to 2019. This has consequently caused many companies to refrain from making global investment commitments.

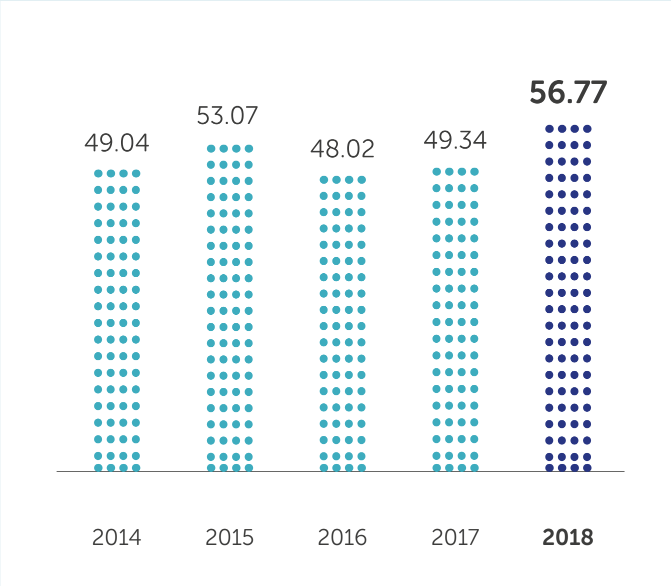
All things considered, the Group expects that the operating environment will be challenging for our steel flanges manufacturing and steel products distribution divisions in 2019 as the traditional industry's supply chain undergoes a transformation and confronts stiffer trading policies and regulations. Nonetheless, the Group will continue to seek out new partners in existing markets and deepen our engagement with customers. Beyond which, the Group will also explore the possibility of venturing into new products and services to sustain our presence.

Concurrently, the Group remains optimistic about our environmental division as the industry at large continues to expand. Building upon AnnAik's strong head start in the environmental business since 2005, the Group will actively look out for opportunities to broaden our reach and strengthen our position in the wastewater treatment sector through strategic investment in new technology, human resource development and mutually beneficial partnerships.

Financial Highlights

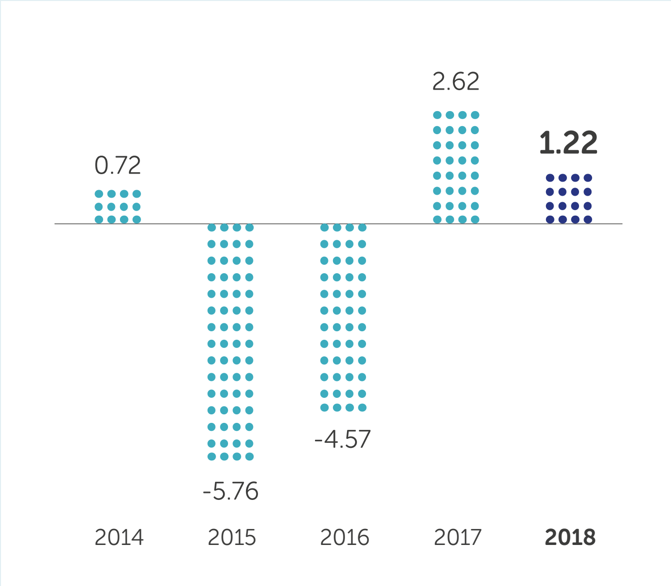
Turnover

(S$ Million)



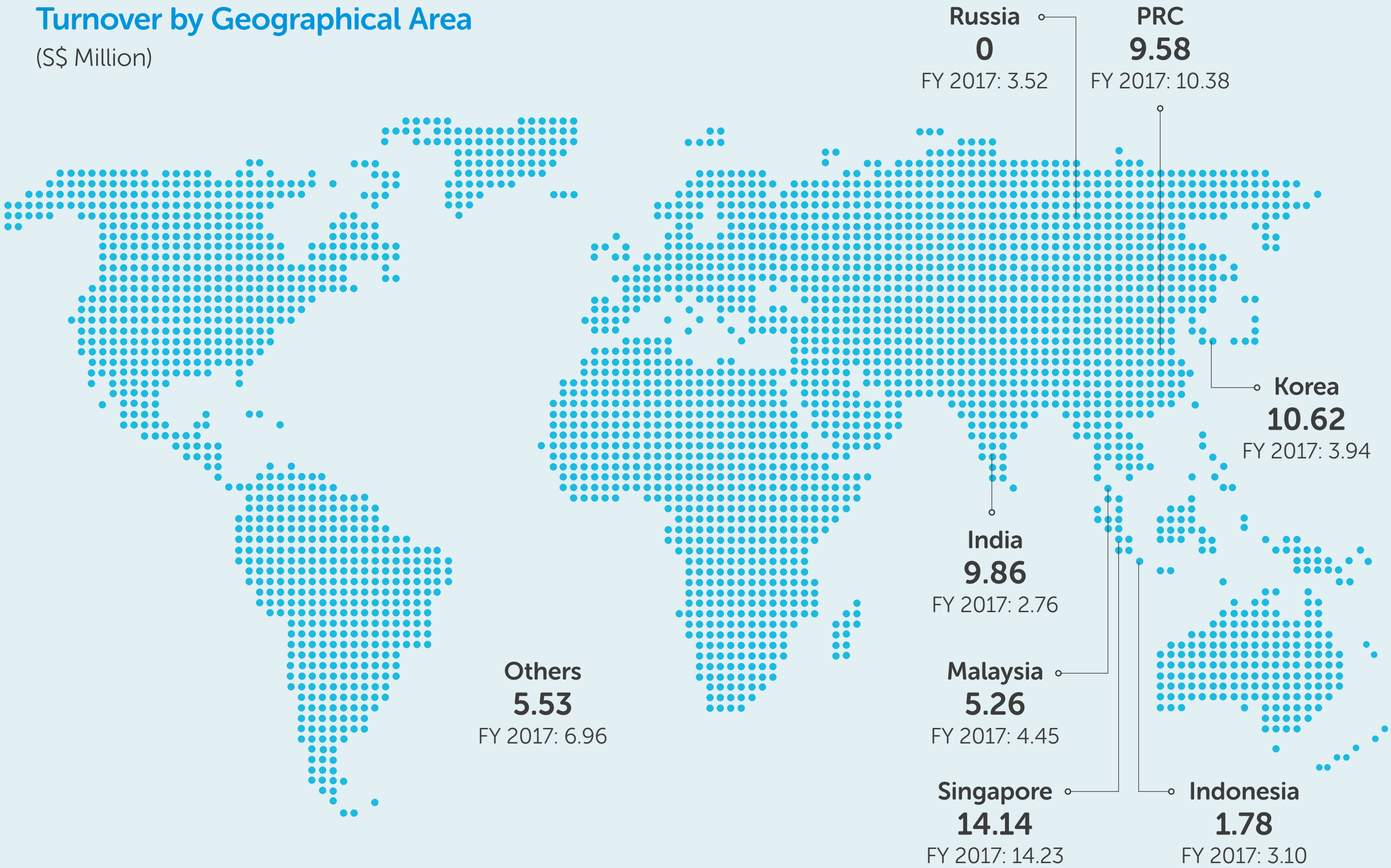
Net Profit Attributable to Owners of the Company

(S$ Million)



Turnover by Geographical Area

(S$ Million)



Corporate Directory

Board of Directors

Mr. Ow Chin Seng, PBM
Executive Chairman cum CEO

Mr. Ow Eei Meng Benjamin
Executive Director cum Deputy CEO

Mr. Ng Kim Keang
Executive Director cum COO

Mr. Lee Bon Leong, BBM, PBM, JP
Mr. Lim Geok Peng
Ms. Tan Poh Hong
Independent Directors

Corporate Information

Audit Committee

Mr. Lim Geok Peng
Chairman

Mr. Lee Bon Leong, BBM, PBM, JP
Ms. Tan Poh Hong

Nominating Committee

Mr. Lee Bon Leong, BBM, PBM, JP
Chairman

Mr. Lim Geok Peng
Ms. Tan Poh Hong
Mr. Ow Chin Seng, PBM

Remuneration Committee

Ms. Tan Poh Hong
Chairman

Mr. Lee Bon Leong, BBM, PBM, JP
Mr. Lim Geok Peng

Management Team

Distribution Division

Mdm. Low Kheng
Director of a subsidiary
– Singapore

Mr. Koh Beng Leong
Director of a subsidiary
– Singapore

Mr. Tay Chee Seng
Financial Controller
– Singapore

Mr. Terence Sim
General Manager of a subsidiary
– Singapore

Mr. Peh Choon Chieh
Commercial Manager of a subsidiary
– Singapore

Manufacturing Division

Mr. Lim Khan Choon
Deputy General Manager
– Penang, Malaysia

Environmental Technology & Engineering Division

Dr. Qiu Jiangping
Group President
– Environmental Business
– China

Dr. Yang Guo Ying
Technical Director of a subsidiary
– Singapore

Company Secretary

Ms. Siau Kuei Lian

Registered Office

52 Tuas Avenue 9
Singapore 639193
Tel: 65 6210 2727, 6210 2726
Fax: 65 6861 5705, 6861 6919
Email: sales@annaik.com

Share Registrar

RHT Corporate Advisory Pte. Ltd.
9 Raffles Place #29-01
Republic Plaza Tower 1
Singapore 048619
Tel: 65 6381 6888
Fax: 65 6381 6899

Principal Bankers

United Overseas Bank Ltd
80 Raffles Place
UOB Plaza 1
Singapore 048624

DBS Bank Ltd
12 Marina Boulevard #43-03
Marina Bay Financial Tower 3
Singapore 018982

Oversea-Chinese Banking Corporation Limited
65 Chulia Street
#06-00, OCBC Centre East
Singapore 049514

Sponsor

Hong Leong Finance Limited
Mr Tang Yeng Yuen,
Vice President
Head of Corporate Finance
16 Raffles Quay, #01-05
Hong Leong Building
Singapore 048581

Auditors

Ernst & Young LLP
Certified Public Accountants
(Partner: Andrew Tan Chwee Peng)
Date of appointment:
Effective from finanical year
ended 31 December 2015
Number of years in-charge: 4 years
One Raffles Quay
North Tower, Level 18
Singapore 048583

Corporate Governance Report

The Board of Directors (the "**Board**") of AnnAik Limited (the "**Company**") is committed to high standards of corporate governance and transparency within the Company and its subsidiaries (collectively referred to as the "**Group**"). The Board believes that good corporate governance includes an ethical environment and enhances the interest of all shareholders.

This report outline the corporate governance framework and practices of the Company with specific reference made to the principles and guidelines of the Singapore Code of Corporate Governance 2012 (the "**Code**") and other applicable laws, rules and regulations, including the Catalist Rules of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**").

The Board confirms that for the financial year ended 31 December 2018 ("**FY2018**"), the Company has adhered to the principles and guidelines as outlined in the Code and where there are deviations from the Code, the reasons for the deviations are explained accordingly.

On 6 August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance (the "**2018 Code**") and accompanying Practice Guidance. The 2018 Code supersedes and replaces the Code and will apply to annual reports covering financial years commencing from 1 January 2019. The Group will review and set out the corporate practices in place to comply with the 2018 Code, where appropriate, in the next Annual Report.

BOARD MATTERS

The Board's Conduct of Affairs

Principle 1: **Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.**

The Company is headed by an effective Board which comprises 6 Directors of whom the Chairman is a Non-Independent and Executive Director, 2 are Executive Directors and 3 are Independent Directors. Together, the Directors command a wide range of business, legal and financial experience that collectively contribute to the success of the Group. The Board oversees the business activities, overall management, formulate strategic direction and performance of the Group and is primarily responsible for the protection and enhancement of long-term value and returns for shareholders.

The principal functions of the Board, apart from its statutory responsibility, include:-

(a) review and approve corporate strategies, financial objectives and directions of the Group;
(b) establish goals for management and monitoring the achievement of these goals;
(c) ensure management leadership of high quality, effectiveness and integrity;
(d) approve annual budgets, major funding proposals and investment proposals;
(e) review internal controls, risk management, financial performance and reporting compliance; and
(f) assume responsibility for corporate governance.

The Board makes decisions in material matters such as major funding proposals, acquisitions and divestments, disposal of major assets, corporate or financial restructuring, share issuances, dividends, annual budgets and financial plans of the Group, half yearly and annual financial reports, internal controls and risk management strategies and execution and other matters which require Board approval as specified under the Company's interested person transaction policy.

All Directors objectively discharge their duties and responsibilities at all times as fiduciaries in the interest of the Company.

Corporate Governance Report

Board Processes

The Company has also scheduled regular meetings for this financial year. Ad-hoc meetings are convened when circumstances require. The Company's Constitution (the "**Constitution**") allow a board meeting to be conducted by way of a telephone conference or by means of similar communication equipment whereby all persons participating in the meeting are able to hear each other. When circumstances require, ad hoc Board meetings will be arranged. The Board meets to review and discuss corporate strategies, key activities and major issues of the Group. The Board also ensures that effective management is in place and oversees the proper conduct of the Group's business.

To ensure that specific issues are subject to considerations and review before the Board makes its decisions, the Board is supported by the 3 Board committees, namely, the Audit Committee ("**AC**"), Nominating Committee ("**NC**") and Remuneration Committee ("**RC**"), responsible for making recommendations to the Board. These Board committees operate within clearly defined terms of reference and play an important role in ensuring good corporate governance in the Company and within the Group. The terms of reference will be reviewed by the Board committees on a regular basis to enhance the effectiveness of these Board committees. The minutes of all Board and Board committees meetings, which provide a fair and accurate record of the discussion and key deliberations and decisions taken during the meetings, are circulated to the Board and Board committees. The roles and responsibilities of these Board committees are provided for in the latter sections of this report on Corporate Governance.

During FY2018, the Board held a total of 4 meetings to review the Group's business operation and financial performance. The Board also approves transactions through circular resolutions, which are circulated to the Board together with all relevant information relating to the proposed transaction.

The agenda for meetings is prepared in consultation with the Executive Chairman, the Executive Directors and/or the Chairman of the Board committees. The agenda and documents are circulated in advance of the schedule meetings.

The frequency of meetings and the attendance of each Director at every Board and Board committee meeting for FY2018 are disclosed in the table reflected below:-

Directors' attendance at Board and various Board Committees meetings:-

Name of Directors	Board		Audit Committee		Nominating Committee		Remuneration Committee	
	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended
Mr Ow Chin Seng	4	4	2	2*	1	1	1	-
Mr Ow Eei Meng, Benjamin	4	4	2	2*	1	-	1	-
Mr Ng Kim Keang	4	4	2	2*	1	-	1	-
Mr Ang Mong Seng(1)	4	1	2	1	1	1	1	1
Mr Lee Bon Leong	4	4	2	2	1	1	1	1
Mr Lim Geok Peng	4	4	2	2	1	1	1	1
Ms Tan Poh Hong(2)	4	2	2	1	1	-	1	-

Notes:-
* Attendance by invitation
(1) Retired as Independent Director with effect from 30 April 2018.
(2) Appointed as Independent Director with effect from 26 July 2018.

Corporate Governance Report

The Directors were appointed based on their experience, stature and potential to contribute to the proper guidance of the Group and its businesses. As such, we believe that each individual Director's contributions can be reflected in ways other than the reporting of attendances at Board meetings and/or Board Committees meetings.

Director Orientation and Training

The Company will conduct briefings and orientation programmes to familiarise newly appointed Directors with the various businesses, operations and processes of the Group. Further, newly appointed Directors will be provided with a formal letter setting out their duties and obligations and appropriate training to ensure that they are fully aware of their responsibilities and obligations of being a Director.

The aim of the orientation program is to give Directors a better understanding of the Company's businesses and allow them to assimilate into their new roles. New Director is also informed about matters such as the Code of Dealing in the Company's securities. Changes to regulations and accounting standards are monitored closely by the Management. In order to keep pace with such regulatory changes, the Company provides opportunities for ongoing training on Board processes and best practices as well as updates on changes in legislation and financial reporting standard, regulations and guidelines from SGX-ST that affect the Company and/or the directors in discharging their duties effectively. During the year, Ms Tan Poh Hong was appointed as an Independent Director. She was briefed during the orientation program on the overview of the business operations, background information about the Group's history, strategic direction and industry-specific knowledge.

The Company encourages the Directors to attend seminars and receive training to keep abreast of current developments and latest updates on changes in relevant regulations, accounting standards, corporate governance practices and guidelines from the SGX-ST to properly discharge their duties as Directors. In order to keep pace with such regulatory changes, the changes to regulations and accounting standards are monitored closely by the Management. The Company is responsible for arranging and funding the training of Directors.

The Board as a whole is updated regularly on risk management, corporate governance, insider trading (if any) and key changes to the relevant regulatory requirements and financial standards, so as to enable them to properly discharge their duties as Board or Board Committee members. Our Independent Directors are also engaged full time in their respective profession, keeping them updated in their fields of knowledge.

New releases issued by the SGX-ST and Accounting and Corporate Regulatory Authority ("**ACRA**"), which are relevant to the Directors are circulated to the Board. The Company Secretary also informs the Directors of upcoming conferences and seminars relevant to their roles as Directors of the Company. The External Auditors would update the AC and the Board on new and revised financial reporting standards annually.

Board Composition and Guidance

Principle 2: **There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.**

As at the date of this report, the Board comprises the following Directors:

Executive Directors	
Mr Ow Chin Seng, PBM	Executive Chairman cum Chief Executive Officer
Mr Ow Eei Meng, Benjamin	Executive Director cum Deputy Chief Executive Officer
Mr Ng Kim Keang	Executive Director cum Chief Operating Officer
Independent Directors	
Mr Lee Bon Leong, PBM, BBM, JP	Independent Director
Mr Lim Geok Peng	Independent Director
Ms Tan Poh Hong	Independent Director

Corporate Governance Report

The Company maintains a strong and independent element on the Board with the Independent Directors constituting half of the Board. The Independent directors have confirmed that they do not have any relationship with other Directors, the Company or its related companies or its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment with a view to the best interests of the Company, and they are able to exercise objective judgment on corporate affairs independently from the Management and its 10% shareholders.

As the Chairman is not an Independent Director, half of the Board is made up of Independent Directors. The Board and the NC are satisfied that the Board has substantial independent elements to ensure that objective judgment is exercised on corporate affairs. The independence of each Director is reviewed annually by the NC.

The Board has adopted the Code's criteria of an Independent Director in its review that all Independent Directors have satisfied the criteria of independence. Having reviewed its size, the Board is of the view that:-

a) the current arrangement is adequate given that the Independent Directors form at half of the Board composition; and

b) the composition of Directors as a whole provides core competencies necessary to meet the Group's requirements with an appropriate balance and diversity of skills, experiences and knowledge, taking into account the following:-

   (i) the nature and scope of the Group's operations; and
   (ii) the Independent Directors are respected individuals from different backgrounds whose core competencies, qualifications, skills and experience are extensive and complementary.

The independence of each Director is reviewed annually by the NC in accordance with the Code's definition of independence. Each Independent Director is required to complete a 'Confirmation of Independence' form to confirm his independence. The said form, which was drawn up based on the definitions and guidelines set forth in Guideline 2.3 in the Code and the Guidebook for AC in Singapore issued by the AC Guidance Committee, requires each Director to assess whether he considers himself independent despite not having any of the relationships defined in the Code. The NC has reviewed the forms completed by each Independent Director and is satisfied that the present size of the Board is effective for the decision making. The composition of the Board is reviewed at least annually by the NC to ensure that there is an appropriate mix of expertise and experience to enable the Management to benefit from a diverse perspective of issues that are brought before the Board.

The Company has a good balance of Directors with a wide range of skills, experience and qualities in the fields of operations, management, financial, legal and accounting. Each Director has been appointed on the strength of their own calibre, experience and stature and is expected to bring a valuable range of experience and expertise to contribute to the development of the Group strategy and the performance of its business.

All appointments and re-elections of Directors are reviewed and recommended by the NC to the Board. The independence of each Independent Director is reviewed by the NC and the Board annually in accordance with the guidelines of the Code.

Although Mr Lee Bon Leong served on the Board for more than nine years from the date of his first appointment, the NC rigorously reviewed his past contributions to the Group and considered that he is independent in character and judgement and there was no circumstance which would likely affect or appear to affect the Directors' judgement.

The opinion was arrived at after careful assessment by the NC and the Board and the rigorous review comprised a review of, but not limited to, the following factors: (a) the length of services of Mr Lee Bon Leong has not compromised the objectivity of Independent Director and his commitments and abilities to discharge his duties as Independent Director; (b) the abilities of Independent Director to continue exercising independent judgements in the best interests of the Company; (c) the abilities of Independent Director to express his objectives and independent views during Board and Board Committee meetings; and (d) Independent Director, through his years of involvements with the Company, has gained valuable insights and understandings of the Group's business and together with his diverse experiences and expertise, has contributed and will continue to contribute effectively as Independent Director by providing impartial and autonomous views at all times.

Corporate Governance Report

Although all the Directors have an equal responsibility for the Group's operations, the Independent Directors play an important role (i) in ensuring that the strategies proposed by the Management are constructively challenged, fully discussed and rigorously examined and developed by taking into account the long-term interests of the shareholders and (ii) in reviewing the performance of Management in meeting agreed goals and objectives and monitoring the performance reporting. The Independent Directors are encouraged to meet, without the presence of Management in order to facilitate a more effective check on Management.

Profiles of the Directors are found on pages 6 and 7 of this Annual Report.

To-date, none of the Independent Directors of the Company has been appointed as Director of the Company's principal subsidiaries, which is based in Singapore and overseas.

Chairman and Chief Executive Officer

Principle 3: **There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.**

The roles of Chairman and Chief Executive Officer ("**CEO**") are assumed by Mr Ow Chin Seng ("**Mr Ow**"). As the CEO, he is responsible for the day-to-day operations of the Group. He plays an instrumental role in charting the direction and strategic development of the Group and formulates business strategies, the development of the Group and promoting high standards of corporate governance.

As Chairman, he leads the Board and is responsible for the effective working of the Board including:-

- scheduling of meetings (with the assistance of the Company Secretary) to enable the Board to perform its duties while not interfering with the flow of the Group's operations;
- setting the meeting agenda of the Board;
- ensuring that Board meetings are held when necessary;
- facilitating contributions from the Independent Directors and encouraging constructive relationships between the Directors;
- exercising control over the quality, quantity and timeliness of information flow between the Management and the Board;
- ensuring and fostering constructive and effective communication with shareholders;
- promoting a culture of openness and debate at the Board; and
- promoting high standards of corporate governance with full support from the Directors and Management.

Although the roles and responsibilities of both the Chairman and CEO are vested in Mr Ow, major decisions are made in consultation with the Board. During the year, Mr Ow Eei Meng, Benjamin is appointed as the Deputy CEO to assist the CEO together with Mr Ng Kim Keang, the Chief Operating Officer ("**COO**") of the Company to run the overall day-to-day operations of the Group. Currently, the function of the Chief Financial Officer is subsumed by the COO of the Company. The Independent Directors currently form half of the Board and exercise objective judgement on corporate matters impartially, thus ensuring a balance of power and authority. The Board is of the opinion that the process of decision making by the Board has a strong independent element and provides for collective decisions without any individual or small group of individuals dominating the Board's decision making.

As the above practice is a deviation from the principles 2.2 and 3.3 and pursuant to the recommendations by the Code, the Board is progressively taking step to re-constitute the composition of the Board members and/or appointing the Lead Independent Director to be in line with the Code.

Corporate Governance Report

All the Independent Directors meet at least once 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. Hence, the Board believes that notwithstanding the Chairman and CEO are the same person, the current composition of the Board is able to make precise objective and prudent judgement on the Group's corporate affairs. The Board is of the view that there are sufficient safeguards and checks to ensure that the process of decision making by the Board is independent and are based on collective decisions without any individual exercising any considerable concentration of power or influence.

Board Membership

Principle 4: There should be a formal and transparent process for the appointment and re-appointment of Directors to the Board.

The Board established the NC which comprises of 4 Directors, a majority of whom, including Chairman, are Independent Directors. The NC is chaired by an Independent Director, Mr Lee Bon Leong. The other NC members are Mr Lim Geok Peng, Ms Tan Poh Hong and Mr Ow Chin Seng. The NC Chairman is also a Director who has no relationship with the Company, its related corporations, its 10% shareholders or its officer and is not directly associated with 10% shareholders.

The NC is regulated by its terms of reference and its key responsibilities include:-

(a) reviewing, assessing and recommending to the Board of all Board appointments and nomination of Directors having regard to their contributions and performance based on a formal and transparent process;

(b) determining annually whether or not a Director is independent;

(c) reviewing regularly the Board structure, size and composition having regard to the scope and nature of the operations, the requirements of the business, the diversity of skills, experience, gender and knowledge of the Company and the core competencies of the Directors as a Group;

(d) deciding whether or not a Director is able to and has been adequately carrying out duties as a Director;

(e) deciding the manner in which the Board's performance may be evaluated and propose objective performance criteria for the Board's approval;

(f) reviewing the training and professional development programs for the Board; and

(g) making and reviewing plans for succession.

All Directors submit themselves for re-nomination and re-election at regular intervals of at least once every three years. In accordance to Regulation 121 of the Company's Constitution, it requires one-third of the Board to retire and submit themselves for re-election by shareholders at each Annual General Meeting ("**AGM**"). In addition, Regulation 125 of the Company's Constitution provides that every new Director must retire and submit themselves for re-election at the next AGM of the Company following his appointment during the year. A retiring Director is eligible for re-election at the meeting at which he retires.

The NC held 1 meeting during the financial year. The NC has reviewed the independence of Mr Lee Bon Leong, Mr Lim Geok Peng and Ms Tan Poh Hong in accordance with the Code's definition of independence and is satisfied that there are no relationship which would deem any of them not to be independent.

Currently, the Company does not have any alternate Director.

The NC decides how the Board's performance is evaluated and proposes objective performance criteria, subject to the approval of the Board, which addresses how the Board has enhanced long-term shareholders' value. The Board also implemented a process to be carried out by the NC to evaluate the effectiveness of the Board as a whole and its Board committees annually.

Corporate Governance Report

Despite some of the Directors having multiple Board representations, the NC has reviewed the Directorships of the Directors and is satisfied that these Directors are able to, and have adequately carried out their duties as Directors of the Company after taking into the consideration the number of listed company board representations and other principal commitments of these Directors. Currently, the NC and Board do not limit the maximum number of listed Board representations which any Director may hold as long as each of the Board members is able to commit his time and attention to the affairs of the Company. The NC and Board believe that each individual director is best placed to determined and ensure that he is able to devote sufficient time and attention to discharge his duties and responsibilities as a Director of the Company, bearing in mind his other commitments.

The NC identifies, evaluates and selects suitable candidates for new Directorships. The NC considers factors such as the ability of the prospective candidates to contribute to discussions, the composition of the Board including the mix of expertise, skills and attributes to the existing Directors so as to identify needed and/or desired competencies to supplement the Board's existing attributes.

The NC is satisfied that Directors are able to and have adequately carried out their duties as Directors of the Company and has contributed to the effectiveness of the Board as a whole and its Board committees.

In accordance with Regulation 121 of the Constitution of the Company, at each AGM, not less than one-third of the Directors are required to retire from office by rotation. Accordingly, the directors will submit themselves for re-nomination and re-election at regular intervals of at least once every 3 years.

Pursuant to Regulations 121 and 125 of the Constitution of the Company, Mr Ow Chin Seng and Mr Lee Bon Leong, shall retire in accordance to Regulation 121 and Ms Tan Poh Hong shall retire in accordance to Regulation 125 at the forthcoming AGM. In this regard, the NC having considered the directors' overall contributions and performance as well as the attendance and participation of these directors at the Board and Board Committee meetings, has recommended and the Board has approved their re-election. Mr Lee Bon Leong has indicated his intention not seek for re-election pursuant to Regulation 121 of the Constitution of the Company at the forthcoming AGM of the Company. The retiring Directors, Mr Ow Chin Seng and Ms Tan Poh Hong being eligible, have offered themselves for re-election at the forthcoming AGM. The Board has concurred with the NC's recommendation. The details of the Directors seeking for re-election are found in Table A set out on page 32 to page 37 of this Annual Report.

Ms Tan Poh Hong, Mr Lee Bon Leong and Mr Lim Geok Peng, as members of the NC have abstained from making any recommendations and/or participating in any deliberation of the NC and from voting on any resolutions in respect of the assessment of their respective performance, independence or re-nomination as a Director.

Board Performance

Principle 5: There should be a formal annual assessment of the effectiveness of the Board as a whole and its Board Committees and the contribution by each Director to the effectiveness of the Board.

In line with the principles of good corporate governance, the Board has implemented a process to be carried out by the NC to evaluate the effectiveness of the Board as a whole and its Board Committees annually. The performance criteria for the Board evaluation includes an evaluation of the size and composition of the Board, the Board's access to information, accountability, board processes, board performance in relation to discharging its principal responsibilities, communication with the Management and standards of conduct of the Directors. This encourages constructive feedback from the Board and leads to enhance its performance over time.

The NC has decided unanimously that the Directors will not be evaluated individually but factor taken into consideration for re-nomination are the extent of their contribution to the Group and/or levels of participation in various Board committees and attendance of Board meetings.

In assessing the Board's performance as a whole and its Board Committees, both quantitative and qualitative criteria are considered. Such criteria include consideration of the Company's share price performance over a five-year period vis-à-vis the Singapore Straits Times Index and a benchmark index of its industry peer and the achievement of strategic objectives.

Corporate Governance Report

The NC, in considering the re-appointment of any Director, evaluates the performance of the Director. The NC had implemented a process to be carried out by the NC to assess the effectiveness of the Board Committees annually. The NC has recommended that the members of the respective Board Committees complete the evaluation form adopted by the NC. The results of the Board and Board Committees assessments are reviewed and discussed by the NC and, any recommendation and suggestion arising from the evaluation exercise are circulated to the Board for consideration of the appropriate measures to be taken.

Selected performance criteria will not change from year to year unless they are deemed necessary and the Board is able to justify the changes.

Board Committees

Certain functions have been delegated to various Board Committees, namely, the AC, RC and NC. The members of these committees are set out as below:-

Nominating Committee	
Mr Lee Bon Leong	(Chairman)
Mr Lim Geok Peng	(Member)
Mr Ow Chin Seng	(Member)
Ms Tan Poh Hong	(Member)

Remuneration Committee	
Ms Tan Poh Hong	(Chairman)
Mr Lee Bon Leong	(Member)
Mr Lim Geok Peng	(Member)

Audit Committee	
Mr Lim Geok Peng	(Chairman)
Mr Lee Bon Leong	(Member)
Ms Tan Poh Hong	(Member)

In place of physical meetings, the Board and Board Committees also circulate written resolutions for approval by the relevant members of the Board and Board Committees.

The NC, in considering the re-nomination and re-election of any Director, had considered factors including their performance in the Board as a whole, its Board Committees and individual performance including his attendance, preparedness, participation and contributions in the proceedings of the meetings.

Although the Directors are not evaluated individually, the factors taken into consideration for the re-nomination of the Directors for the current year are based on the Directors' attendance at meetings held during the year and the contribution made by the Directors at the meetings.

The evaluation of Board performance is conducted annually to identify areas of improvement and as a form of good Board management practice. The last Board of Directors' evaluation was conducted in 26 February 2019 and the results have been presented to the NC for discussion. The NC is satisfied that the Board has been effective as a whole and that each and every Director has contributed to the effective functioning of the Board. In addition, the NC is also satisfied that sufficient time and attention has been given by the Directors to the affairs of the Company, notwithstanding that some of the Directors have multiple board representations.

No external facilitators were used in the assessment of the Board as a whole, its Board Committees and the individual Directors.

Corporate Governance Report

Access to Information

Principle 6: In order to fulfil their responsibilities, Directors should be provided with complete, adequate and timely information prior to Board Meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

To assist the Board to fulfil its responsibilities, the members of the Board are provided with relevant materials on budgets, forecasts, internal financial statements, material events and transactions complete with background and explanations in a form and quality appropriate to facilitate the Board to make an informed decision prior to each Board meeting. In respect of budgets, any material variance between the projections and actual results would be disclosed and explained during the meeting. Directors are also informed of any significant developments or events relating to the Group.

As a general rule, board papers are sent to Directors at least three days in advance in order for the Directors to be adequately prepared for the meeting. In addition, the Independent Directors have separate and independent access to the Group's senior management and the advice and services of the Company Secretary who provides the Directors with regular updates on the requirements of the Companies Act and all the rules and regulations of the SGX-ST. The decision to appoint or remove the Company Secretary is made by the Board as a whole.

The Company Secretary or her representatives attend all Board and Board Committee meetings, and assists the Chairman of the Board and Board Committees in ensuring that the relevant procedures are followed and reviewed such that the Board and Board Committees function effectively. She also ensures that the requirements of the Singapore Companies Act and all other rules and regulations of the SGX-ST are complied with.

The Board exercises its discretion to seek independent professional advice, where necessary, in the furtherance of their duties and at the Company's expense.

REMUNERATION MATTERS

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his own remuneration.

The Group's remuneration policy is to provide remuneration packages at market rates which reward successful performance and attract, retain and motivate Directors and key management personnel.

The RC comprises 3 Directors, all of whom are independent. The RC is chaired by an Independent Director, Ms Tan Poh Hong. The other RC members are Mr Lee Bon Leong and Mr Lim Geok Peng. In discharging their duties, the RC members have access to advice from the internal human resources personnel, and if required, advice from external experts.

The RC reviews and recommends to the Board a framework for the remuneration packages of the Executive Directors and executive officers and development in the Group with the goal of building capable and committed management teams.

The RC is regulated by its terms of reference and its key functions include but not limited to:-

a) annual review of the remuneration of each of the Directors and executive officers;
b) recommendations to the Board on a general framework of remuneration of the Directors and executive officers;
c) determination of specific remuneration packages for the Directors, executive officers and associates of controlling shareholders; and
d) implement and administer Share Option Scheme.

Corporate Governance Report

The RC will recommend to the Board a general framework of remuneration for the Directors and key management personnel and determine specific remuneration packages for each Executive Director. The recommendations of the RC should be submitted for endorsement by the entire Board of Directors. All aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, share-based incentives and awards and benefits-in-kind shall be covered by the RC. The remuneration of employees who are immediate family members of the Directors and Substantial Shareholders will also be reviewed annually by the RC to ensure that their remuneration packages are in line with the staff remuneration guidelines and commensurate with their respective job scopes and level of responsibilities. They will also review and approve any bonuses, pay increases and/or promotions for these employees. In the event that a member of the RC is related to the employee under review, he will abstain from participating in the review.

In setting out the remuneration packages, the RC would take into consideration pay and employment conditions within the industry and in comparable companies. The remuneration packages should take into account the Company's performance and the performance of the individual Directors and key management personnel.

Each member of the RC will abstain from reviewing and approving his own remuneration and the remuneration packages of persons related to him/her. The Group has and will continue to disclose in the Annual Report the total remuneration paid to the Directors. The RC met once during the financial year which was on 27 February 2018.

The RC, in considering the remuneration of all Directors, has not sought external advice nor appointed remuneration consultants.

Independent Directors do not have service agreements with the Company. The independent Directors received Directors' fees which are recommended by the Board for shareholders' approval at the Company's AGM.

Level and Mix of Remuneration

Principle 8: The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the Directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

The Executive Directors do not receive Directors' fees except Mr Ow Chin Seng who sit on Nominating Committee as member and are paid in accordance to their Service Agreements with the Company. In setting the remuneration packages of the Executive Directors, the Company takes into account the performance of the Group and that of the Executive Directors which are aligned with long term interest and risk policies of the Group. For FY2018, the Executive Directors and key management personnel have met the relevant performance conditions.

The Independent Directors are paid Directors' fees taking into account factors including but not limited to the effort and time spent and the scope of responsibilities of these Directors. Non-Executive and Independent Directors should not be over-compensated to the extent that their independence may be compromised and no Director is involved in deciding his own remuneration. The Directors' fees are recommended by the RC and submitted to the Board for endorsement. Directors' fees are recommended by the Board for approval at the Company's AGM.

Key management personnel's remuneration is set in accordance with a remuneration framework comprising basic salary (including a variable bonus and benefits-in-kind).

The Company does not use contractual provisions to allow the Company to reclaim incentive components of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company. Executive Directors owe a fiduciary duty to the Company. The Company should be able to avail itself to remedies against the Executive Directors in the event of such breach of fiduciary duties.

The RC can, upon direction by the Board, engage any external professional advice on matters relating to remuneration as and when the need arises.

Corporate Governance Report

Disclosure on Remuneration

Principle 9: **Each company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to Directors and key management personnel, and performance.**

The level and mix of remuneration of each Director and top 9 key management personnel (who are not Directors and those who were in service for FY 2018) are as follows:-

	Remuneration paid / payable in FY2018					Breakdown of the Directors' Remuneration				
Name of Director	**Up to $250,000**	**$250,001 to $500,000**	**$500,001 to $750,000**	**$750,001 to $1,000,000**	**$1,000,001 to $1,250,000**	**Salary & CPF %**	**Fee %**	**Bonus %**	**Other Benefits %**	**Total %**
Mr Ow Chin Seng	-	X	-	-	-	88	2	7	3	100
Mr Ow Eei Meng, Benjamin[1]	X	-	-	-	-	79	0	7	14	100
Mr Ng Kim Keang	-	X	-	-	-	81	0	7	12	100
Mr Lee Bon Leong	X	-	-	-	-	0	100	0	0	100
Mr Lim Geok Peng	X	-	-	-	-	0	100	0	0	100
Ms Tan Poh Hong[2]	X	-	-	-	-	0	100	0	0	100

Notes:-
(1) Mr Ow Eei Meng, Benjamin is the son of Mr Ow Chin Seng.
(2) Ms Tan Poh Hong appointed as Independent Director with effect from 26 July 2018.

	Remuneration paid / payable in FY2018					Breakdown of the Executives' Remuneration				
Name of Key Management Personnel	**Up to $250,000**	**$250,001 to $500,000**	**$500,001 to $750,000**	**$750,001 to $1,000,000**	**$1,000,001 to $1,250,000**	**Salary & CPF %**	**Fee %**	**Bonus %**	**Other Benefits %**	**Total %**
Mdm Low Kheng[1]	X	-	-	-	-	87	0	11	2	100
Mr Koh Beng Leong[3]	X	-	-	-	-	77	0	9	14	100
Dr Yang Guo Ying	X	-	-	-	-	71	0	5	24	100
Mr Peh Choon Chieh[3]	X	-	-	-	-	84	0	8	8	100
Mr Ow Eei Phurn, Benedict[2]	X	-	-	-	-	56	0	0	44	100
Mr Loke Siew Meng, Michael	X	-	-	-	-	66	0	3	31	100
Mr Lim Khan Choon	X	-	-	-	-	90	0	10	0	100
Mr Terence Sim Soo Yong	X	-	-	-	-	78	0	15	7	100
Mr Tay Chee Seng	X	-	-	-	-	84	0	10	6	100

Notes:-
(1) Mdm Low Kheng is the wife of Mr Ow Chin Seng and mother of Mr Ow Eei Meng, Benjamin.
(2) Mr Ow Eei Phurn, Benedict is the son of Mr Ow Chin Seng and brother of Mr Ow Eei Meng, Benjamin.
(3) Mr Peh Choon Chieh and Mr Koh Beng Leong are the nephews of Mr Ow Chin Seng and cousins of Mr Ow Eei Meng, Benjamin.

Corporate Governance Report

The annual aggregate amount of the total remuneration paid to top 9 key management personnel (who are not Directors or the CEO) for FY2018 is approximately S$1,463,000.

The annual aggregate amount of the termination, retirement and post-employment benefits granted to Directors and the Group CEO under their current contracts of employment or appointment (as the case may be) as at FY2018 is approximately S$841,500.

The Board believes that it is for the benefit of the Company and the Group that the remuneration of Directors be kept confidential, due to its sensitive nature.

The Company supports and is aware of the need for transparency. However, the Company does not believe it to be in its interest to disclose the remuneration of its top 9 key management personnel (who are not Directors or the CEO), as having considered the highly competitive human resource environment for personnel with the requisite knowledge, expertise and experience in the Company's business activities, such disclosure of specific remuneration information may give rise to recruitment and talent retention issues. There would be negative impact to the Company if members of the experienced and qualified senior management team are poached, which may affect the ability to both nurture a sustainable talent pool and ensure the smooth continuity in leadership needed for the achievement of the strategic objectives of the Company.

Save as disclosed, there is no employee (who is not Director) during FY2018 and is immediate family member of a Director or the CEO.

The Company has adopted the AnnAik Employee Share Option Scheme 2013 (the "**ESOS**"), which was approved by the shareholders at an Extraordinary General Meeting held on 18 September 2013, as part of a compensation plan to motivate Directors and employees of the Group to greater dedication, loyalty and higher standards of performance. The ESOS is administered by the RC which consists of Ms Tan Poh Hong, Mr Lee Bon Leong and Mr Lim Geok Peng. Further details are found on pages 41 and 42 of this Annual Report.

During FY2018 and as at the date of this report, no share option was granted to either the CEO or other Executive and Non-Executive Directors.

During FY2018 and as at the date of this report, no new shares have been issued by virtue of the grant of share option under the ESOS.

ACCOUNTABILITY AND AUDIT

Accountability

Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

The Board understands its accountability to the shareholders on the Group's position, performance and progress. The Board reviews and approves the financial results as well as any announcements before its release. The objectives of the presentation of the annual Audited Financial Statements, half-year and full-year financial results to its shareholders are to provide the shareholders with a balanced and understandable assessment and explanation of the Group's financial performance and position and prospects.

The Management provides the Board with a continual flow of relevant information on a timely basis in order that it may effectively discharge its duties. The Management understands its role to provide all members of the Board with appropriate management reports in a balanced and understandable assessment of the Group's performance, position and prospects.

Corporate Governance Report

Financial reports and other price-sensitive information are disseminated to shareholders through announcements via SGXNET, press release and/or posted on the Company's website. The Company's Annual Report is sent to all shareholders and accessible on the Company's website.

The Board is updated with significant events that have occurred or material to the Group during the year. The Management provides the Board with financial updates on the performance and position of the Group to keep Board members informed and updated on a monthly basis in order that it may effectively discharge their duties.

All the Directors and executive officers of the Company have signed undertaking letters pursuant to Rule 720(1) and Appendix 7H of the Listing Manual Section B: Rules of Catalist of SGX-ST.

Risk Management and Internal Controls

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that the Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the Company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

The Board recognises the importance of sound internal controls and risk management practices to good corporate governance. The Board affirms its overall responsibility for the Group's systems of internal controls and risk management, and for reviewing the adequacy and effectiveness of those systems on an annual basis. The internal control and risk management functions are performed by the Group's key management personnel and reported to the AC for review.

It should be noted, in the opinion of the Board, that such system is designed to manage rather than to eliminate the risk of failure to achieve business objectives, and that it can provide only reasonable, and not absolute, assurance against material misstatement of loss, and include the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risk. The Board notes all internal control systems contain inherent limitations and no system of internal controls could provide absolute assurance against the occurrence of material errors, poor judgment in decision-making, human error losses, fraud or other irregularities.

The Group had appointed Messrs UHY Lee Seng Chan & Co as the independent Internal Auditors of the Group to review the effectiveness of the Group's internal controls in light of the size and complexity of the Group's operations. Relying on the reports from the independent Internal Auditors, management letter issued by the External Auditors (to the extent as required by them to form an audit opinion on the statutory financial statements) and the representation letters from the Management, the AC will carry out assessments of the effectiveness of key internal controls during the year. Any material non-compliance or weaknesses in internal controls or recommendations from the independent Internal Auditors and External Auditors to further improve the internal controls will be reported to the AC. The AC will follow up on the actions taken by the Management and on the recommendations made by both the independent Internal Auditors and External Auditors.

For FY2018, the Board has received assurances from the CEO and the COO of the Company that:-

(a) the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and

(b) the Group's risk management and internal control systems in addressing financial, operational and compliance risks are operating effectively.

The AC has reviewed, with the assistance of the internal and external auditors, the adequacy and effectiveness of the Company's internal controls, including financial, operational, compliance and information technology controls.

Corporate Governance Report

Based on the various management controls put in place, representation letter from the Management and periodic reviews by the Management, the Board with the concurrence of the AC is of the opinion that the Group's system of internal controls and risk management procedures in addressing financial, operational, compliance and information technology controls, and risk management systems maintained by the Group during the year are adequate and effective as at 31 December 2018.

No risk committee has been established as the AC has assumed the responsibility of the risk management function and oversees the overall adequacy and effectiveness of the Company's risk management systems and procedures.

Audit Committee

Principle 12: The Board should establish an AC with written terms of reference which clearly set out its authority and duties.

The AC comprises 3 Directors, all of whom are independent. The AC is chaired by Mr Lim Geok Peng. The other Board members are Mr Lee Bon Leong and Ms Tan Poh Hong. All of the members of the AC are knowledgeable and familiar with financial, corporate governance and regulatory disclosure requirements. The Board believes that they possess the necessary qualifications and experiences in discharging their duties as a member of the AC.

The AC functions under its terms of reference which set out its responsibilities as follows:-

- review of the audit plans and reports from the External and Internal Auditors;
- review of the co-operation given by the Group's officers to the External and Internal Auditors;
- review of the consolidated financial statements of the Group and the financial statements of the Company before their submission to the Board;
- review of the independence and objectivity of the External Auditors and nomination of the External Auditors for reappointment;
- review of all interested person transactions, if any, to ensure that they comply with the approved internal control procedures and have been conducted on an arms' length and normal commercial terms and are not prejudicial to the interests of the shareholders of the Company;
- meeting with the External Auditors without the presence of management annually, to discuss any problems and concerns they may have;
- review the adequacy and effectiveness of the Company's risk management and internal control systems (including financial, operational, compliance and information technology controls) and to report to the Board annually;
- undertake such other functions and duties as may be required by the relevant laws or provisions of the SGX-ST Catalist Rules (as may be amended from time to time) and as may be requested by the Board; and
- review the Company's procedures for whistle-blowing policy endorsed by the AC by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control, or any other matters.

Apart from the above functions, the AC commissions and reviews the findings of internal investigations into matters where there is suspicion of fraud or irregularities, failure of internal controls or infringement of any Singapore law, rule or regulation which has or likely to have a material impact on the operating results and/or financial position of the Group. In the event that a member of the AC is interested in any matter being considered by the AC, he will abstain from reviewing that particular transaction or voting on that particular resolution.

Corporate Governance Report

It has been proposed that the AC will meet at least two times a year and as frequently as is required. In FY2018, the AC has met two times to review and approve the Group's half yearly announcement of FY2018 unaudited results, full year announcement of FY2018 unaudited results and approval of audit planning memorandum for statutory audit in FY2018.

The AC has reviewed all non-audit services provided by the auditors and they would not, in the AC's opinion, affect the independence of the external auditors. The aggregate amount of fees paid or payable to auditors for the financial year ended 31 December 2018, audit service fees amount to S$289,000 and non-audit service fees amount to S$24,000. The AC is satisfied with the independence and objectivity of Messrs Ernst & Young LLP and has recommended to the Board the nomination of Messrs Ernst & Young LLP for re-appointment as auditors of the Company at the forthcoming AGM.

The AC has full access to and cooperation of the management, Internal and External Auditors. It also has full discretion to invite any Director or executive officer to attend the meetings and has been given reasonable resources to enable it to discharge its functions.

Pursuant to Rule 712 and Rule 716 of the SGX-ST Catalist Rules, the Board and AC are satisfied that the appointment of different auditing firms for its subsidiaries would not compromise the standard and effectiveness of the audit of the Company. The details of the auditors are outlined in Notes 15 and 16 to the financial statements.

In July 2010, the SGX-ST and ACRA launched the "Guidance to Audit Committees on Evaluation of Quality of Work performed by External Auditors" which aims to facilitate the AC in evaluating the External Auditors. Accordingly, the AC had evaluated the performance of the External Auditors based on the key indicators of audit quality set out in the Guidance such as performance, adequacy of resources and experience of their audit engagement partner and auditing team assigned to the Group's audit, the size and complexity of the Group.

In addition, in October 2015, with the support from SGX-ST and Singapore Institute of Directors, ACRA had introduced the "Audit Quality Indicators ("**AQIs**") Disclosure Framework to assist the ACs in evaluating the re-appointment of External Auditors based on eight (8) quality markers that correlate closely with audit quality. Accordingly, the AC had evaluated the External Auditors based on the eight (8) AQIs at engagement and/or firm-level.

Changes to accounting standards and accounting issues which have a direct impact on the financial statements were reported to the AC, and highlighted by the External Auditor in their meetings with the AC. No former partner or Director of the Company's existing auditing firm has acted as a member of the AC.

The AC also meets with the Internal and External Auditors separately without the presence of the Management at least once a year. For FY2018, the AC met once with the EA and IA without the presence of the Management.

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

1	Write down of inventories to net realisable value
2	Impairment assessment of trade receivables
3	Impairment assessment of property, plant and equipment and goodwill

Corporate Governance Report

Whistle-blowing policy

The Company has put in place a whistle-blowing policy in order to develop a culture of openness, accountability and integrity. The policy encourages employees and external parties to raise concerns, in confidence, about possible irregularities to Mr Lim Geok Peng, the Chairman of the AC. It aims to provide an avenue to employees and external parties to raise concerns and offer reassurance that they will be protected from reprisals or victimisation for whistle-blowing in good faith within the limits of the law. There were no whistle-blowing matters noted during the year.

The Board noted that no incidents in relation to whistle-blowing matters have been raised during the year by any staff to indicate possible improprieties in matters of financial reporting, financial control, or any other matters.

Internal Audit

Principle 13: The Company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

Since FY2004, the Company, upon the recommendation of the AC, appointed Messrs UHY Lee Seng Chan & Co. as Internal Auditors.

The scope of internal audit is to:-

(a) review the effectiveness of the Group's material internal controls;
(b) provide assurance that key business and operational risks are identified and managed;
(c) internal controls are in place and functioning as intended; and
(d) operations are conducted in an effective and efficient manner.

The AC reviews the scope of work deliverables by the Internal Auditor on a regular basis, including overseeing and monitoring the implementation of the improvements required on internal control weaknesses identified. The AC has the responsibility to review the adequacy and effectiveness of the internal audit function on an annual basis, review the internal audit program and ensure co-ordination between Internal Auditors, External Auditors and management, and ensure that the Internal Auditors meet or exceed the standards set by nationally or internationally recognised professional bodies. The AC also reviews and approves the hiring, removal and evaluates its outsourced Internal Auditors.

The AC met up with the Internal Auditors separately at least once a year without the presence of Management. The Internal Auditors are provided with unfettered access to the Group's properties, information and records for performing their internal audit review.

The Internal Auditors report directly to the Chairman of the AC on any material weaknesses and risks identified in the course of the audit which will also be communicated to management. Management would accordingly update the AC on the status of the remedial action plans.

The internal audit work carried out in FY2018 was guided by the International Standards for the Professional Practice of Internal Auditing (IIA Standards) laid down in the International Professional Practices Framework issued by the Institute of Internal Auditors.

The AC and the Board review the adequacy and effectiveness of the internal audit function on an annual basis and are satisfied that in FY2018, the internal audit function has adequate resources to perform its function effectively and is staffed by suitably qualified and experienced professionals with the relevant experience.

Corporate Governance Report

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Shareholder Rights

Principle 14: **Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.**

All shareholders are treated fairly and equitably to facilitate their ownership rights. The Regulations of Constitution allow a member of the Company, who is unable to attend the general meeting in person, to appoint one or two proxies to attend and vote at the meeting in place of the member.

The Group believes that a high standard of disclosure is crucial to raising the level of corporate governance. All information relating to the Group's new initiatives are first disseminated via SGXNet followed by a news release (if appropriate), which is also available on the SGX-ST's website.

The Group does not practice selective disclosure. Price sensitive information is publicly released via SGXNet and the results and annual reports are announced or issued within the mandatory period. All shareholders of the Company will receive a copy of the Annual Report and the Notice of AGM at least 14 days before the meeting. The Notice of AGM is also advertised in a national newspaper.

In view of the above, all shareholders are given an opportunity to participate effectively and vote at the general meetings.

At the AGM, shareholders are given opportunities to express their views and ask the Board and Management questions regarding the operations of the Group. The Chairman is available at the AGM to answer those questions regarding the operations of the Group. The Chairman of the AC, RC and NC are normally available at the AGM to answer those questions relating to the work of these Committees.

The Company's External Auditors are also invited to attend the AGM to assist the Directors in addressing any relevant queries relating to the conduct of the audit and audited report.

For greater transparency and fairness in the voting process, voting at shareholders' meetings were conducted by poll since 2013. This allows all shareholders present or represented at the meetings to vote on a one-share-one vote basis. The voting results of all votes cast for or against each resolution is then announced at the meeting and broadcasted via SGXNet after the meeting.

Communication with shareholders

Principle 15: **Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.**

The Company recognises the importance of actively engaging with stakeholders to promote effective and fair communication.

The Board also acknowledges its obligation to furnish timely information to shareholders and ensures that full disclosure of material information to comply with statutory requirements and the SGX-ST Catalist Rules is made. Any price sensitive information will be publicly released on SGXNet first before being announced to any group of investors or analysts.

To keep all stakeholders of the Company updated on the latest announcements, press releases, and stock details of the Company, stakeholders have 24-hour access to the Company's website (www.annaik.com).

Investor Related Services	kkng@annaik.com
Environmental Related Services	raymondyang@annaik.com
Sales Related Services	sales@annaik.com

Corporate Governance Report

The Company does not have a fixed dividend policy. The form, frequency and amount of dividends will depend on the Company's earnings, general financial condition, results of operations, capital requirements, cash flow, general business condition, development plans and other factors as the Directors may deem appropriate.

Conduct of shareholder meetings

Principle 16: Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

Our shareholders are encouraged to attend the general meetings of shareholders to ensure a high level of accountability and to be updated on the Company's strategies and goals. Notices of general meetings are dispatched to shareholders, together with explanatory notes or a circular on items of special business (if necessary), at least 14 clear calendar days before the meeting for ordinary resolutions and/or 21 clear calendar days before the meeting for special resolutions. The Board welcomes the views of shareholders who wish to raise issues concerning the Company, either informally or formally before or during these general meetings. The Chairman of the AC, NC and RC are normally present and available to address questions relating to the work of their respective committees at general meetings. Furthermore, the External Auditors are present to assist our Board in addressing any relevant queries by our shareholders.

The Company's Constitution allows corporations and members of the Company to appoint one (1) or two (2) proxies to attend and vote at general meetings. A Relevant Intermediary[1] may appoint more than 2 proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified). An investor who holds shares under the Central Provident Fund Investment Scheme ("**CPF Investor**") and/or the Supplementary Retirement Scheme ("**SRS Investors**") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.

The Board also notes that there should be separate resolutions on each substantially separate issue that may be tabled at the general meeting.

The Company prepares minutes of general meetings incorporating the substantial and relevant comments or queries from shareholders that is relevant to the agenda of the meeting and responses from the Board and the Management. Such minutes are available to shareholders upon request.

Resolutions are put to vote by poll and the detailed results of each resolution are announced via SGXNet after the general meetings.

[1] A Relevant Intermediary is:-

a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or
b) a person holding a capital markets services license to provide custodial services for securities under the Securities and Futures Act (Cap. 289) and who holds shares in that capacity; or
c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

Corporate Governance Report

DEALINGS IN SECURITIES

The Company has adopted an Internal Code of Best Practices on Securities Transactions to Directors and key employees (including employees with access to price-sensitive information to the Company's shares) of the Group setting out the code of conduct on transactions in the Company's shares by these persons in compliance with the Rule 1204(19) of the SGX-ST Catalist Rules.

All the key employees, officers and Directors of the Company are reminded not to deal in the Company's securities during the period commencing one month before the announcement of the Company's half year and full year financial statements and ending on the date of announcement of the results.

The Company issues email notification to all its officers including Directors, officers and employees which they are reminded that they should refrain from dealing in the securities of the Company:-

(i) during the one month before and up to the date of announcement of half year and full year results;
(ii) on short term considerations; and
(iii) at any time if they are in possession of unpublished material price-sensitive information.

The Company has complied with Listing Rule 1204(19) of the SGX-ST Catalist Rules.

INTERESTED PERSON TRANSACTIONS ("IPT")

The Group has adopted an internal policy in respect of any transactions with interested person within the definition of Chapter 9 of the Listing Manual of SGX-ST and has set out procedures for review and approval of all interested person transactions. There were no interested party transactions equal to or exceeding S$100,000 in aggregate between the Company and any of its interested persons (namely, directors, executive directors or controlling shareholders of the Group or the associates of such directors, executive officers or controlling shareholders) subsisting for the financial year ended 31 December 2018.

RISK MANAGEMENT

The Group regularly reviews and improves its business and operational activities to identify areas of significant business risks as well as to take appropriate measures to control and mitigate these risks. The Group reviews all significant control policies and procedures and highlights all significant matters to the AC and the Board. The financial risk management objectives and policies are outlined in Note 41 to the financial statements.

MATERIAL CONTRACTS

There is no material contracts entered into by the Group involving the interests of any Director or controlling shareholder, which are either still subsisting at the end of the financial year or if not then subsisting, entered into since the end of the previous financial year.

NON SPONSOR FEES

With reference to Rule 1204(21) of the SGX-ST Catalist Rules, there were no non sponsor fees paid to the Sponsor, Hong Leong Finance Limited for the financial year ended 31 December 2018.

Corporate Governance Report

To provide the information as set out in Appendix 7F relating to the candidate who is proposed to be appointed for the first time or re-elected to the board at a general meeting, in the notice of meeting, annual report or relevant circular distributed to shareholders prior to the general meeting.

The Directors named below are retiring and being eligible, offer themselves for re-election at the upcoming AGM:-

Name of Director	Ow Chin Seng	Tan Poh Hong
Date of Appointment	31 March 1990	26 July 2018
Date of last re-appointment (if applicable)	27 April 2015	N.A.
Age	66	61
Country of principal residence	Singapore	Singapore
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	The Board of Directors of the Company is of the opinion that Mr Ow can continue to contribute positively to the Company after reviewing the NC's recommendation and Mr Ow's extensive experience.	After having considered the experience and skills of Ms Tan, the Board with the recommendation of the Nominating Committee, approved the appointment of Ms Tan as Independent Director of the Company.
Whether appointment is executive, and if so, the area of responsibility	Executive	Non-Executive
Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)	Executive Chairman cum Chief Executive Officer and Member of Nominating Committee and Audit Committee.	Non-Executive and Independent Director, Member of Nominating Committee and Audit Committee and Chairman of Remuneration Committee.
Professional qualifications	-	• B Sc (Estate Management) (Hons), NUS • MBA (Distinction) New York University
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	1. Husband of Mdm Low Kheng 2. Father of Mr Ow Eei Meng, Benjamin 3. Father of Mr Ow Eei Phurn, Benedict 4. Uncle of Mr Koh Beng Leong and Peh Choon Chieh	None
Conflict of interest (including any competing business)	None	None

Corporate Governance Report

Name of Director	Ow Chin Seng	Tan Poh Hong
Working experience and occupation(s) during the past 10 years	Mr. Ow Chin Seng joined the Company in 1978. As Executive Chairman cum CEO, Mr. Ow is primarily responsible for the business and strategic development of the Group. With over 40 years of experience in the hardware and steel industry, Mr. Ow has been instrumental in the strategic direction and development of the Group. Mr. Ow is currently the President of Singapore-China Business Association, Vice-Chairman of Trade Association & Membership Affairs Committee of SCCCI, Council member of Singapore-Zhejiang Economic & Trade Council and Immediate past president of Singapore Metal & Machinery Association. He is also active in public service activities, serving as a member on the committees of several public organisations, such as Advisor of School Advisory Committee for Pei Tong Primary School, Patron of Bukit Gombak Constituency Citizen's Consultative Committee and Advisor of Singapore Wushu Dragon & Lion Dance Federation. He was awarded the title of Pingat Bakti Masyarakat (PBM) during the National Day Award Ceremony in 2007.	**From 2009 to 2017:** Chief Executive Officer of Agri-Food & Veterinary Authority of Singapore. She was responsible for transforming and expanding the organisation's mandate to cater to new challenges facing the country. In particular, she built up the organisation's capabilities to manage and strengthen Singapore's food security. She initiated and led stakeholder engagement and partnership initiatives and drove the push to transform the local farming sector. **From 2004 to 2009:** Deputy Chief Executive Officer of Housing and Development Board ("**HDB**") where she managed 4,700 officers in the Estates and Corporate Groups. The Groups were responsible for planning, developing and managing HDB properties and estates which included over a million housing units and industrial and commercial buildings, as well as formulation of housing policies and programmes. Ms Tan drove technology adoption and streamlining of operations.
Undertaking (in the format set out in Appendix 7H) under Rule 720(1) has been submitted to the listed issuer	Yes	Yes
Shareholding interest in the listed issuer and its subsidiaries	Direct interest - 74, 362, 958 shares Indirect interest - 8,274,924 shares	Ms Tan does not hold any shares in AnnAik Limited and its subsidiaries.

Corporate Governance Report

Name of Director	Ow Chin Seng	Tan Poh Hong
Other Principal Commitments* Including Directorships# * "Principal Commitments" has the same meaning as defined in the Code # These fields are not applicable for announcements of appointments pursuant to Listing Rule 704(8)	**Past (for the last 5 years)** • Hock Chuan Hong Corporation Pte Ltd **Present** • Tan Kah Kee Foundation • Megatech Scientific Pte Ltd • Anxon Envirotech Pte Ltd • Anxon Engineering Pte Ltd • Ann Aik Pte Ltd • AnnAik & Partners (S) Pte Ltd • Both-Well Holdings (S) Pte Ltd • Anxon Environmental Pte Ltd • Jameson Holdings Pte Ltd • Anxon Eco Holdings Pte Ltd • Dalian Shicheng Property Development (S) Pte Ltd • Pioneer Environmental Technology Pte Ltd • Shinsei Holdings Pte Ltd • Jameson Capital Pte Ltd	**Past (for the last 5 years)** • Agrifood Technologies Pte Ltd **Present** • Centurion Corporation Limited • Barramundi Asia Pte Ltd • Sheng Siong Group Ltd

The general statutory disclosures of the Directors are as follows:-

	Question	Ow Chin Seng	Tan Poh Hong
(a)	Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?	No	No
(b)	Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	No	No

Corporate Governance Report

	Question	Ow Chin Seng	Tan Poh Hong
(c)	Whether there is any unsatisfied judgment against him?	No	No
(d)	Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?	No	No
(e)	Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	No	No
(f)	Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	No	No
(g)	Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	No	No
(h)	Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	No	No

Corporate Governance Report

	Question	Ow Chin Seng	Tan Poh Hong
(i)	Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	No	No
(j)	Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:-		
	(i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	No	No
	(ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	No	No
	(iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or	No	No
	(iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere,	No	No
	in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?		

Corporate Governance Report

	Question	Ow Chin Seng	Tan Poh Hong
(k)	Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	No	No
	Disclosure applicable to the appointment of Director only.		
	Any prior experience as a director of an issuer listed on the Exchange?	Yes	Yes
	If yes, please provide details of prior experience.	Has been a director of AnnAik Limited since 2003	• 2018-Independent Director of Sheng Siong Group Ltd • 2018-Independent Director of Centurion Corporation Limited
	If no, please state if the director has attended or will be attending training on the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange.	N.A.	N.A.
	Please provide details of relevant experience and the nominating committee's reasons for not requiring the director to undergo training as prescribed by the Exchange (if applicable).	Has been a director of AnnAik Limited since 2003	Attended SID course on Board and Director Fundamentals; Directors Compliance Programme; Ethics & Corruption; what draws investors

Contents

Directors' Statement

The directors are pleased to present their statement to the members together with the audited consolidated financial statements of AnnAik Limited (the "Company") and its subsidiaries (collectively, the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2018.

1. OPINION OF THE DIRECTORS

In the opinion of the directors,

(a) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018 and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date; and

(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.

2. DIRECTORS

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

Ow Chin Seng	(Executive Chairman/Chief Executive Officer)
Ow Eei Meng, Benjamin	
Ng Kim Keang	
Lee Bon Leong	
Lim Geok Peng	
Tan Poh Hong	

3. ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

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

Directors' Statement

4. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

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

	Direct interest		Deemed interest	
Name of director	At the beginning of financial year	At the end of financial year	At the beginning of financial year	At the end of financial year
AnnAik Limited				
Ordinary shares				
Ow Chin Seng	74,362,958	74,362,958	8,274,924	8,274,924
Ow Eei Meng, Benjamin	–	–	2,919,400	2,919,400
Ng Kim Keang	3,671,000	3,871,100	–	–
Lee Bon Leong	6,142,000	6,142,000	120,000	120,000
Options to subscribe for ordinary shares under the AnnAik Share Option Scheme				
Ow Chin Seng	1,330,000	1,330,000	1,330,000	1,330,000
Ng Kim Keang	1,450,000	1,450,000	–	–
Lee Bon Leong	180,000	–	–	–

By virtue of Section 7 of the Singapore Companies Act, Mr Ow Chin Seng is deemed to have an interest in all the related corporations of the Company.

There was no change in any of the above-mentioned interest in the Company between the end of the financial year and 21 January 2019.

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

Directors' Statement

5. OPTIONS

In 2013, the Company had adopted the AnnAik Employee Share Option Scheme 2013 ("Share Option Scheme") which was approved by the shareholders of the Company at an Extraordinary General Meeting held on 18 September 2013. The Share Option Scheme was administered by the Remuneration Committee comprising Lee Bon Leong, Lim Geok Peng and Tan Poh Hong.

Under the Share Option Scheme, an option entitles the option holder to subscribe for one (1) new ordinary share in the Company at an exercise price per share determined with reference to the market price of the Company's share at the time of grant of the option. The Remuneration Committee may at its discretion, fix the exercise price of the option at a discount up to 20% of the market price of the Company's share.

Options granted with an exercise price set at the market price of the Company's share shall only be exercised after the first anniversary but before the tenth anniversary for executive directors and employees (fifth anniversary for non-executive directors) from the date of grant. Options granted with the exercise price set at a discount to the market price of the Company's share can only be exercised after the second anniversary but before the tenth anniversary for executive directors and employees (fifth anniversary for non-executive directors) from the date of grant. The options may be exercised in whole or in part on the payment of the relevant exercise price. Options granted will lapse when the option holder ceases to be a full-time employee or executive/ non-executive director of the Company or any subsidiary of the Group subject to certain exceptions as determined by the Remuneration Committee.

As at 31 December 2018, the details of the share options held by the directors of the Company under the Share Option Scheme are as follows:

Name of director	Aggregate options granted since commencement of the Scheme to 31.12.2018	Aggregate options exercised since commencement of the Scheme to 31.12.2018	Aggregate options cancelled/ lapsed since commencement of the Scheme to 31.12.2018	Aggregate options outstanding as at 31.12.2018
	'000	'000	'000	'000
Ow Chin Seng	1,330	–	–	1,330
Ng Kim Keang	1,450	–	–	1,450
Lee Bon Leong	180	–	(180)	–

There were no options granted and no shares of the Company issued by virtue of the exercise of an option to take up unissued shares during the financial years ended 31 December 2018 and 2017.

Directors' Statement

5. OPTIONS (cont'd)

Details of the options to subscribe for ordinary shares of the Company pursuant to the employee share option plans as at 31 December 2018 are as follows:

Date of grant	Balance at 1.1.2018	Exercised	Cancelled/ Lapsed	Balance at 31.12.2018	Exercise price per option	Exercise period
	'000	'000	'000	'000	$	
23.5.2008	1,400	–	(1,400)	–	0.200	24.5.2010 - 23.5.2018
16.10.2013	11,349	–	(717)	10,632	0.083	17.10.2015 - 15.10.2023
16.10.2013	360	–	(360)	–	0.083	17.10.2015 - 15.10.2018
	13,109	–	(2,477)	10,632		

Since the commencement date of Share Option Scheme till the end of the financial year:

- except as disclosed above, no options were granted to the directors of the Company, controlling shareholders or their associates;
- except for Mr Ow Chin Seng and Mr Ng Kim Keang, no other person has received 5% or more of the total number of options granted under the Share Option Scheme; and
- except as disclosed above, no options were granted at a discount to the market price of the shares at the time of the grant.

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

6. AUDIT COMMITTEE

The Audit Committee of the Company comprises three non-executive independent directors. The members of the Audit Committee at the end of the financial year and the date of this report are:

Lim Geok Peng (Chairman)
Tan Poh Hong
Lee Bon Leong

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

- Reviewed the audit plans of the internal and external auditors of the Group and the Company, and reviewed the internal auditor's evaluation of the adequacy of the Company's system of internal accounting controls and the assistance given by the Group and the Company's management to the external and internal auditors.
- Reviewed the half yearly and annual financial statements and the independent auditor's report on the annual financial statements of the Group and the Company before their submission to the board of directors.

Directors' Statement

6. AUDIT COMMITTEE (cont'd)

- Reviewed 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.
- 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.
- Reviewed legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators.
- Reviewed the cost effectiveness and the independence and objectivity of the external auditor.
- Reviewed the nature and extent of non-audit services provided by the external auditor.
- Recommended to the board of directors the external auditor to be nominated, approved the compensation of the external auditor, and reviewed the scope and results of the audit.
- Reported actions and minutes of the AC to the board of directors with such recommendations as the AC considered appropriate.
- Reviewed interested person transactions in accordance with the requirements of the Singapore Exchange Securities Trading Limited's Listing Manual.

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

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

Further details regarding the AC are disclosed in the Report on Corporate Governance.

7. AUDITORS

Ernst & Young LLP have expressed their willingness to accept re-appointment as auditors.

On behalf of the board of directors:

Ow Eei Meng, Benjamin Director	Ng Kim Keang Director

Singapore
29 March 2019

Independent Auditor's Report

For the financial year ended 31 December 2018
To the Members of AnnAik Limited

Report on the financial statements

We have audited the financial statements of AnnAik Limited (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 2018, the statements of changes in equity of the Group and the Company and the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section in our report, the consolidated financial statements of the Group, the balance sheet and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards (International) (SFRS(I)s) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and the changes in equity of the Company for the year ended on that date.

Basis for Qualified Opinion

Insufficient appropriate audit evidence for the audit of the Group's associate

The Group's share of results of Shanghai Onway Development Co Ltd, an associated company, amounted to $1,545,000 for the year ended 31 December 2018 were recognised based on the unaudited financial statements of the associated company. The carrying value of the associated company as at 31 December 2018 amounted to $9,980,000.

We were unable to determine the appropriateness of the share of profits recognised for the year and the carrying value of the associated company as at 31 December 2018 as we were unable to obtain the necessary information and explanations from the auditors of the associated company to determine the appropriateness and reliability of the financial statements used to compute the share of the results for the year. We were also unable to perform alternative procedures to obtain information and explanations we considered necessary. Consequently, we are not able to ascertain if any adjustments to the share of profits recognised for the year and the carrying value of the associated company as at 31 December 2018 are necessary. Our audit opinion for the previous financial year was qualified due to the same reason.

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 qualified opinion.

Independent Auditor's Report

For the financial year ended 31 December 2018
To the Members of AnnAik Limited

Key audit matters

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

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

Write down of inventories to net realisable value

As at 31 December 2018, the Group's inventory balance amounted to $19,537,000, representing 46% of the total current assets of the consolidated balance sheet. During the current financial year, the Group has made allowance for slow-moving and obsolete inventories amounting to $379,000.

The Group is exposed to risk of slow-moving inventory as a result of volatility in selling prices of steel products. Significant judgement is required in the estimation of net realisable value and allowance for slow moving inventories. Such estimation is subject to factors such as volatility in the steel price, current and expected future market demand and pricing competition. As such, we determined that this is a key audit matter.

As part of our audit, we attended the inventory count and observed management's process in identifying slow moving items. For some locations with material inventory balances, we have obtained inventory count reports from management and also sent out a third party inventory confirmation to external service provider. In addition, we evaluated the Group's processes and controls relating to sale and purchase of inventories. We have also reviewed management processes in determining the selling prices of steel products like looking at current and expected future market demand and historical trend of steel prices. We also evaluated management's assumptions and estimates used to determine the write down amount through testing of the reliability of the sales movement reports and reviewing historical sales patterns. Further, we performed testing on a sample of items to assess the cost and the estimation of net realisable value of inventory at those locations. Finally, we reviewed the adequacy of the disclosures on the write down amount, and considered the sensitivity analysis in Note 3.2(d) of the financial statements.

Impairment assessment of trade receivables

As at 31 December 2018, trade receivable balances amounted to approximately $10,860,000 and they represent 26% of the total current assets of the Group. Allowance for expected credit loss ("ECL") amounted to $676,000.

The collectability of trade receivables is a key element of the Group's working capital management, which is managed on an ongoing basis by management. The Group determines the loss allowance to be established by making debtor-specific assessment of expected impairment loss for long overdue trade receivables and using a provision matrix for remaining trade receivables that is based on its historical credit loss experience, adjusted for current and forward-looking information specific to the debtors and economic environment. As the determination of the ECL for trade receivables involves significant management judgement, we have identified this as a key audit matter.

Independent Auditor's Report

For the financial year ended 31 December 2018
To the Members of AnnAik Limited

Key audit matters (cont'd)

Impairment assessment of trade receivables (cont'd)

We evaluated the Group's processes and controls relating to the monitoring of trade receivables and review of credit risks arising from transactions with customers. In addition, our audit procedures included, amongst others, on a sample basis, requesting trade receivable confirmations and evidence of receipts from the trade receivables subsequent to the year end. We also evaluated management's assumptions and inputs used in the computation of historical credit loss rates and reviewed data and information that management has used to make forward-looking adjustments. We further evaluated the ECL recognised in profit or loss through checking the arithmetic accuracy of management's computation of the ECL, testing the accuracy of the ageing of the trade receivables, analyses of ageing profile of the trade receivables to identify collection risks and assessment of significant overdue individual trade receivables. We assessed the adequacy of the disclosures on the trade receivables, the sensitivity analyses and the related credit risk and liquidity risk in Note 22 and Note 41(a) to the consolidated financial statements respectively.

Impairment assessment of property, plant and equipment and goodwill

(a) Property, plant and equipment

As at 31 December 2018, the Group's property, plant and equipment balance amounted to S$27,529,000, representing 42% of the total non-current assets of the consolidated balance sheet. Included in the balance are items related to plant and machineries that are mainly deployed in the steel related business segments, including the distribution and manufacturing segments. The weak economic environment and the volatility in steel prices have affected the performance of the steel business segment and gives rise to impairment indicators to the plant and machineries of the Group. Based on the outcome of impairment test carried out by management, no impairment loss of has been recognised on plant and machinery during the year.

As part of the impairment assessment, the carrying value of the plant and machineries is compared to the recoverable amount. These assets are reviewed, either on a stand-alone basis or as part of a wider cash-generating unit ("CGU"), for impairment using the higher of the value-in-use or fair value less costs to sell model. For steel distribution business segment, the assessment was performed based on value-in-use model where management's assumptions and judgement are used in estimating the underlying cash flow forecasts. For the steel manufacturing business segment, the assessment was performed based on fair value less cost to sell, where management has engaged an external valuer to assess the fair value of the plant and machineries. As the impairment assessment required significant management's estimates and judgement in determining the recoverable amount, we have determined this as a key audit matter.

Our audit procedures included, amongst others, evaluating the assumptions and methodologies used by the Group in estimating the recoverable amount. The value-in-use calculations involve the use of cash flow projections approved by management and the application of suitable discount rates. The cash flow projections included key assumptions of future revenues, profitability and related growth expectations. We checked that the cash flows were based on approved management budgets that reflected business plans, and evaluated management's forecasting process by comparing previous forecasts to actual results. We evaluated the assumptions used by comparing them to historical data as well as recent trends and market and economic outlooks. On the discount rates applied to determine present values, we have engaged our internal specialist to evaluate the rates by considering the key elements and risks of the respective cash flow projections, and making comparison to external observable data. In addition, we reviewed management's analysis on the sensitivity of the recoverable amount to changes in the assumptions like the discount rate used and changes in sales growth rate. For recoverable value assessment based on fair value less cost to sell, we have assessed the reliability of fair value less costs to sell assessed by the external valuer, notably through considering the independence, reputation and competency of the external valuer, reviewing their scope of service and assessing the reasonableness of the valuation methodology and assumptions used. Finally, we reviewed the adequacy of the disclosures on the impairment test in Note 11 to the financial statements.

Independent Auditor's Report

For the financial year ended 31 December 2018
To the Members of AnnAik Limited

Key audit matters (cont'd)

(b) Goodwill

As at 31 December 2018, the Group's total goodwill amounted to S$1,339,000, of which S$497,000 is relating to the concession rights of the wastewater treatment business and S$842,000 is relating to the goodwill that was allocated entirely to the subsidiary, LinXing Water Supply Co., Ltd, that was acquired during the previous financial year.

Management has performed the impairment assessment using the discounted cash flow method which required significant judgment in determining the recoverable amount of the goodwill. As such, we determined this to be a key audit matter.

Our audit procedures included, amongst others, assessing the appropriateness of the methodology and evaluated the key assumptions and estimates used by management in determining the recoverable amount of this investment. We assessed the reasonableness of the key inputs used in the projection based on our understanding of the business and compared against externally available industry, economic and financial data. On the discount rates applied to determine present values, we have engaged our internal specialist to evaluate the rates by considering the key elements and risks of the respective cash flow projections, and making comparison to external observable data. In addition, we reviewed management's analysis on the sensitivity of the recoverable amount to changes in the assumptions like the discount rate used and changes in gross profit margin. Finally, we reviewed the adequacy of the disclosures on the impairment test, and considered the sensitivity analysis in Note 13 of the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. The Directors' Statement states that the financial statements are drawn up to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018 and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the year then ended. As described in the Basis for Qualified Opinion section above, we have qualified our opinion on these financial statements for the reasons described in that section.

Responsibilities of management and directors for the financial statements

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

Independent Auditor's Report

For the financial year ended 31 December 2018
To the Members of AnnAik Limited

Responsibilities of management and directors for the financial statements (cont'd)

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

Independent Auditor's Report

For the financial year ended 31 December 2018
To the Members of AnnAik Limited

Auditor's responsibilities for the audit of the financial statements (cont'd)

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

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

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

Report on other legal and regulatory requirements

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

The engagement partner on the audit resulting in this independent auditor's report is Andrew Tan Chwee Peng.

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore

29 March 2019

Consolidated Income Statement

For the financial year ended 31 December 2018

	Note	Group 2018 $'000	Group 2017 $'000
Revenue	4	56,766	49,338
Cost of sales		(46,025)	(39,899)
Gross profit		10,741	9,439
Other income	5	1,803	6,785
Distribution expenses		(1,557)	(1,689)
Administrative expenses		(9,419)	(9,517)
Impairment losses on financial assets	6	(217)	(40)
Other operating expenses		(477)	(1,281)
Share of profits of associates		1,964	673
Finance costs	7	(1,157)	(1,033)
Profit before tax	8	1,681	3,337
Income tax expense	9	(326)	(241)
Profit for the year		1,355	3,096
Attributable to:			
Owners of the Company		1,222	2,621
Non-controlling interests		133	475
		1,355	3,096
Earnings per share (cents per share):			
Basic and diluted	10	0.50	1.05

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

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2018

	Group	
	2018	**2017**
	$'000	$'000
Profit for the year	1,355	3,096
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation	(1,014)	(520)
Other comprehensive income for the year, net of tax	(1,014)	(520)
Total comprehensive income for the year	341	2,576
Total comprehensive income attributable to:		
Owners of the Company	432	2,216
Non-controlling interests	(91)	360
	341	2,576

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

Balance Sheets

As at 31 December 2018

	Note	Group 2018 $'000	Group 31.12.2017 $'000	Group 1.1.2017 $'000	Company 2018 $'000	Company 31.12.2017 $'000	Company 1.1.2017 $'000
Non-current assets							
Property, plant and equipment	11	27,529	28,867	29,702	–	–	–
Land use rights	12	269	286	297	–	–	–
Goodwill	13	1,339	1,427	497	–	–	–
Intangible assets	14	21,856	21,924	20,593	2,375	2,715	3,054
Investment in subsidiaries	15	–	–	–	29,289	20,646	21,164
Investment in associates	16	13,838	12,441	3,207	–	–	–
Investment in a joint venture	17	–	–	3,842	–	–	–
Financial assets at fair value through profit or loss	18	–	–	–	–	–	–
Club membership	19	190	190	190	190	190	190
Refundable deposits	20	869	899	892	–	–	–
Amounts due from subsidiaries	23	–	–	–	–	9,283	8,261
Deferred tax assets	31	4	–	–	–	–	–
		65,894	66,034	59,220	31,854	32,834	32,669
Current assets							
Land use rights	12	7	7	7	–	–	–
Inventories	21	19,537	20,273	21,636	–	–	–
Prepayments		112	150	112	24	18	22
Trade and other receivables	22	16,669	13,785	14,890	120	52	2,018
Amounts due from subsidiaries, associates and a joint venture	23	–	525	709	11,435	12,774	13,117
Cash and bank balances	24	5,468	6,189	7,369	257	261	1,556
Financial derivative assets	29	1	–	–	–	–	–
Assets classified as held for sale	25	636	255	–	–	–	–
		42,430	41,184	44,723	11,836	13,105	16,713
Total assets		108,324	107,218	103,943	43,690	45,939	49,382
Current liabilities							
Amounts due to subsidiaries, associates and a joint venture	23	2,646	3,906	3,157	131	131	521
Trade payables	26	2,627	2,545	1,973	–	–	–
Other payables and accruals	27	6,788	4,729	4,042	480	1,444	1,666
Loans and borrowings	28	15,767	14,811	14,085	200	–	–
Provision for income tax		369	532	393	–	–	–
Financial derivative liabilities	29	–	1	–	–	–	–
		28,197	26,524	23,650	811	1,575	2,187
Net current assets		14,233	14,660	21,073	11,025	11,530	14,526

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

Balance Sheets

As at 31 December 2018

		Group			Company		
	Note	2018 $'000	31.12.2017 $'000	1.1.2017 $'000	2018 $'000	31.12.2017 $'000	1.1.2017 $'000
Non-current liabilities							
Other payables and accruals	27	43	–	618	–	–	618
Loans and borrowings	28	16,672	16,849	17,629	–	–	–
Government grants	30	1,703	1,835	1,933	–	–	–
Deferred tax liabilities	31	423	425	408	–	–	–
Finance derivative liabilities	29	12	48	48	–	–	–
		18,853	19,157	20,636	–	–	618
Total liabilities		47,050	45,681	44,286	811	1,575	2,805
Net assets		61,274	61,537	59,657	42,879	44,364	46,577
Equity attributable to equity holders of the Company							
Share capital	32	36,131	36,131	36,131	36,131	36,131	36,131
Treasury shares	32	(470)	(216)	–	(470)	(216)	–
Foreign currency translation reserve	33	(504)	286	691	–	–	–
Statutory reserve fund	34	1,070	315	44	–	–	–
Employee share option reserve	35	580	785	1,280	580	785	1,280
Retained earnings		18,421	18,309	15,962	6,638	7,664	9,166
		55,228	55,610	54,108	42,879	44,364	46,577
Non-controlling interests		6,046	5,927	5,549	–	–	–
Total equity		61,274	61,537	59,657	42,879	44,364	46,577
Total equity and liabilities		108,324	107,218	103,943	43,690	45,939	49,382

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

Statements of Changes in Equity

For the financial year ended 31 December 2018

Group	Share capital (Note 32) $'000	Treasury shares (Note 32) $'000	Foreign currency translation reserve (Note 33) $'000	Statutory reserve fund (Note 34) $'000	Employee share option reserve (Note 35) $'000	Retained earnings $'000	Attributable to owners of the Company $'000	Non-controlling interests $'000	Total equity $'000
2018									
Balance at 1 January 2018 (FRS framework)	36,131	(216)	286	315	785	18,309	55,610	5,927	61,537
- Cumulative effects of adoptive SFRS(I)	–	–	–	–	–	(67)	(67)	(12)	(79)
Balance at 1 January 2018 (SFRS(I) framework)	36,131	(216)	286	315	785	18,242	55,543	5,915	61,458
Profit for the year	–	–	–	–	–	1,222	1,222	133	1,355
Other comprehensive income									
- Foreign currency translation	–	–	(790)	–	–	–	(790)	(224)	(1,014)
Total comprehensive income for the year	–	–	(790)	–	–	1,222	432	(91)	341
Contribution by and distributions to owners									
- Expiry of share options	–	–	–	–	(205)	205	–	–	–
- Purchase of treasury shares	–	(254)	–	–	–	–	(254)	–	(254)
- Dividend paid (Note 36)	–	–	–	–	–	(493)	(493)	–	(493)
Total transactions with owners via their capacity as owners	–	(254)	–	–	(205)	(288)	(747)	–	(747)
Changes in ownership interests in subsidiaries									
- Capital contributions from non-controlling interests	–	–	–	–	–	–	–	360	360
- Acquisition of non-controlling interest without a change in control	–	–	–	–	–	–	–	(138)	(138)
Total changes in ownership interests in subsidiaries	–	–	–	–	–	–	–	222	222
Others									
- Transfer to statutory reserve fund	–	–	–	755	–	(755)	–	–	–
Balance at 31 December 2018	36,131	(470)	(504)	1,070	580	18,421	55,228	6,046	61,274

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

Statements of Changes in Equity

For the financial year ended 31 December 2018

Group	Share capital (Note 32) $'000	Treasury shares (Note 32) $'000	Foreign currency translation reserve (Note 33) $'000	Statutory reserve fund (Note 34) $'000	Employee share option reserve (Note 35) $'000	Retained earnings $'000	Attributable to owners of the Company $'000	Non-controlling interests $'000	Total equity $'000
2017									
Balance at 1 January 2017	36,131	–	691	44	1,280	15,962	54,108	5,549	59,657
Profit for the year	–	–	–	–	–	2,621	2,621	475	3,096
Other comprehensive income									
- Foreign currency translation	–	–	(405)	–	–	–	(405)	(115)	(520)
Total comprehensive income for the year	–	–	(405)	–	–	2,621	2,216	360	2,576
Contribution by and distributions to owners									
- Expiry of share options	–	–	–	–	(495)	495	–	–	–
- Purchase of treasury shares	–	(216)	–	–	–	–	(216)	–	(216)
- Dividend paid (Note 36)	–	–	–	–	–	(498)	(498)	–	(498)
Total transactions with owners via their capacity as owners	–	(216)	–	–	(495)	(3)	(714)	–	(714)
Changes in ownership interests in subsidiaries									
- Capital contributions from non-controlling interests	–	–	–	–	–	–	–	(182)	(182)
- Acquisition of non-controlling interest without a change in control	–	–	–	–	–	–	–	200	200
Total changes in ownership interests in subsidiaries	–	–	–	–	–	–	–	18	18
Others									
- Transfer to statutory reserve fund	–	–	–	271	–	(271)	–	–	–
Balance at 31 December 2017	36,131	(216)	286	315	785	18,309	55,610	5,927	61,537

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

Statements of Changes in Equity

For the financial year ended 31 December 2018

Company	Share capital (Note 32) $'000	Treasury shares (Note 32) $'000	Employee share option reserve (Note 35) $'000	Retained earnings $'000	Total equity $'000
2018					
At 1 January 2018	36,131	(216)	785	7,664	44,364
Total comprehensive income for the year	–	–	–	(738)	(738)
Contribution by and distributions to owners					
- Expiry of share options	–	–	(205)	205	–
- Purchase of treasury shares	–	(254)	–	–	(254)
- Dividend paid (Note 36)	–	–	–	(493)	(493)
Total transactions with owners via their capacity as owners	–	(254)	(205)	(288)	(747)
At 31 December 2018	36,131	(470)	580	6,638	42,879
2017					
At 1 January 2017	36,131	–	1,280	9,166	46,577
Total comprehensive income for the year	–	–	–	(1,499)	(1,499)
Contribution by and distributions to owners					
- Expiry of share options	–	–	(495)	495	–
- Purchase of treasury shares	–	(216)	–	–	(216)
- Dividend paid (Note 36)	–	–	–	(498)	(498)
Total transactions with owners via their capacity as owners	–	(216)	(495)	(3)	(714)
At 31 December 2017	36,131	(216)	785	7,664	44,364

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

Consolidated Cash Flow Statement

For the financial year ended 31 December 2018

	Note	Group 2018 $'000	Group 2017 $'000
Cash flows from operating activities:			
Profit before tax		1,681	3,337
Adjustments for :			
Impairment losses on trade receivables	6, 22	217	40
Allowance for slow moving inventories	8, 21	379	270
Amortisation of intangible assets	8, 14	1,306	1,077
Amortisation of land use rights	8, 12	7	7
Amortisation of government grant	5, 30	(70)	(72)
Bad debts written off	8	5	263
Depreciation of property, plant and equipment	8, 11	1,467	1,477
Fair value gain on derivative of instrument (unrealised)	5, 29	(38)	–
Finance costs	7	1,157	1,033
Impairment of plant and equipment	8, 11	–	145
Interest income	5	(41)	(146)
Gain on disposal of plant and equipment	5, 8	(17)	(89)
Gain on dilution of interest in investment	5	–	(4,584)
(Reversal of write-down)/write-down of inventories to net realisable value	8, 21	(46)	31
Written off of intangible assets	8, 14	36	89
Written off of property, plant and equipment	8, 11	–	215
Share of profits of associates		(1,964)	(673)
Unrealised foreign exchange loss, net		91	35
Operating profit before working capital changes		4,170	2,455
(Increase)/decrease in:			
Trade receivables		(412)	(1,472)
Other receivables		(2,735)	2,593
Inventories		403	1,062
Increase in:			
Trade payables		82	572
Other payables		2,102	69
Bills payables		1,015	32
Cash generated from operations		4,625	5,311
Interest expense paid		(1,157)	(1,033)
Interest income received		41	146
Income taxes paid		(495)	(85)
Net cash flows generated from operating activities		3,014	4,339

Consolidated Cash Flow Statement

For the financial year ended 31 December 2018

	Note	Group 2018 $'000	Group 2017 $'000
Cash flows from investing activities:			
Proceeds from disposal of property, plant and equipment		101	161
Proceeds from disposal of assets classified as held for sale	25	145	–
Decrease in amount due from associates		(735)	184
Placement of fixed deposit, pledged	24	–	(1,000)
Receipt of fixed deposit, pledged	24	1,000	1,000
Increase in amounts due from related parties		–	(352)
Purchase of property, plant and equipment	11	(477)	(548)
Additions to intangible assets	14	(1,847)	(2,725)
Investment in associates		–	(123)
Net cash outflow of acquisition of a subsidiary	15	–	(2,643)
Net cash flows used in investing activities		(1,813)	(6,046)
Cash flows from financing activities:			
Purchase of treasury shares	32	(254)	(216)
(Repayment of)/proceeds from loans and borrowings		(61)	631
Capital Contribution from non-controlling interests		360	18
Acquisition of non-controlling interests without a change in control		(145)	–
Repayment of obligations under finance leases		(67)	(100)
Dividends paid	36	(493)	(498)
Increase in amount due to associates		–	749
Net cash flows (used in)/generated from financing activities		(660)	584
Net increase/(decrease) in cash and cash equivalents		541	(1,123)
Cash and cash equivalents at beginning of year		4,990	6,215
Effect of exchange rate changes on the balance of cash held in foreign currencies		(63)	(102)
Cash and cash equivalents at end of year	24	5,468	4,990

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

Notes to the Financial Statements

For the financial year ended 31 December 2018

1. CORPORATE INFORMATION

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

The registered office and principal place of business of the Company is located at 52 Tuas Avenue 9, Singapore 639193.

The principal activity of the Company is that of investment holding.

The principal activities of the subsidiaries, associates and a joint venture are disclosed in Notes 15, 16 and 17 to the financial statements respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

For all periods up to and including the year ended 31 December 2017, the Group prepared its financial statements in accordance with Financial Reporting Standards in Singapore ("FRS"). These financial statements for the year ended 31 December 2018 are the first the Group has prepared in accordance with SFRS(I). Refer to Note 2.2 for information on how the Group adopted SFRS(I).

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

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

2.2 First-time adoption of Singapore Financial Reporting Standards (International) ("SFRS(I)")

These financial statements for the year ended 31 December 2018 are the first the Group and the Company have prepared in accordance with SFRS(I). Accordingly, the Group and the Company have prepared financial statements that comply with SFRS(I) applicable as at 31 December 2018, together with the comparative period data for the year ended 31 December 2017, as described in the summary of significant accounting policies. On preparing the financial statements, the Group's and the Company's opening balance sheets were prepared as at 1 January 2017, the Group and the Company's date of transition to SFRS(I).

The Group did not apply the optional exemptions upon adoption of SFRS(I).

New accounting standards effective on 1 January 2018

The accounting policies adopted are consistent with those previously applied under FRS except that in the current financial year, the Group has adopted all the SFRS(I) which are effective for annual financial periods beginning on or after 1 January 2018. Except for the impact arising from the adoption of SFRS(I) 9 described below, the adoption of these standards did not have any material effect on the financial performance or position of the Group and the Company.

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 First-time adoption of SFRS(I) (cont'd)

SFRS(I) 9 *Financial Instruments*

On 1 January 2018, the Group adopted SFRS(I) 9 Financial instruments, which is effective for annual periods beginning on or after 1 January 2018.

The changes arising from the adoption of SFRS(I) 9 have been applied retrospectively. The Group has elected to apply the exemption in SFRS(I) 1 and has not restated comparative information in the year of initial application. The impact arising from SFRS(I) 9 adoption was included in the opening retained earnings at the date of initial application, 1 January 2018. The comparative information was prepared in accordance with the requirements of FRS 39.

Classification and measurement

SFRS(I) 9 requires debt instruments to be measured either at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL). Classification of debt instruments depends on the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). An entity's business model is how an entity manages its financial assets in order to generate cash flows and create value for the entity either from collecting contractual cash flows, selling financial assets or both. If a debt instrument is held to collect contractual cash flows, it is measured at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held both to collect the assets' contractual cash flows and to sell the assets are measured at FVOCI. Financial assets are measured at FVPL if they do not meet the criteria of FVOCI or amortised cost.

The Group's debt instruments have contractual cash flows that are solely payments of principal and interest. The Group has a mixed business model. Debt instruments that were measured at amortised cost previously are held to collect contractual cash flows, and accordingly measured at amortised cost under SFRS(I) 9.

The assessment of the business model and whether the financial assets meet the SPPI requirements was made as of 1 January 2018, and then applied retrospectively to those financial assets that were not de-recognised before 1 January 2018.

SFRS(I) 9 requires all equity instruments to be carried at fair value through profit or loss, unless an entity chooses on initial recognition, to present fair value changes in other comprehensive income.

For equity securities, the Group continues to measure its available-for-sale (AFS) unquoted equity securities at FVPL.

Impairment

SFRS(I) 9 requires the Group to record expected credit losses on all of its financial assets measured at amortised cost or FVOCI and financial guarantees. The Group previously recorded impairment based on the incurred loss model when there is objective evidence that a financial asset is impaired.

Upon adoption of SFRS(I) 9, the Group recognised additional impairment on the Group's trade receivables of $79,000.

The additional impairment recognised arising from adoption of SFRS(I) 9 above resulted in a corresponding decrease in retained earnings of $79,000 as at 1 January 2018.

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.2 First-time adoption of SFRS(I) (cont'd)

SFRS(I) *9 Financial Instruments (cont'd)*

Impairment (cont'd)

The reconciliation for loss allowances for the Group are as follow:

	$'000
Opening loss allowance as at 1 January 2018	412
Amount restated through opening retained earnings	79
Adjusted loss allowance	491

2.3 Standards issued but not yet effective

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

Description	**Effective for annual periods beginning on or after**
SFRS(I) 16 *Leases*	1 January 2019
SFRS(I) INT 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to SFRS(I) 9 *Prepayment Features with Negative Compensation*	1 January 2019
Amendments to SFRS(I) 1-28 *Long-term Interests in Associates and Joint Ventures*	1 January 2019
Annual Improvements to SFRS(I)s 2015-2017 Cycle	1 January 2019
Amendments to SFRS(I) 10 and SFRS(I) 1-28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Date to be determined

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

SFRS(I) 16 *Leases*

SFRS(I) 16 requires lessees to recognise most leases on balance sheets. The standard includes two recognition exemptions for lessees – leases of 'low value' assets and short-term leases. SFRS(I) 16 is effective for annual periods beginning on or after 1 January 2019. At commencement date of a lease, a lessee will recognise a liability to make a lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

The Group plans to adopt SFRS(I) 16 retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening retained earnings at the date of initial application, 1 January 2019.

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

SFRS(I) 16 *Leases (cont'd)*

On the adoption of SFRS(I) 16, the Group expects to choose, on a lease-by-lease basis, to measure the right-of-use asset at either:

(i) its carrying amount as if SFRS(I) 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate as of 1 January 2019; or
(ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before 1 January 2019.

In addition, the Group plans to elect the following practical expedients:

- not to reassess whether a contract is, or contains a lease at the date of initial application and to apply SFRS(I) 16 to all contracts that were previously identified as leases
- to apply the exemption not to recognise right-of-use asset and lease liabilities to leases for which the lease term ends within 12 months as of 1 January 2019
- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics

The Group has performed a preliminary impact assessment based on currently available information, and the assessment may be subject to changes arising from ongoing analysis until the Group adopts SFRS(I) 16 in 2019.

On the adoption of SFRS(I) 16, the Group expects to recognise right-of-use assets and lease liabilities of $2,912,000 for its leases previously classified as operating leases. In addition, the Group will present land use rights of $276,000 as right-of-use assets as of 1 January 2019.

2.4 Basis of consolidation and business combinations

(a) Basis of consolidation

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

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

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.4 Basis of consolidation and business combinations (cont'd)

(b) Business combinations and goodwill

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

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

Non-controlling interest in the acquiree, that are present ownership interests and entitle their holders to a proportionate share of net assets of the acquire are recognised on the acquisition date at either fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

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

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the Group's cash-generating units that are expected to benefit from the synergies of the combination.

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

2.5 Transactions with non-controlling interests

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.6 Foreign currency

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

(a) Transactions and balances

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

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

(b) Consolidated financial statements

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

2.7 Subsidiaries

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

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

2.8 Joint arrangements

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Joint arrangements (cont'd)

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

The Group recognises its interest in a joint venture as an investment and accounts for the investment using the equity method. The accounting policy for investment in joint venture is set out in Note 2.9.

2.9 Joint venture and associate

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

The Group accounts for its investment in associate and joint venture using the equity method from the date on which it becomes an associate or joint venture.

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

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

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

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in associate or joint venture. The Group determines at the end of each reporting period 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.

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

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.10 Property, plant and equipment

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

Assets in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

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

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

Freehold building	–	44 years
Leasehold building	–	lease terms of 30 years
Plant and equipment	–	5 to 10 years
Motor vehicles	–	5 to 8 years
Furniture, renovation, fixtures and equipment	–	5 to 10 years

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

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

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

2.11 Intangible assets

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.11 Intangible assets (cont'd)

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.

(a) Patent rights

The patent rights relate to purchase of the rights to use the Biological Trickling Filter patent in relation to rural wastewater treatment. The rights is amortised on a straight-line basis over the remaining contractual life of 8 years, from the date of purchase of such rights until 31 March 2026.

(b) Service concession arrangements

Intangible asset representing consideration received for construction services provided under service concession arrangements are recognised to the extent that the Group has a right to charge fees for the usage of the wastewater treatment plants and are amortised on a straight-line basis over the concession period from commencement of the operation of the plants.

(c) Technical know-how

Technical know-how is amortised on a straight-line basis over 10 years commencing from the date of completion of the wastewater treatment plant.

(d) Club membership

The useful life of club membership is indefinite as it is lifetime membership and has no dates of expiry.

(e) Rights to draw water

Rights to draw water is amortised on a straight-line basis over the remaining contractual life of 35 years.

2.12 Impairment of non-financial assets

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.12 Impairment of non-financial assets (cont'd)

Impairment losses are recognised in profit or loss.

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

2.13 Financial instruments

(a) Financial assets

Initial recognition and measurement

Financial assets are recognised when, and only when the entity becomes party to the contractual provisions of the instruments.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

Subsequent measurement

Investments in debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. The two measurement categories for classification of debt instruments are:

(i) Amortised cost

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are de-recognised or impaired, and through amortisation process.

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.13 Financial instruments (cont'd)

(a) Financial assets (cont'd)

Subsequent measurement (cont'd)

Investments in debt instruments (cont'd)

(ii) Fair value through profit or loss

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instruments that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss in the period in which it arises.

Investments in equity instruments

On initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. Dividends from such investments are to be recognised in profit or loss when the Group's right to receive payments is established. For investments in equity instruments which the Group has not elected to present subsequent changes in fair value in OCI, changes in fair value are recognised in profit or loss.

Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in fair value of derivatives are recognised in profit or loss.

De-recognition

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

(b) Financial liabilities

Initial recognition and measurement

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.13 Financial instruments (cont'd)

(b) Financial liabilities (cont'd)

Subsequent measurement

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

De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. On de-recognition, the difference between the carrying amounts and the consideration paid is recognised in profit or loss.

2.14 Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss and financial guarantee contracts. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.15 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and fixed deposits which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

2.16 Inventories

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

- Raw materials (for manufacturing products): purchase costs on a weighted average basis.

- Finished goods and work-in-progress (for manufacturing products): costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average basis.

- Finished goods (for distribution products and engineering): purchase costs on a first-in first-out basis.

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

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

2.17 Land use rights

Land use rights represents payments in advance for the rights to use lands for an agreed period. The amounts prepaid are amortised on a straight-line basis over the lease term ranging from 25 to 50 years.

2.18 Provisions

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.18 Provisions (cont'd)

Deferred consideration payable

Deferred consideration arises when settlement of all or any part of the purchase cost of an asset is deferred. It is stated at fair value at the date of purchase, which is determined by discounting the future cash flows to present value at that date. Interest is imputed on the fair value of non-interest bearing deferred consideration at the discount rate and expensed within finance cost. At the end of each reporting period, deferred consideration comprises the remaining deferred consideration valued at acquisition plus interest imputed on such amounts from date of purchase to the end of the reporting period. Subsequent changes to the fair value of the deferred consideration are recognised in the profit or loss.

2.19 Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the balance sheet and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Where loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grant.

Government grant shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Grants related to income may be presented as a credit in profit or loss, either separately or under a general heading such as "Other income". Alternatively, they are deducted in reporting the related expenses.

2.20 Financial guarantee

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

Financial guarantees are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, financial guarantees are measured at the higher of the amount of expected credit loss determined in accordance with the policy set out in Note 2.14 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised over the period of the guarantee.

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.21 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.22 Employee benefits

(a) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Singapore companies in the Group makes contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. In addition, the subsidiary companies in the People's Republic of China ("PRC") pay fixed contributions into the retirement insurance and medical insurance schemes organised by the social security bureau and has no further payment obligations once the contributions have been paid. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

(b) Employee leave entitlement

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

(c) Employee share option plans

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

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market condition or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied. The share option reserve is transferred to retained earnings upon expiry of the share options. When the options are exercised, the 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.

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.23 Leases

As lessee

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

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

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

2.24 Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

Property, plant and equipment once classified as held for sale are not depreciated or amortised.

2.25 Revenue

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

(a) Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered to the customer and all performance obligations have been satisified. Shipping services and sales of goods are determined as two separate performance obligations and are recognised as point in time, upon the transfer of significant risks and rewards of ownership to the customers.

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.25 Revenue (cont'd)

(b) Service income from environmental business

Service income of the Group's environmental business relates to the monthly meter readings and the minimum guaranteed sum from the local government on a monthly basis.

(c) Construction revenue

Construction revenue relates to service concession arrangements entered by the subsidiaries in China with certain governing bodies of the government to construct and operate wastewater treatment plants, accounted for under SFRS(I) INT 12 Service Concession Arrangements. Construction revenue is recognised over time using the cost-based input method.

2.26 Taxes

(a) Current income tax

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

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

(b) Deferred tax

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

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

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.26 Taxes (cont'd)

(b) Deferred tax (cont'd)

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

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

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

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

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

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

(c) Value added tax ("VAT") and Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of VAT/GST except:

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

- Receivables and payables that are stated with the amount of VAT/GST included.

Notes to the Financial Statements

For the financial year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.27 Share capital and share issuance expenses

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

2.28 Treasury shares

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

2.29 Contingencies

A contingent liability is:

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

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

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

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

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

3.1 Judgements made in applying accounting policies

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

(a) Business registration of People's Republic of China ("PRC") entities

The Group's operations in the PRC are governed by the legal system of the PRC. The PRC legal system is a codified system with written laws, regulations, rules and other regulatory documents. In the prior years, by virtue of ownership agreements entered with certain PRC individuals which resulted in changes to the Group's entity interest in its two subsidiaries and an associate of the Group based in PRC, the business registration files of these subsidiaries and associate have not been amended accordingly to reflect the current shareholding structure. Management effected and completed the amendment of the business registration file for one of the subsidiaries in 2011.

Management has obtained legal advice that the current business registrations of the other subsidiary and the associate do not expose the Group to any non-compliance with the PRC legal system. The established understanding has been confirmed with legal practitioner on an annual basis. Accordingly, the non-controlling interests and the investment in an associate are accounted for based on the equity interest in the concerned PRC entities taking into account the ownership agreements entered with the certain PRC individuals.

The non-controlling interests of subsidiaries and investment in associate attributable to the PRC individuals are $674,000 (31 December 2017: $577,000, 1 January 2017: $362,000) and $2,516,000 (31 December 2017: $2,293,000, 1 January 2017: $2,138,000) respectively.

(b) Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax provisions already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the relevant tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Notes to the Financial Statements

For the financial year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (cont'd)

3.1 Judgements made in applying accounting policies (cont'd)

(c) Determination of control and joint control

Determining if an investor has power requires judgment and taking into account all facts and circumstances.

Investment in Ichinose Emico Valves (S) Pte Ltd

The Group has a 50% direct equity interest in an entity, Ichinose Emico Valves (S) Pte Ltd ("Ichinose"), where the remaining 50% equity interest is equally held by two other unrelated parties. It is important to consider that the Group holds a large part of the votes, albeit not majority. There is no other single shareholder that holds more than the Group's voting interest in the investment. Further, it is noted that the relevant activities for the investment are decided by the board of directors, which is formed by two members appointed by the Group and remaining two from the other two shareholders. The Group's representative shall be appointed as chairman of board meetings and will be given a casting vote in the case of equality of votes. The quorum can be achieved through the attendance of 2 directors. Accordingly, management has determined that Ichinose is a subsidiary of the Group in view of the shareholder's rights and demonstration of control over the decisions of the relevant activities of the investment. Management has accounted for the investment in Ichinose as a subsidiary in accordance with Note 2.4 to the financial statements.

As at 31 December 2018, the carrying value of the investment is $463,000 (31 December 2017: $626,000, 1 January 2017: $651,000).

3.2 Key sources of estimation uncertainty

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

(a) Impairment of goodwill

Goodwill acquired in a business combination is allocated, at acquisition to the cash-generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as described in Note 13 to the financial statements.

To determine whether there is an impairment of goodwill at the end of the reporting period, it is necessary to compare the carrying value of goodwill with the recoverable amount from the cash-generating unit to which the goodwill is allocated. The recoverable amount represents the present value of the estimated future cash flows expected to arise from the cash-generating unit. The key assumptions applied in the determination of the value in use including a sensitivity analysis, are disclosed and further explained in Note 13.

(b) Impairment of property, plant and equipment

As disclosed in Note 11 to the financial statements, the recoverable amount of the Group's certain plant and machinery used in steel manufacturing business segment is determined based on fair value or net carrying amount less cost of disposal approach, using depreciated replacement cost model. The key assumptions are disclosed in Note 11 to the financial statements.

Notes to the Financial Statements

For the financial year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (cont'd)

3.2 Key sources of estimation uncertainty (cont'd)

(c) Estimation of expected credit losses of trade receivables

The Group uses a provision matrix to calculate expected credit losses ("ECLs") for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust historical credit loss experience with forward-looking information. At every reporting date, historical default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. A 5% difference in the ECLs from management's estimates would result in approximately decrease of $11,000 (2017: $6,000) in the Group's profit before tax. The information about the ECLs on the Group's trade receivables is disclosed in Note 41(a).

The carrying amount of trade receivables as at 31 December 2018 are $10,860,000 (31 December 2017: $10,749,000, 1 January 2017: $9,576,000) respectively.

(d) Allowances for inventories

Inventories are stated at the lower of cost and net realisable value. In assessing the allowance for inventories, the Group takes into account the historical obsolescence and slow-moving experiences and future demand of their product. The carrying amount of inventories is disclosed in Note 21 of the financial statements.

Based on management's estimate, inventories are fully provided for obsolescence if there are no sale movements within 4 years. At the end of the reporting period, an allowance for inventory obsolescence of $1,546,000 (31 December 2017: $1,167,000, 1 January 2017: $897,000) has been made. If full allowance is to be made for inventories without sale movement within 3 years, the Group's allowance for inventory obsolescence will increase by $638,000 (31 December 2017: $499,000, 1 January 2017: $332,000).

(e) Useful lives of property, plant and equipment

The cost of property, plant and equipment is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these assets to be within 5 to 44 years. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore, future depreciation charges could be revised. The carrying amounts of the Company's and Group's property, plant and equipment as at 31 December 2018 were disclosed in Note 11. A 5% difference in the expected useful lives of these assets from management's estimates would result in approximately decrease of $73,000 (2017: $73,000) in the Group's profit before tax.

Notes to the Financial Statements

For the financial year ended 31 December 2018

4. REVENUE

(a) Disaggregation of revenue

Segments	Sale of goods		Service income from environmental business		Construction income[1]		Total revenue	
	2018	2017	2018	2017	2018	2017	2018	2017
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Primary geographical markets								
Singapore	14,136	14,232	–	–	–	–	14,136	14,232
People's Republic of China	938	1,865	6,650	5,785	1,992	2,726	9,580	10,376
South Korea	10,616	3,942	–	–	–	–	10,616	3,942
Malaysia and others	22,434	20,788	–	–	–	–	22,434	20,788
	48,124	40,827	6,650	5,785	1,992	2,726	56,766	49,338
Timing of transfer of goods or services								
At a point in time	48,124	40,827	6,650	5,785	–	–	54,774	46,612
Over time	–	–	–	–	1,992	2,726	1,992	2,726
	48,124	40,827	6,650	5,785	1,992	2,726	56,766	49,338

(1) Amount relating to services for the construction of assets being operated under service concession rights arrangement as described in Note 14 and Note 44.

(b) Judgement and methods used in estimating revenue

<u>Construction revenue</u>

Revenue is recognised over time based on the actual costs incurred relative to the total estimated costs. The estimated costs are based on past experiences and knowledge of the project engineers to make estimates of the amounts to be incurred.

Notes to the Financial Statements

For the financial year ended 31 December 2018

5. OTHER INCOME

	Note	Group 2018 $'000	Group 2017 $'000
Amortisation of government grant	30	70	72
Fair value gain on derivative instrument (unrealised)	29	38	–
Interest income		41	146
Income from government subsidies	A	426	1,181
Management fee income charged to external parties		213	80
Net foreign exchange gain		71	–
Rental income		435	241
Gain on disposal of property, plant and equipment		17	89
Gain on dilution of interest in investment		–	4,584
Others		492	392
		1,803	6,785

Note A

Government subsidies relate mainly to:-

- Grant income received from government by the subsidiaries operating wastewater plants in the PRC;
- Enterprise Singapore ("ES") Grant for global ready infrastructure talent programme and global company partnership;
- Wage Credit Scheme (WCS) subsidy for Singaporeans' wages increment;
- Singapore National Employers Federation ("SNEF") Development Grant for Flexible Work Arrangement; and
- Special Employment Credit ("SEC") subsidy for hiring Singaporeans aged above 50.

6. IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	Group 2018 $'000	Group 2017 $'000
Impairment losses on trade receivables (Note 22)	217	40

Notes to the Financial Statements

For the financial year ended 31 December 2018

7. FINANCE COSTS

	Group	
	2018	**2017**
	$'000	$'000
Interest expense on:		
- Accretion of interests on deferred consideration payable (Note 27)	31	43
- Bank loans and bank overdrafts	1,120	985
- Finance leases	6	5
	1,157	1,033

8. PROFIT BEFORE TAX

Profit before tax is stated after charging/(crediting):

		Group	
	Note	**2018**	**2017**
		$'000	$'000
Allowance for slow moving inventories	21	379	270
Amortisation of intangible assets	14	1,306	1,077
Amortisation of land use rights	12	7	7
Amortisation of government grant	30	(70)	(72)
Bad debts written off		5	263
Depreciation of property, plant and equipment	11	1,467	1,477
Directors' fees paid to the directors of the Company		100	110
Employee benefits expense	A	6,267	5,917
Fair value gain on derivative instrument (unrealised)	29	(38)	–
Impairment of plant and equipment	11	–	145
Gain on disposal of plant and equipment		(17)	(89)
Rental expenses		212	367
(Reversal of write-down)/write-down of inventories to net realisable value	21	(46)	31
Written off intangible assets		36	89
Written off property, plant and equipment		–	215
Audit fees:			
- Paid to Ernst & Young LLP		146	138
- Paid to affiliates of Ernst & Young LLP		8	13
- Paid to other auditors		135	157
Non-audit fees:			
- Paid to Ernst & Young LLP		14	14
- Paid to other auditors		10	4

Notes to the Financial Statements

For the financial year ended 31 December 2018

8. PROFIT BEFORE TAX (cont'd)

Note A - Employee benefits expense

	Group	
	2018	**2017**
	$'000	$'000
Employee benefits expense (including directors):		
Salaries, bonuses and other benefits	5,654	5,379
Defined contribution plans	613	538
	6,267	5,917

Presented in the consolidated statement of comprehensive income as:

	Group	
	2018	**2017**
	$'000	$'000
Cost of sales	245	254
Administrative expenses	5,278	4,874
Distribution expenses	744	789
	6,267	5,917

9. INCOME TAX EXPENSE

Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2018 and 2017 are:

	Group	
	2018	**2017**
	$'000	$'000
Consolidated income statement		
Current taxation:		
- Current income taxation	332	247
- Overprovision in respect of prior years	(4)	(26)
	328	221
Deferred taxation (Note 31):		
- Origination and reversal of temporary differences	(2)	20
	(2)	20
Income tax expense recognised in the profit or loss	326	241

Notes to the Financial Statements

For the financial year ended 31 December 2018

9. INCOME TAX EXPENSE (cont'd)

Reconciliation between tax expense and accounting profit

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2018 and 2017 is as follows:

	Group	
	2018	**2017**
	$'000	$'000
Profit before tax	1,681	3,337
Tax at domestic rates applicable to profits in the countries where the Group operates[(1)]	369	597
Tax adjustments:		
Non-deductible expenses	215	273
Income not subject to taxation	(117)	(904)
Effect of partial tax exemption	(25)	(20)
Tax effect of share of results of associates	(334)	(114)
Deferred tax assets not recognised	239	429
Benefits from previously unrecognised tax losses	(2)	(3)
Overprovision of income tax in respect of prior years	(4)	(26)
Others	(15)	9
Income tax expense recognised in the profit or loss	326	241

(1) The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

(a) Entities incorporated in PRC, Singapore, South Korea and Malaysia

The applicable income tax rate for PRC, Singapore, South Korea and Malaysia incorporated companies is 25%, 17%, 11% and 24% respectively.

(b) Unrecognised tax losses

At the end of the reporting period, the Group has tax losses of approximately $9,665,000 (2017: $8,261,000) that are available for set off against future taxable profits of the Group, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provision of the tax legislations. The tax losses have no expiry date.

Notes to the Financial Statements

For the financial year ended 31 December 2018

10. EARNINGS PER SHARE

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

Diluted earnings per share is calculated by dividing profit, net of tax, attributable to owners of the Company divided by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	Group	
	2018	**2017**
Profit, net of tax, attributable to owners of the Company used in the computation of basic and diluted earnings per share ($'000)	1,222	2,621
Number of shares ('000)		
Weighted average number of ordinary shares for basic and diluted loss per share computation	246,406	248,778
Earnings per share (cents)		
Basic and diluted earnings per share	0.50	1.05

All share options granted to employees under the existing employee share option plans have not been included in the calculation of diluted earnings per share because they are anti-dilutive as the exercise price is higher than the share price.

Since the end of the financial year, there were no share options being exercised by the eligible employees to acquire the Company's shares.

11. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land	Freehold and leasehold buildings	Plant and equipment	Motor vehicles	Furniture, renovation, fixtures and equipment	Construction-in-progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost							
At 1 January 2017	5,143	21,523	6,293	1,813	1,205	331	36,308
Additions	–	60	11	336	119	91	617
Acquisition of a subsidiary (Note 15)	–	1,569	95	–	33	–	1,697
Disposals	–	–	(25)	(527)	(72)	–	(624)
Written off	–	–	(390)	–	(31)	–	(421)
Transfer to assets classified as held for sale (Note 25)	–	50	(220)	–	8	(203)	(365)
Exchange differences	(389)	(407)	(310)	(20)	(28)	(3)	(1,157)
At 31 December 2017 and 1 January 2018	4,754	22,795	5,454	1,602	1,234	216	36,055
Additions	–	24	27	177	162	181	571
Disposals	–	–	(33)	(401)	(1)	–	(435)
Written off	–	–	–	–	(17)	(145)	(162)
Transfer to assets classified as held for sale (Note 25)	–	–	(1,187)	–	–	–	(1,187)
Exchange differences	94	45	73	(12)	–	(3)	197
At 31 December 2018	4,848	22,864	4,334	1,366	1,378	249	35,039

Notes to the Financial Statements

For the financial year ended 31 December 2018

11. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Group	Freehold land $'000	Freehold and leasehold buildings $'000	Plant and equipment $'000	Motor vehicles $'000	Furniture, renovation, fixtures and equipment $'000	Construction-in-progress $'000	Total $'000
Accumulated depreciation and impairment loss							
At 1 January 2017	–	1,998	2,601	1,362	645	–	6,606
Depreciation charge for the year	–	673	468	180	156	–	1,477
Impairment loss	–	–	–	–	–	145	145
Disposals	–	–	(8)	(499)	(45)	–	(552)
Transfer to assets classified as held for sale (Note 25)	–	–	(110)	–	–	–	(110)
Written off	–	–	(187)	–	(19)	–	(206)
Exchange differences	–	(16)	(138)	(8)	(10)	–	(172)
At 31 December 2017 and 1 January 2018	–	2,655	2,626	1,035	727	145	7,188
Depreciation charge for the year	–	749	380	176	162	–	1,467
Disposals	–	–	(11)	(339)	(1)	–	(351)
Transfer to assets classified as held for sale (Note 25)	–	–	(661)	–	–	–	(661)
Written off	–	–	–	–	(17)	(145)	(162)
Exchange differences	–	1	36	(7)	(1)	–	29
At 31 December 2018	–	3,405	2,370	865	870	–	7,510
Net carrying value							
At 1 January 2017	5,143	19,525	3,692	451	560	331	29,702
At 31 December 2017	4,754	20,140	2,828	567	507	71	28,867
At 31 December 2018	4,848	19,459	1,964	501	508	249	27,529

Notes to the Financial Statements

For the financial year ended 31 December 2018

11. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Assets held under finance leases

The Group acquired plant and equipment and motor vehicles with an aggregate cost of $94,000 (31 December 2017: $69,000, 1 January 2017: $nil) by means of finance leases.

At 31 December 2018, the Group had plant and equipment and motor vehicles amounting to $28,000 (31 December 2017: $239,000, 1 January 2017: $383,000) and $135,000 (31 December 2017: $411,000, 1 January 2017: $254,000) respectively which were held under finance leases.

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

The cash outflow on the acquisition of property, plant and equipment during the year, excluding finance lease financing, amounted to $477,000 (2017: $548,000).

The additions in property, plant and equipment are by means of:

	2018	**2017**
	$'000	$'000
Additions of property, plant and equipment	571	617
Less: Finance lease arrangements	(94)	(69)
Cash invested in property, plant and equipment	477	548

Assets pledged as security

In addition to assets held under finance lease, the Group's freehold land and buildings and leasehold building with a carrying amount of $9,690,000 (31 December 2017: $9,616,000, 1 January 2017: $10,451,000) and $13,139,000 (31 December 2017: $13,678,000, 1 January 2017: $14,217,000) respectively and plant and equipment with a carrying amount of $988,000 (31 December 2017: $1,061,000, 1 January 2017: $2,120,000) are mortgaged to secure the Group's bank loans (Note 28).

Notes to the Financial Statements

For the financial year ended 31 December 2018

11. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Assets pledged as security (cont'd)

Particulars of properties held by the Group as at 31 December 2018 are as follows:

Location	Description	Tenure (years)	Effect from
52 Tuas Avenue 9, Singapore 639193	One 2-storey office building with a single storey warehouse attached and one 2-storey warehouse with mezzanine floor built on land area of 11,633 square meters	Leasehold of 30 years	September 2012
Lot No. 458, No. 459 and No. 460, Mukim 12, Tempat Kampung Gurun, Daerah Sekerang Petai Selatan, Penang	One 1-storey factory building with 2-storey training room, locker room, hostel, canteen, water pump room and 1-storey guardhouse attached, built on land are of 45,397 square meters	Freehold	December 2013

Impairment of assets

In the previous financial year, a subsidiary carried out a review of the recoverable amount of its equipment and an impairment loss of $145,000 has been recognised in profit or loss (Note 8) accordingly.

Valuation technique and key assumptions

The recoverable amount of the plant and machineries was determined based on fair value less cost of disposal approach. The valuation was performed by an independent valuer using the depreciated replacement cost model of valuation. The valuation technique and key assumptions were:

Description	Fair value hierarchy	Valuation technique	Key assumptions
Plant and Machinery	Level 3	Depreciated replacement cost method	Include consideration of: • Market value; • Economic or external obsolescence; • Functional or technical obsolescence; and • Physical deterioration

Notes to the Financial Statements

For the financial year ended 31 December 2018

12. LAND USE RIGHTS

The land use rights is amortised on a straight-line basis over the lease period of the lands of 50 years and is included in administrative expenses in the consolidated income statement.

As at 31 December 2018, the remaining lease period is 40 years (31 December 2017: 41 years, 1 January 2017: 42 years).

	Group	
	2018	**31.12.2017**
	$'000	$'000
Cost		
At 1 January	360	365
Exchange differences	(12)	(5)
At 31 December	348	360
Accumulated amortisation		
At 1 January	67	61
Amortisation	7	7
Exchange difference	(2)	(1)
At 31 December	72	67

	2018	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000
Net carrying amount	276	293	304
The amount to be amortised is as follows:			
Not later than one year	7	7	7
Later than one year but not later than five years	28	28	28
Later than five years	241	258	269
	269	286	297
	276	293	304

Notes to the Financial Statements

For the financial year ended 31 December 2018

13. GOODWILL

Goodwill acquired in a business combination is allocated to the CGU that is expected to benefit from that business combination for impairment testing purpose, as follows:

	Group		
	2018	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000
AngWei Environmental Ecological & Engineering (Shanghai) Co., Ltd ("AngWei Enviro") and its subsidiaries [(1)]	497	497	497
ChangXing LinSheng Wastewater Treatment Co., Ltd ("ChangXing LinSheng") and its subsidiaries [(2)]	842	930	–
	1,339	1,427	497

(1) Comprising the wastewater treatment business of its subsidiaries, arising from the service concession rights granted by the PRC government as disclosed in Note 44 to the financial statements.

(2) Comprising the freshwater treatment business of its subsidiaries as disclosed in Note 15 to the financial statements.

The recoverable amount of AngWei Enviro Group and ChangXing LinSheng Group have been determined based on value in use calculation using cash flow projection from the financial budgets approved by management covering the remaining concession periods, useful lives of the wastewater treatment plants as well as the rights to draw water operated by the CGU, ranging from 22 - 35 years (31 December 2017: 23 – 36 years, 1 January 2017: 24 – 31 years). The discount rate applied to these cash flows is 7% (31 December 2017: 7%, 1 January 2017: 7%).

Key assumptions used in the value in use calculation

The calculation of value in use is most sensitive to the following assumptions:

Growth rate – Projected revenue for wastewater treatment plants is based on government guarantee stated in the service concession agreement with the local government. The growth rate applied to the revenue for freshwater treatment plant for first 4 years is projected at 5% per annum, estimated based on the increase in capacity volume. No growth is projected for the revenue from 5th year until the end of the useful lives of rights to draw water.

Discount rates – The discount rate calculation is based on the specific circumstances of the CGU and derived from its weighted average cost of capital ("WACC"). The WACC takes into account both the cost of debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the CGU is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Budgeted gross margins – Gross margins are based on results achieved in the year preceding the start of the budget period.

Sensitivity to changes in assumptions:

With regards to the assessment of value in use for AngWei Enviro Group and ChangXing LinSheng Group, management believes that no reasonable possible changes in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

Notes to the Financial Statements

For the financial year ended 31 December 2018

14. INTANGIBLE ASSETS

Group	Patent rights $'000	Concession rights $'000	Technical know-how $'000	Rights to draw water $'000	Total $'000
Cost:					
At 1 January 2017	3,732	20,551	417	–	24,700
Additions	–	2,725	–	–	2,725
Written off	–	(146)	–	–	(146)
Exchange differences	–	(265)	(6)	–	(271)
At 31 December 2017 and 1 January 2018	3,732	22,865	411	–	27,008
Additions	–	1,847	–	–	1,847
Acquisition of a subsidiary (Note 15)	–	–	–	88	88
Written off	–	(68)	–	–	(68)
Exchange differences	–	(790)	(14)	–	(804)
At 31 December 2018	3,732	23,854	397	88	28,071
Accumulated amortisation:					
At 1 January 2017	678	3,012	417	–	4,107
Amortisation	339	738	–	–	1,077
Written off	–	(57)	–	–	(57)
Exchange differences	–	(37)	(6)	–	(43)
At 31 December 2017 and 1 January 2018	1,017	3,656	411	–	5,084
Amortisation	340	964	–	2	1,306
Written off	–	(32)	–	–	(32)
Exchange differences	–	(129)	(14)	–	(143)
At 31 December 2018	1,357	4,459	397	2	6,215
Carrying amount:					
At 1 January 2017	3,054	17,539	–	–	20,593
At 31 December 2017	2,715	19,209	–	–	21,924
At 31 December 2018	2,375	19,395	–	86	21,856

Notes to the Financial Statements

For the financial year ended 31 December 2018

14. INTANGIBLE ASSETS (cont'd)

Company	Patent rights $'000
Cost:	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	3,732
Accumulated amortisation:	
At 1 January 2017	678
Amortisation	339
At 31 December 2017 and 1 January 2018	1,017
Amortisation	340
At 31 December 2018	1,357
Carrying amount:	
At 1 January 2017	3,054
At 31 December 2017	2,715
At 31 December 2018	2,375

Patent Rights

The patent rights relate to the rights to use the Biological Trickling Filter patent in relation to rural wastewater treatment. The cost of the patent rights consists a base consideration and contingent consideration, as follows:

- first consideration payment of $1,491,000; and
- subsequent deferred consideration payable of $2,241,000 where the amount and timing of payment is determined based on the profit projections of an associate. As at 31 December 2018, the deferred considerable payable balance is $nil (31 December 2017: $712,000, 1 January 2017: $1,877,000). The movement in deferred consideration payable is shown in Note 27.

The rights are amortised on a straight-line basis over the remaining contractual life of 8 (31 December 2017: 9, 1 January 2017: 10) years, until 31 March 2026.

The carrying amount of the Company's intangible assets is wholly made up of the carrying amount of the patent rights.

Notes to the Financial Statements

For the financial year ended 31 December 2018

14. INTANGIBLE ASSETS (cont'd)

Concession rights

The Group has service concession rights from and obligations to certain governing bodies and agencies in the PRC to construct and operate industrial wastewater treatment plants in Lijiaxiang Town, Zhicheng Town, Lincheng Town and Wushan Town, Zhejiang Province in the PRC for pre-determined periods. These concession rights are for periods of 30 to 50 years.

The cost of the concession rights is amortised on a straight-line basis over the concession period from the commencement of the operations of each respective plant and is charged to cost of sales in the income statement. Concession rights have an estimated remaining useful life of 22 to 40 years (31 December 2017: 23 to 41 years, 1 January 2017: 24 to 42 years) at the end of the financial year.

Technical know-how

This refers to technical know-how for the treatment of industrial wastewater paid by a subsidiary. The cost of the technical know-how is amortised on a straight-line basis over 10 years commencing from the date of completion of the wastewater treatment plant and is charged to administrative expenses in the consolidated income statement. Technical know-how has been fully amortised.

Rights to draw water

The Group's subsidiary, LinXing Water Supply Co., Ltd ("LinXing"), has entered into an agreement with ZhouWu Reservoir pursuant to which LinXing has the rights to draw water from the reservoir for a period of 36 years from 2017. The cost of the rights to draw water is amortised on a straight-line basis over the period. The rights have an remaining useful life of 35 years (2017: 36 years) at the end of the financial year.

Cash outflow on acquisition of intangible assets

The cash outflow on the acquisition of intangible assets during the year amounted to $ 1,847,000 (2017: $2,725,000).

15. INVESTMENT IN SUBSIDIARIES

	Company		
	2018	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000
Unquoted equity shares, at cost	27,343	27,036	27,087
Due from subsidiaries (non-trade)	8,662	–	–
Less: Impairment losses	(6,716)	(6,390)	(5,923)
	29,289	20,646	21,164

The amount due from subsidiaries are unsecured, non-interest bearing, repayable at the option of the subsidiaries, not expected to be repaid within the next 12 months and are to be settled in cash.

Notes to the Financial Statements

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15. INVESTMENT IN SUBSIDIARIES (cont'd)

(a) Composition of the Group

The Group has the following investment in subsidiaries:

Name of subsidiary	Country of incorporation	Principal activities	Proportion of ownership interest 2018 %	31.12.2017 %	1.1.2017 %
Held by the Company					
AnnAik & Partners (S) Pte Ltd ("AA Partners") [(2)]	Singapore	Investment holding	100	65	65
Anxon Eco Holdings Pte Ltd ("Anxon Eco") [(2)]	Singapore	Investment holding	100	100	100
Anxon Engineering Pte Ltd [(2)]	Singapore	Designing, contracting and management of engineering projects	55	55	100
Anxon Environmental Pte Ltd ("Anxon Enviro") [(2)]	Singapore	Investment holding	100	100	100
Wesco Steel Pte Ltd [(2)]	Singapore	Marketing and sale of steel related products	100	70	70
Anxon Envirotech Pte Ltd [(2)]	Singapore	Investment holding	100	100	100
Ann Aik Pte Ltd [(1)]	Singapore	Marketing and sale of steel related products	100	100	100
Pioneer Environmental Technology Pte Ltd ("Pioneer") [(2)]	Singapore	Development of environmental technologies and environmental engineering	51	51	51
Shinsei Holdings Pte Ltd ("SHPL") [(1)]	Singapore	Investment holding	92	92	92
Ichinose Emico Valves (S) Pte Ltd [(2)]	Singapore	Marketing and sale of steel related products	50	50	50
Metal Wang Pte Ltd ("MWPL") [(1)]	Singapore	Wholesale of metals and metal ores	60	60	60
Held through AA Partners					
AnnAik Pipes & Fittings (Shanghai) Co., Ltd [(3)]	PRC	Marketing and sale of steel related products and provision of import and export agency services	100	100	100

Notes to the Financial Statements

For the financial year ended 31 December 2018

15. INVESTMENT IN SUBSIDIARIES (cont'd)

(a) Composition of the Group (cont'd)

Name of subsidiary	Country of incorporation	Principal activities	Proportion of ownership interest 2018 %	31.12.2017 %	1.1.2017 %
Held through Anxon Enviro					
AngWei Environmental Ecological & Engineering (Shanghai) Co., Ltd. ("Angwei Enviro") (3)	PRC	Owning and management of wastewater treatment plants	60	60	60
ChangXing AngWei Environmental & Ecological Engineering Co., Ltd. (3)	PRC	Owning and management of wastewater treatment plants	60	60	60
Held through Anxon Eco					
ChangXing LinSheng Wastewater Treatment Co., Ltd ("CX LinSheng") (3)	PRC	Owning and management of wastewater treatment plant	88	88	88
Held through CX LinSheng					
ChangXing Wusheng Wastewater Treatment Co., Ltd (3)	PRC	Owning and management of wastewater treatment plant	88	88	88
LinXing Water Supply Co., Ltd (3)	PRC	Owning and management of fresh water treatment plant	75	75	–
ChangXing LinYi Wastewater Treatment Co., Ltd ("CXLY") (3)	PRC	Owning and management of waste water treatment plant	70	–	–
Held by SHPL					
Shinsei Industry Sdn. Bhd ("SISB") (4)	Malaysia	Production of steel flanges and related products	92	92	92
Held by SISB					
Shinsei Resources Recovery Sdn Bhd (6)	Malaysia	Manufacturing and trading of plastic resin	92	–	–
Held by AngWei Enviro					
ChangXing Lijiaxiang New Era Wastewater Treatment Co., Ltd ("LJX") (3)	PRC	Owning and management of wastewater treatment plant	60	60	60

Notes to the Financial Statements

For the financial year ended 31 December 2018

15. INVESTMENT IN SUBSIDIARIES (cont'd)

(a) Composition of the Group (cont'd)

Name of subsidiary	Country of incorporation	Principal activities	Proportion of ownership interest 2018 %	31.12.2017 %	1.1.2017 %
Held by Pioneer					
Suzhou Pioneer Environmental Technology Pte Ltd [3]	PRC	Development of environmental technologies and environmental engineering	41	41	36
Held by MWPL					
Handel Co., Ltd [5]	South Korea	Wholesale of metals and metal ores	36	36	–
Held through LJX					
ChangXing Annyi Wastewater Treatment Co., Ltd ("CXAY") [3]	PRC	Owning and management of wastewater treatment plant	60	60	60
ChangXing Hengyi Wastewater Treatment Co., Ltd [3]	PRC	Owning and management of wastewater treatment plant	60	60	60

(1) Audited by Ernst & Young LLP, Singapore.
(2) Audited by another firm of auditors, Ecovis Assurance LLP.
(3) Audited by Ecovis Assurance LLP, Singapore, for the purpose of inclusion of the entities' results into the Group's consolidated financial statements.
(4) Audited by Ernst & Young LLP, Penang, Malaysia.
(5) Audited by HoYeon Accounting Corp, South Korea.
(6) Not required to be audited by the laws of the country of incorporation.

Significant restrictions:

The nature and extent of significant restrictions on the Group's ability to use or access assets and settle liabilities of subsidiaries with material non-controlling interests are:

Cash and cash equivalents of $2,508,000 (31 December 2017: $2,286,000, 1 January 2017: $1,508,000) held in People's Republic of China are subject to local exchange control regulations. These regulations place restriction on the amount of currency being exported other than through dividends.

Notes to the Financial Statements

For the financial year ended 31 December 2018

15. INVESTMENT IN SUBSIDIARIES (cont'd)

(b) Incorporation of subsidiaries

On 29 April 2018, the Group incorporated a 92% owned subsidiary, Shinsei Resources Recovery Sdn Bhd ("SRR") in Malaysia with a investment of RM920 or $276 equivalent. The principal activity of SRR is to manufacture and trade plastic resin in Malaysia. The capital contribution from non-controlling interest amounted to $24.

On 13 September 2018, the Group incorporated a 70% owned subsidiary, ChangXing LinYi Wastewater Treatment Co., Ltd ("CXLY") in China with a investment of RMB3,200,000 or $629,000 equivalent. The principal activity of LinYi is to operate the wastewater plants in ChangXing Town, China. The capital contribution from non-controlling interest amounted to RMB800,000 or $164,000.

(c) Acquisition of subsidiary

During the previous financial year, the Group's subsidiary company, ChangXing LinSheng Wastewater Treatment Co., Ltd ("LinSheng"), acquired 85% of the equity interest in LinXing Water Supply Co., Ltd ("LinXing"). Upon the acquisition, LinXing became a subsidiary of the Group.

The Group has acquired LinXing in order to expand its business in China to include the new water supply business, thus further broadening the scope of its environmental business from the existing treatment of industrial and municipal wastewater business under Build-Operate-Transfer model and treatment of rural wastewater business under Engineering, Procurement and Construction or Public-Private-Partnership model to the inclusion of the new water supply business.

During the last financial year, the Group had performed a provisional PPA and has estimated the provisional goodwill to be $930,000.

In the current financial year, the Group has engaged Singularity Consultancy Pte Ltd ("Singularity") to perform the purchase price allocation ("PPA"). Following the completion of the PPA, the goodwill and intangible assets have been quantified at $842,000 and $88,000 respectively.

Notes to the Financial Statements

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15. INVESTMENT IN SUBSIDIARIES (cont'd)

(c) Acquisition of subsidiary (cont'd)

As at the acquisition date, the fair value of the identifiable assets and liabilities of LinXing were:

	Fair value recognised on acquisition	
	Upon completion of PPA	Estimated
	2017	2017
	$'000	$'000
Non-current assets	1,847	1,697
Current assets	208	208
Total assets	2,055	1,905
Current liabilities	(1,981)	(1,981)
Total liabilities	(1,981)	(1,981)
Total identifiable net assets/(liabilities)	74	(76)
Non-controlling interest measured at the non-controlling interest's proportionate share of LinXing's net identifiable assets	80	230
Exchange differences	15	15
Goodwill arising from acquisition	842	930
Intangible assets (Note 14)	88	–
	1,099	1,099
Consideration transferred for the acquisition of LinXing		
Cash paid	1,099	1,099
Total consideration transferred	1,099	1,099

Effect of the acquisition of LinXing on cash flows	
Consideration settled in cash	1,099
Less: Cash and cash equivalents of subsidiary acquired	(153)
Add: Acquisition of property, plant and equipment	1,697
Net cash outflow on acquisition	2,643

(d) Increase of paid-up registered share capital of subsidiary

During the financial year, the Group has increased its investment in ChangXing LinSheng Wastewater Treatment Co., Ltd ("CX LinSheng") and Pioneer Environmental Technology Pte Ltd ("Pioneer") through capital injection of $821,000 in cash. The capital contribution from the non-controlling interest amounted to $196,000. There was no change in the Group's ownership interest in the above-mentioned subsidiaries.

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15. INVESTMENT IN SUBSIDIARIES (cont'd)

(e) Acquisition of ownership interest in subsidiaries, without loss of control

On 11 July 2018, the Company acquired an additional 35% equity interest in Annaik & Partner (S) Pte Ltd ("AA Partner") from its non-controlling interests for a cash consideration of $145,000. As a result of this acquisition, AA Partner became a wholly-owned subsidiary of the Company. The carrying value of the net assets of AA Partner at 31 May 2018 was $469,000 and the carrying value of the additional interest acquired was $164,000. The difference between the consideration and the carrying value of the additional interest acquired was $19,000.

On 7 August 2018, the Company acquired an additional 30% equity interest in Wesco from its non-controlling interests for a cash consideration of $1. As a result of this acquisition, Wesco became a wholly-owned subsidiary of the Company. The carrying value of the net liabilities of Wesco at 7 August 2018 was $87,000 and the carrying value of the additional interest acquired was $26,000. The difference between the consideration and the carrying value of the additional interest acquired was $26,000.

The following summarises the effect of the change in the Group's ownership interest in AA Partner and Wesco on the equity attributable to owners of the Company:

	$'000
Consideration paid for acqusition of non-controlling interests	145
Decrease in equity attributable to non-controlling interests	(138)
Decrease in equity attributable to owners of the Company	7

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For the financial year ended 31 December 2018

15. INVESTMENT IN SUBSIDIARIES (cont'd)

(f) Interest in subsidiaries with material non-controlling interests ("NCI")

The Group has the following subsidiaries that have non-controlling interests that are material to the Group.

Name of subsidiary	Principal place of business	Proportion of ownership interest held by NCI %	Profit/(loss) allocated to NCI during the reporting period $'000	Accumulated NCI at the end of reporting period $'000
31 December 2018:				
ChangXing AW	PRC	40	160	1,948
LJX	PRC	40	68	1,672
SISB	Malaysia	8	7	307
SHPL	Singapore	8	(14)	310
CXAY	PRC	40	291	845
31 December 2017:				
ChangXing AW	PRC	40	54	1,851
LJX	PRC	40	132	1,662
SISB	Malaysia	8	(37)	294
SHPL	Singapore	8	(11)	324
CXAY	PRC	40	635	1,422
1 January 2017:				
ChangXing AW	PRC	40	76	1,822
LJX	PRC	40	221	1,551
SISB	Malaysia	8	(75)	357
SHPL	Singapore	8	184	685
CXAY	PRC	40	(37)	795

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15. INVESTMENT IN SUBSIDIARIES (cont'd)

(f) Interest in subsidiaries with material non-controlling interests ("NCI") (cont'd)

Summarised financial information including goodwill on acquisition and consolidation adjustments but before intercompany eliminations of subsidiaries with material non-controlling interests are as follows:

Summarised balance sheets

	ChangXing AW			LJX			SISB		
	2018	**31.12.2017**	**1.1.2017**	**2018**	**31.12.2017**	**1.1.2017**	**2018**	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Current									
Assets	2,232	1,682	1,651	2,523	1,057	1,595	6,468	5,651	6,932
Liabilities	(1,628)	(1,545)	(1,916)	(6,118)	(4,680)	(5,658)	(9,397)	(9,002)	(10,002)
Net current assets/(liabilities)	604	137	(265)	(3,595)	(3,623)	(4,063)	(2,929)	(3,351)	(3,070)
Non-current									
Assets	4,821	5,091	5,435	8,834	9,310	9,536	11,201	11,720	13,189
Liabilities	(557)	(599)	(615)	(1,058)	(1,532)	(1,596)	(4,439)	(4,695)	(5,652)
Net non-current assets	4,264	4,492	4,820	7,776	7,778	7,940	6,762	7,025	7,537
Net assets	4,868	4,629	4,555	4,181	4,155	3,877	3.833	3,674	4,467

	CXAY			SHPL		
	2018	**31.12.2017**	**1.1.2017**	**2018**	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000	$'000	$'000	$'000
Current						
Assets	2,647	2,872	2,094	3,695	3,701	3,807
Liabilities	(1,691)	(2,019)	(2,737)	(4,286)	(4,122)	(4,093)
Net current assets/(liabilities)	956	853	(643)	(591)	(421)	(286)
Non-current						
Assets	4,042	4,283	4,087	4,467	4,467	4,467
Liabilities	(839)	(1,580)	(1,457)	–	–	–
Net non-current assets	3,203	2,703	2,630	4,467	4,467	4,467
Net assets	4,159	3,556	1,987	3,876	4,046	4,181

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For the financial year ended 31 December 2018

15. INVESTMENT IN SUBSIDIARIES (cont'd)

(f) Interest in subsidiaries with material non-controlling interests ("NCI") (cont'd)

Summarised statement of comprehensive income

	ChangXing AW		LJX		SISB		CXAY		SHPL	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue	1,688	1,109	1,269	1,498	5,894	4,613	1,758	2,351	87	354
Profit/(loss) before tax	510	180	233	437	85	(457)	728	1,587	(169)	(135)
Tax expense	(110)	(45)	(64)	(108)	–	–	–	–	–	–
Profit/(loss) after tax, representing total comprehensive income	400	135	169	329	85	(457)	728	1,587	(169)	(135)

Other summarised information

	ChangXing AW		LJX		SISB		CXAY		SHPL	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Net cash inflow/ (outflow) from operations	603	496	141	809	184	1,119	944	1,688	(138)	220
Acquisition of significant property, plant and equipment	1	2	–	19	164	31	1	4	–	–

(g) Impairment testing of investment in subsidiaries

During the financial year, management has performed an impairment test for the Company's investment in certain subsidiaries. As a result, the Company has made an impairment loss of $326,000 (2017: $519,000) for the year ended 31 December 2018 to write down these investments to their respective recoverable amounts. During the previous financial year, the Company has written off $52,000 due to the disposal of Anxon Engineering Pte Ltd.

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For the financial year ended 31 December 2018

16. INVESTMENT IN ASSOCIATES

	Group		
	2018	31.12.2017	1.1.2017
	$'000	$'000	$'000
Shuanglin (Huzhou) Wastewater Treatment Co., Ltd	3,773	3,440	3,207
Shanghai Onway Environmental Development Co., Ltd Group	9,980	8,878	–
Wuhan Pioneer Environmental Technology Pte Ltd	85	123	–
	13,838	12,441	3,207

The investment in associates does not have published price quotation.

The details of the investment in associates are summarised below:

Name of associate	Country of incorporation	Principal activities	Proportion of ownership		
			2018	31.12.2017	1.1.2017
			%	%	%
Held through Anxon Enviro					
Shuanglin (Huzhou) Wastewater Treatment Co., Ltd [(1)]	PRC	Owning and management of wastewater treatment plant	42	42	42
Held through Anxon Envirotech					
Shanghai Onway Environmental Development Co., Ltd (Shanghai Onway) [(2)]	PRC	Provision of equipment in rural wastewater treatment	25	25	–
Held through Shanghai Onway					
ZheJiang XinYu Environmental Technology Pte Ltd [(2)]	PRC	Provision of engineering, procurement and construction ("EPC") activities in relation to wastewater treatment	25	25	–
Held through Suzhou Pioneer					
Wuhan Pioneer Environmental Technology Pte Ltd [(1)]	PRC	Environmental engineering services, developing environmental technologies and environmental engineering project	30	30	–

(1) Audited by Ecovis Assurance LLP, Singapore, for the purpose of inclusion of the entity's results into the Group's consolidated financial statements.

(2) Audited by HuaPu TianJian CPA, PRC, for the purpose of inclusion of the entity's results into the Group's consolidated financial statements.

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For the financial year ended 31 December 2018

16. INVESTMENT IN ASSOCIATES (cont'd)

The summarised financial information of material associates based on its financial statements and reconciliation with the carrying amount of the investment in the consolidated financial statements are as follows:

	Shanghai Onway Group			Shuanglin (Huzhou)		
	2018	**31.12.2017**	**1.1.2017**	**2018**	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000	$'000	$'000	$'000
Summarised balance sheet						
Current assets	47,732	36,244	–	4,449	3,111	2,559
Non-current assets	3,674	930	–	5,303	5,896	6,191
Total assets	51,406	37,174	–	9,752	9,007	8,750
Current liabilities	11,486	19,998	–	716	747	1,113
Non-current liabilities	–	–	–	53	69	–
Total liabilities	11,486	19,998	–	769	816	1,113
Net assets	39,920	17,176	–	8,983	8,191	7,637
Proportion of the Group's ownership	25%	25%	–	42%	42%	42%
Group's share of net assets	9,980	4,294	–	3,773	3,440	3,207
Movement due to dilution of shares from 51% to 25%	–	4,584	–	–	–	–
Carrying amount of the investment	9,980	8,878	–	3,773	3,440	3,207

Summarised statement of comprehensive income

	Shanghai Onway Group		Shuanglin (Huzhou)	
	2018	**2017**	**2018**	**2017**
	$'000	$'000	$'000	$'000
Revenue	20,438	16,609	2,393	1,788
Profit after tax	6,180	2,538	1,081	653
Other comprehensive income	(441)	(56)	(121)	(274)
Total comprehensive income	5,739	2,482	960	379

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17. INVESTMENT IN A JOINT VENTURE

	Group		
	2018	31.12.2017	1.1.2017
	$'000	$'000	$'000
Unquoted equity, shares, at cost	–	–	1,097
Share of post-acquisition profits	–	–	2,810
Exchange differences	–	–	(65)
Net carrying amount	–	–	3,842

During the previous financial year, the Group diluted its interest in the joint venture from 51% to 25%. Due to the dilution, the Group lost the joint control while maintaining significant influence over the company. Accordingly, the Group has classified its investment in Shanghai Onway as an associate (Note 16).

The details of the investment in a joint venture are summarised below:

Name of joint venture	Country of incorporation	Principal activities	Proportion of ownership		
			2018	31.12.2017	1.1.2017
			%	%	%
Held through Anxon Envirotech					
Shanghai Onway Environmental Development Co Ltd ("Shanghai Onway") [1]	PRC	Provision of equipment in rural wastewater treatment	–	–	51
Held through Shanghai Onway					
ZheJiang XinYu Environmental Technology Pte Ltd [1]	PRC	Provision of engineering, procurement and construction ("EPC") activities in relation to wastewater treatment	–	–	51

[1] Audited by Ernst & Young Hua Ming LLP, Chengdu, PRC, for the purpose of inclusion of the entity's results into the Group's consolidated financial statements in the financial year ended 31 December 2016.

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For the financial year ended 31 December 2018

17. INVESTMENT IN A JOINT VENTURE (cont'd)

The summarised financial information in respect of the joint venture based on its FRS consolidated financial statements and a reconciliation with the carrying amount of the investment in the consolidated financial statements are as follows:

	Group		
	2018	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000
Summarised balance sheet			
Current assets	–	–	11,497
Non-current assets	–	–	2,990
Total assets	–	–	14,487
Current liabilities	–	–	6,953
Total liabilities	–	–	6,953
Net assets	–	–	7,534
Proportion of the Group's ownership	–	–	51%
Group's share of net assets	–	–	3,842

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company		
	2018	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000
Unquoted equity security, at cost	5,667	5,667	5,667
Less: Impairment loss	(5,667)	(5,667)	(5,667)
Net carrying amount	–	–	–

This relates to the Company's 17.6% equity interest in an unquoted investment which is incorporated in Singapore and is engaged in property development activities in the PRC.

19. CLUB MEMBERSHIP

	Group and Company		
	2018	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000
Club membership, at cost (indefinite life)	190	190	190

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20. REFUNDABLE DEPOSITS

These are funds deposited with the respective town governments in the ChangXing County, Zhejiang Province, PRC to secure the rights to use the allocated lands for an agreed period to build and operate wastewater treatment plants under build-operate-transfer ("BOT") contracts over a period of 30 years. These funds deposited are not expected to be refundable to the Group within the next twelve months.

21. INVENTORIES

	Group		
	2018	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000
Balance sheet:			
Raw materials (at cost or net realisable value)	438	514	200
Work-in-progress (at cost or net realisable value)	38	90	155
Finished goods (at cost or net realisable value)	19,061	19,669	21,281
	19,537	20,273	21,636
Income statement:			
Inventories recognised as an expense in cost of sales	39,141	31,152	
Inclusive of the following charge/(credit):			
- (Reversal of write-down)/write-down of inventories	(46)	31	
- Allowance for slow moving inventories	379	270	

Inventories are stated after allowance for inventory obsolescence of $1,546,000 (31 December 2017: $1,167,000, 1 January 2017: $897,000).

Movement in allowance account at end of the year:

	Group	
	2018	**2017**
	$'000	$'000
At beginning of the year	1,167	897
Allowance made during the year	379	270
At the end of the year	1,546	1,167

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22. TRADE AND OTHER RECEIVABLES

	Group			Company		
	2018	31.12.2017	1.1.2017	2018	31.12.2017	1.1.2017
	$'000	$'000	$'000	$'000	$'000	$'000
Trade receivables						
- External parties	11,536	11,161	9,934	–	–	–
- Related parties	–	–	57	–	–	–
Less: Loss allowance provision	(676)	(412)	(415)	–	–	–
	10,860	10,749	9,576	–	–	–
Non-trade receivables						
Other receivables	3,675	1,248	3,836	120	52	2,014
GST receivables	478	382	172	–	–	–
Advances to suppliers for trade purchase	816	526	574	–	–	4
Amounts due from related parties	638	851	763	88	88	88
Refundable deposits	347	174	382	–	–	–
Less: Loss allowance provision	(145)	(145)	(413)	(88)	(88)	(88)
Total trade and other receivables	16,669	13,785	14,890	120	52	2,018

Trade receivables

Trade receivables are non-interest bearing and are generally on 30 to 150 days' terms. They are recognised at their original amounts which represent their fair values on initial recognition.

At the end of the reporting period:

- Trade receivables arising from export sales amounting to $109,000 (31 December 2017: $nil, 1 January 2017: $108,000) are arranged to be settled via letters of credit issued by reputable bank in countries where the customers are based; and

- Trade receivables that are insured by trade credit insurance underwritten by a reputable insurer in Singapore amounted to $nil (31 December 2017: $275,000, 1 January 2017: $812,000).

Amounts due from related parties

At the end of the reporting period, the amounts due from related parties amounted to $638,000 (31 December 2017: $851,000, 1 January 2017: $763,000) which are non-interest bearing, repayable on demand and are to be settled in cash, except for an amount of $559,000 (31 December 2017: $633,000, 1 January 2017: $583,000) which bears interest ranging from 4.00% to 4.35% (31 December 2017: 4.35%, 1 January 2017: 4.35%) per annum.

Notes to the Financial Statements

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22. TRADE AND OTHER RECEIVABLES (cont'd)

Receivables that are past due but not impaired

The Group has trade receivables amounting to $4,509,000 as at 31 December 2017 and $5,642,000 as at 1 January 2017 that are past due at the end of the reporting period but not impaired. These receivables are unsecured and the analysis of their aging at the end of the reporting period is as follows:

	Group	
	31.12.2017	**1.1.2017**
	$'000	$'000
Trade receivables past due:		
Lesser than 30 days	1,561	2,479
30 to 60 days	1,305	1,150
61 to 90 days	403	906
More than 90 days	1,240	1,107
	4,509	5,642

Trade receivables that are impaired

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

	Group Individually impaired	
	31.12.2017	**1.1.2017**
	$'000	$'000
Trade receivables - nominal amount	412	415
Allowance for impairment	(412)	(415)
	–	–

Movement in the allowance account:

	Group
	31.12.2017
	$'000
At 1 January	415
Charge for the year	40
Written off	(38)
Exchange differences	(5)
At 31 December	412

Notes to the Financial Statements

For the financial year ended 31 December 2018

22. TRADE AND OTHER RECEIVABLES (cont'd)

Trade receivables that are impaired (cont'd)

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

Expected credit losses – trade receivables

The movement in allowance for expected credit losses of trade receivables computed based on lifetime ECL are as follows:

	2018 $'000
Movement in allowance accounts:	
At 1 January	491
Charge for the year	217
Written off	(35)
Exchange differences	3
At 31 December	676

Other receivables that are impaired

Movement in the allowance account:

	Group 31.12.2017 $'000
At 1 January	413
Written off	(268)
At 31 December	145

Expected credit losses – other receivables

The movement in allowance for expected credit losses of other receivables computed based on lifetime ECL are as follows:

	2018 $'000
Movement in allowance accounts:	
At 1 January and 31 December	145

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22. TRADE AND OTHER RECEIVABLES (cont'd)

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

	Group			Company		
	2018	**31.12.2017**	**1.1.2017**	**2018**	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000	$'000	$'000	$'000
United States dollars:						
- Trade receivables	1,639	3,010	1,322	–	–	–
- Other receivables	572	1,055	368	–	–	–

23. AMOUNTS DUE FROM/(TO) SUBSIDIARIES, ASSOCIATES AND A JOINT VENTURE

Amounts due from subsidiaries, associates and a joint venture

	Group			Company		
	2018	**31.12.2017**	**1.1.2017**	**2018**	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000	$'000	$'000	$'000
Current:						
Amounts due from subsidiaries	–	–	–	11,435	12,774	13,117
Amount due from associates	–	525	–	–	–	–
Amount due from a joint venture	–	–	709	–	–	–
	–	525	709	11,435	12,774	13,117
Non-current:						
Amounts due from subsidiaries	–	–	–	–	9,283	8,261

The current amounts due from subsidiaries, associates and a joint venture are non-trade related, unsecured, non-interest bearing, repayable on demand and are to be settled in cash.

The non-current amounts due from subsidiaries are non-trade related, unsecured, non-interest bearing and are to be settled in cash. These amounts are not expected to be repaid within 12 months from the end of the reporting period.

Amounts due from subsidiaries, associates and a joint venture denominated in foreign currency are as follows:

	Group			Company		
	2018	**31.12.2017**	**1.1.2017**	**2018**	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000	$'000	$'000	$'000
United States dollars	–	–	–	3,927	8,195	9,162

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23. AMOUNTS DUE FROM/(TO) SUBSIDIARIES, ASSOCIATES AND A JOINT VENTURE (cont'd)

Amounts due to subsidiaries, associates and a joint venture

	Group			Company		
	2018	**31.12.2017**	**1.1.2017**	**2018**	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000	$'000	$'000	$'000
Current:						
Amounts due to subsidiaries	–	–	–	131	131	521
Amount due to associates	2,646	3,906	420	–	–	–
Amount due to a joint venture	–	–	2,737	–	–	–
	2,646	3,906	3,157	131	131	521

The amounts due to subsidiaries, associates and a joint venture are non-trade, unsecured, non-interest bearing, repayable on demand and are to be settled in cash.

24. CASH AND BANK BALANCES

	Group			Company		
	2018	**31.12.2017**	**1.1.2017**	**2018**	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000	$'000	$'000	$'000
Cash at banks and on hand	5,405	5,115	6,369	257	261	556
Fixed deposit	63	1,074	1,000	–	–	1,000
Total cash and bank balances	5,468	6,189	7,369	257	261	1,556
Less: Bank overdrafts (Note 28)	–	(199)	(154)	–	–	–
Less: Fixed deposit, pledged	–	(1,000)	(1,000)	–	–	(1,000)
Cash and cash equivalents in the consolidated cash flow statement	5,468	4,990	6,215	257	261	556

Cash at banks and on hand earn interest at floating rates based on daily bank deposit rates. Pledged fixed deposit relates to short term deposit held by a bank as collateral for credit facilities of a subsidiary (Note 28c). The fixed deposit has a term of 12 months as at 31 December 2017 and 6.5 months as at 1 January 2017 and earns interest at 1.2% as at 31 December 2017 and 1 January 2017.

Cash and cash balances denominated in foreign currency at 31 December are as follows:

	Group			Company		
	2018	**31.12.2017**	**1.1.2017**	**2018**	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000	$'000	$'000	$'000
United States dollars	1,489	1,127	775	98	97	107

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25. ASSETS CLASSIFIED AS HELD FOR SALE

	Group	
	2018	2017
	$'000	$'000
At 1 January	255	–
Transfer from property, plant and equipment (Note 11)	526	255
Sales during the year	(145)	–
At 31 December	636	255

During the year, the Group has sold their equipment of $145,000 for a sales consideration of $145,000.

26. TRADE PAYABLES

	Group			Company		
	2018	31.12.2017	1.1.2017	2018	31.12.2017	1.1.2017
	$'000	$'000	$'000	$'000	$'000	$'000
Trade payables – third parties	2,470	2,388	1,696	–	–	–
Amount owing to a related party	157	157	277	–	–	–
	2,627	2,545	1,973	–	–	–

Trade payables are non-interest bearing and are generally on 2 to 3 months credit term.

The amount owing to a related party is unsecured, non-interest bearing, repayable on demand and is to be settled in cash.

Trade payables denominated in foreign currency at 31 December are as follows:

	Group			Company		
	2018	31.12.2017	1.1.2017	2018	31.12.2017	1.1.2017
	$'000	$'000	$'000	$'000	$'000	$'000
United States dollars	1,317	385	610	–	–	–

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27. OTHER PAYABLES AND ACCRUALS

	Group			Company		
	2018	31.12.2017	1.1.2017	2018	31.12.2017	1.1.2017
	$'000	$'000	$'000	$'000	$'000	$'000
Non-current:						
Deferred consideration payable	–	–	618	–	–	618
Other payables	43	–	–	–	–	–
	43	–	618	–	–	618
Current:						
Accrued expenses	1,500	1,407	709	321	551	371
Accrued directors' fees	100	110	143	100	110	–
Deferred consideration payable	–	712	1,259	–	712	1,259
Deposits and advances from customers	995	362	281	–	–	–
GST payables	52	41	155	52	36	29
Other payables	4,141	2,097	1,495	7	35	7
	6,788	4,729	4,042	480	1,444	1,666
Total other payables and accruals	6,831	4,729	4,660	480	1,444	2,284

Deferred consideration payable

As part of the assignment agreement with the previous owner of Biological Trickling Filter patent, a purchase consideration comprising a first consideration and subsequent deferred consideration payable has been agreed on for the rights to use the patent. On initial recognition, the deferred consideration was capped at $2,861,000 and was carried at net present value based on the discount rate of 7% amounting to $2,242,000. The first consideration has been paid in the financial year ended 31 December 2015. The deferred consideration shall be paid to the previous owner annually, computed based on a percentage over projected profits of the rural wastewater operation. The deferred consideration has been fully paid during the financial year.

Notes to the Financial Statements

For the financial year ended 31 December 2018

27. OTHER PAYABLES AND ACCRUALS (cont'd)

Movement in the deferred consideration payable:

	Group and Company	
	2018	**2017**
	$'000	$'000
At 1 January	712	1,877
Payment during the year	(743)	(1,208)
Accretion of interests (Note 7)	31	43
At 31 December	–	712

Other payables and accruals, including the deferred consideration payable, denominated in foreign currency at 31 December are as follows:

	Group			Company		
	2018	**31.12.2017**	**1.1.2017**	**2018**	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000	$'000	$'000	$'000
United States dollars	170	519	6	–	–	–

Notes to the Financial Statements

For the financial year ended 31 December 2018

28. LOANS AND BORROWINGS

		Group			Company		
	Note	2018 $'000	31.12.2017 $'000	1.1.2017 $'000	2018 $'000	31.12.2017 $'000	1.1.2017 $'000
Current:							
Bank loans:							
- Revolving SGD loan facilities	(a)	1,050	1,200	500	–	–	–
- Revolving USD loan facilities	(b)	–	–	145	–	–	–
- Secured RMB term loans	(c)	1,191	1,077	1,207	–	–	–
- Secured SGD term loans	(d)	660	660	509	–	–	–
- Unsecured SGD term loans	(e)	200	–	–	200	–	–
- Secured USD term loans	(f)	2,936	3,320	3,204	–	–	–
		6,037	6,257	5,565	200	–	–
Other loans and borrowings:							
Bank overdrafts	24	–	199	154	–	–	–
Bills payables – for trade purpose		8,696	7,681	7,649	–	–	–
Finance lease obligations		43	58	93	–	–	–
Government loans		991	616	624	–	–	–
		15,767	14,811	14,085	200	–	–
Non-current:							
Bank loans:							
- Secured RMB term loans	(c)	1,248	2,120	1,456	–	–	–
- Secured SGD term loans	(d)	10,392	9,052	9,673	–	–	–
- Secured USD term loans	(f)	4,438	4,690	5,629	–	–	–
		16,078	15,862	16,758	–	–	–
Other loans and borrowings:							
Finance lease obligations		75	40	39	–	–	–
Government loans		519	947	832	–	–	–
		16,672	16,849	17,629	–	–	–
Total loans and borrowings		32,439	31,660	31,714	200	–	–

Notes to the Financial Statements

For the financial year ended 31 December 2018

28. LOANS AND BORROWINGS (cont'd)

Bank loans

The Group has the following outstanding bank loans:

(a) Revolving SGD loan facilities of $1,050,000 (31 December 2017: $1,200,000, 1 January 2017: $500,000) are secured by a corporate guarantee from the holding company. The loans bear fixed interests ranging from 2.18% to 3.50% (31 December 2017: 2.15% to 2.35%, 1 January 2017: 3.20%) per annum.

(b) Revolving USD loan facilities of $145,000 were secured by a corporate guarantee from the holding company in 2016. The loans bore fixed interests at 3.19% per annum. The term loan was fully repaid in February 2017.

(c) Secured RMB term loans comprising:

- Term loan of RMB2,000,000 or $396,000 equivalent (31 December 2017: RMB2,000,000 or $411,000, 1 January 2017: $nil) is secured by an immediate and ultimate holding company, pledge of the personal guarantees of the directors of the company, bearing an effective interest rate of 5.66% (31 December 2017: 5.66%, 1 January 2017: nil) per annum. The term loan is repayable in 2019.

- Term loan of RMB7,489,000 or $1,485,000 equivalent (31 December 2017: RMB10,570,000 or $2,170,000, 1 January 2017: RMB7,000,000 or $1,457,000) is secured by corporate guarantee by an immediate and ultimate holding company and personal guarantees of the directors of the company, which bears interest at a floating rate of 130% of the 1-5 years interest rate announced by the bank and is repriced every 3 months. The bank loan is repayable in 16 quarterly instalments with the first repayment instalment commencing in October 2017 and April 2018. The average effective interest rate is 6.18% (31 December 2017: 6.18%, 1 January 2017: 6.18%) per annum.

- Term loan of RMB2,813,000 or $558,000 equivalent (31 December 2017: RMB3,000,000 or $616,000, 1 January 2017: $nil), bears interest at a floating rate of +30% of the 1-5 years interest rate announced by the bank and is repriced every 3 months. The bank loan is repayable in 16 quarterly instalments with the first repayment instalment commencing in October 2018. The average effective interest rate is 6.18% (31 December 2017: 6.18%, 1 January 2017: nil) per annum.

- A subsidiary's bank loan of $nil (31 December 2017: $nil, 1 January 2017: RMB1,400,000 or $290,000 equivalent) was secured by a corporate guarantee from the holding company, property, plant and machinery and personal guarantees of the directors of the subsidiary, bears fixed interest rate at nil (31 December 2017: nil and 1 January 2017: 5.90%) per annum and was fully repaid in 2017.

- Term loan of $nil (31 December 2017: $nil, 1 January 2017: RMB4,400,000 or $916,000 equivalent) was secured by a charge over the fixed deposit of the Company amounting to $nil (31 December 2017: $nil, 1 January 2017: $1,000,000) (Note 24). The term loan bears fixed interest at nil (31 December 2017: nil, 1 January 2017: 3.92%) and was fully repaid in April 2017.

Notes to the Financial Statements

For the financial year ended 31 December 2018

28. LOANS AND BORROWINGS (cont'd)

Bank loans (cont'd)

(d) Secured SGD term loans of $11,052,000 (31 December 2017: $9,712,000, 1 January 2017: $10,182,000) undertaken by a subsidiary to finance the expansion of its 2-storey industrial warehouse cum office at 52 Tuas Avenue 9, Singapore 639193. The loan bears floating interest at 1.50% (31 December 2017: 1.50%, 1 January 2017: 1.50%) per annum above bank swap rate and is repayable in equal instalments over 20 years from the date of draw down.

(e) Unsecured SGD Term Loan of $200,000 (31 December 2017: $nil, 1 January 2017: $nil) was drawn by the Company during the year. The loans bear fixed interests rate of 3.99% (31 December 2017: nil, 1 January 2017: nil) per annum. This amount is repayable from July 2018 to July 2019.

(f) Secured USD term loans comprising:

- Property loan of US$3,509,000 or $4,784,000 equivalent (31 December 2017: US$3,762,000 or $5,029,000, 1 January 2017: US$4,016,000 or $5,807,000) undertaken by a subsidiary to finance the purchase of a piece of vacant land for the construction of a factory building in Penang, Malaysia. The loan bears floating interest at 1.75% (31 December 2017: 1.75%, 1 January 2017: 1.75%) per annum above bank cost of funds and is repayable in 39 quarterly instalments from date of draw down and 1 final balloon instalment.

- Revolving loans of US$1,900,000 or $2,590,000 equivalent (31 December 2017: US$1,900,000 or $2,539,000, 1 January 2017: US$1,600,000 or $2,313,000), which bears fixed interest ranging from 3.12% to 3.35% (31 December 2017: 3.12% to 3.35%, 1 January 2017: 3.12% to 3.24%) per annum and secured by a corporate guarantee from the holding company.

- Working capital loan of $nil (31 December 2017: US$131,000 or $175,000 equivalent, 1 January 2017: US$493,000 or $713,000) undertaken by a subsidiary to purchase machinery and equipment used in the manufacturing business. The loan bears floating interest at nil (31 December 2017: 3.16%, 1 January 2017: 2.45%) per annum above bank cost of fund and is repayable in 20 quarterly principal instalments and 1 final instalment over its tenure of 5 years commencing from date of draw down. The loan was fully repaid during the year.

- Working capital loans of $nil (31 December 2017: US$200,000 or $267,000 equivalent, 1 January 2017: $nil), which bears fixed interest at nil (31 December 2017: 4.11%, 1 January 2017: nil) per annum and secured by a corporate guarantee from the holding company. The loan was fully repaid during the year.

Government loans

The government loans comprise:

(a) A government loan of RMB5,000,000 or $991,000 equivalent (31 December 2017: RMB5,000,000 or $1,027,000, 1 January 2017: RMB5,000,000 or $1,040,000) granted to a subsidiary of the Group to finance the construction of the industrial wastewater plant. The loan is unsecured, non-interest bearing and are expected to be settled in cash.

(b) A government loan of RMB2,000,000 or $397,000 equivalent (31 December 2017: RMB2,000,000 or $411,000, 1 January 2017: RMB2,000,000 or $416,000 equivalent) granted to a subsidiary of the Group to finance the construction of the wastewater plant. The loan is unsecured, non-interest bearing and repayable by December 2021.

Notes to the Financial Statements

For the financial year ended 31 December 2018

28. LOANS AND BORROWINGS (cont'd)

Government loans (cont'd)

(c) A government loan of KRW100,000,000 or $122,000 (31 December 2017: KRW100,000,000 or $125,000, 1 January 2017: $nil) granted to a subsidiary of the Group to finance working capital. The loan is unsecured, non-interest bearing and repayable by December 2022.

Bank overdrafts

The bank overdrafts carried interest at 4.75% (1 January 2017: 6.50%) per annum and was repaid during the year. The Company provided corporate guarantees to banks in respect of the bank overdrafts amounted to $199,000 (1 January 2017: $154,000) and was drawn down by a subsidiary.

Finance lease obligations

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

	Group					
	Minimum lease payments			Present value of minimum lease payments		
	2018	31.12.2017	1.1.2017	2018	31.12.2017	1.1.2017
	$'000	$'000	$'000	$'000	$'000	$'000
Amounts payable under finance leases:						
- Within one year	48	60	97	43	58	93
- In the second to fifth year inclusive	80	41	39	75	40	39
	128	101	136	118	98	132
Less: Future finance charges	(10)	(3)	(4)	–	–	–
Present value of lease obligations	118	98	132	118	98	132
Less: Amount due to be paid within 12 months				(43)	(58)	(93)
Amount due to be paid after 12 months				75	40	39

The Group leases certain of its plant and equipment under finance leases. The period of these finance leases ranges from 1 to 3 years (31 December 2017: 1 to 3 years, 1 January 2017: 1 to 4 years). For the year ended 31 December 2018, the average effective interest rate in respect of these finance leases ranges from 1.38% to 4.78% (31 December 2017: 1.15% to 4.78%, 1 January 2017: 1.15% to 4.78%) per annum. Lease terms do not contain restrictions, concerning dividends, additional debts or further leasing. All leases are on fixed repayment basis and no arrangements have been entered into for contingent rental payments. The fair value of the Group's lease obligations approximates their carrying amounts.

Notes to the Financial Statements

For the financial year ended 31 December 2018

28. LOANS AND BORROWINGS (cont'd)

Bills payables

Bills payables are repayable between 3 to 6 months from the date the bills are first issued. The carrying amounts of the bills payables approximate their fair value due to the short-term maturity. During the year ended 31 December 2018, the bills payables carry interests at rates ranging from 2.82% to 4.69% (31 December 2017: 2.25% to 3.52%, 1 January 2017: 2.27% to 3.20%) per annum.

The Company provides corporate guarantees to banks in respect of the bills payables amounting to $8,696,000 (31 December 2017: $7,681,000, 1 January 2017: $7,649,000) owing by subsidiaries.

Bills payables denominated in foreign currency as at 31 December are as follows:

	Group		
	2018	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000
United States dollars	2,703	3,737	1,418

Undrawn committed borrowing facilities

As at 31 December 2018, the Group has available undrawn committed borrowing facilities of $23,010,000 (2017: $29,598,000).

Effective interest rates

	Effective interest rate		
	2018	**31.12.2017**	**1.1.2017**
	%	%	%
Bank loans:			
- Revolving SGD loan facilities	2.89% - 3.75%	2.34% - 2.35%	3.20%
- Revolving USD loan facilities	nil	nil	3.19%
- Secured SGD term loans	2.65%	3.04%	2.35%
- Secured RMB term loans	5.66% - 6.18%	5.66% - 6.17%	3.92% - 5.90%
- Secured USD term loans	3.98% - 4.14%	3.16% - 4.11%	2.08% - 3.24%
- Unsecured SGD term loans	3.99%	nil	nil
Other loans and borrowings:			
Bank overdrafts	not applicable	4.75%	6.50%
Bills payables – for trade purpose	2.82% - 4.69%	2.25% - 3.52%	2.27% - 3.20%
Finance lease obligations	1.38% - 4.78%	1.15% - 4.78%	1.15% - 4.78%

Notes to the Financial Statements

For the financial year ended 31 December 2018

28. LOANS AND BORROWINGS (cont'd)

A reconciliation of liabilities arising from the Group's financing activities is as follows:

	2017	Cash flows	Non-cash changes				2018
			Acquisition	Foreign exchange movement	Accretion of interests	Other	
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Bank loans							
- current	6,257	(1,949)	–	(71)	–	1,800	6,037
- non-current	15,862	1,888	–	128	–	(1,800)	16,078
Government loans							
- current	616	–	–	(23)	–	398	991
- non-current	947	–	–	(30)	–	(398)	519
Obligations under finance leases							
- current	58	(67)	15	(11)	–	48	43
- non-current	40	–	79	4	–	(48)	75
Total	23,780	(128)	94	(3)	–	–	23,743

	1.1.2017	Cash flows	Non-cash changes				2017
			Acquisition	Foreign exchange movement	Accretion of interests	Other	
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Bank loans							
- current	5,565	(1,103)	–	36	–	1,759	6,257
- non-current	16,758	1,609	–	(746)	–	(1,759)	15,862
Government loans							
- current	624	–	–	(8)	–	–	616
- non-current	832	125	–	(10)	–	–	947
Obligations under finance leases							
- current	93	(100)	22	(1)	–	44	58
- non-current	39	–	47	(2)	–	(44)	40
Total	23,911	531	69	(731)	–	–	23,780

The 'other' column relates to reclassification of non-current portion of loans and borrowings including obligations under finance leases due to passage of time.

Notes to the Financial Statements

For the financial year ended 31 December 2018

29. FINANCE DERIVATIVES ASSETS/(LIABILITIES)

	2018			31.12.2017		1.1.2017	
	Contract/ Notional amount	Assets	(Liabilities)	Contract/ Notional amount	(Liabilities)	Contract/ Notional amount	(Liabilities)
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Non-current:							
Interest rate swaps	4,179	–	(12)	9,179	(48)	9,179	(48)
Current:							
Forward currency contracts	–	–	–	731	(1)	–	–
Interest rate swaps	5,000	1	–	–	–	–	–

The interest rate swaps receive floating interest equal to SIBOR + 1.50% (31 December 2017: SIBOR + 1.50%, 1 January 2017: SIBOR + 1.50%) per annum, pay a fixed rate of interest ranging from 3.00% to 3.45% (31 December 2017: 3.00% to 3.45%, 1 January 2017: 3.00% to 3.45%) per annum and mature between January 2019 and March 2020 (31 December 2017: between January 2019 and March 2020, 1 January 2017: January 2019 and March 2020). During the financial year, the fair value gain of $38,000 (2017: $nil) has been recognised under the "Other operating income" line item in the consolidated income statement.

30. GOVERNMENT GRANTS

These are grants received from the government of the PRC for the improvements and upgrading of the wastewater treatment plants built and operated by the Group. These grants will be recognised in the income statement on a systematic basis over respective concession periods of 30 to 50 years.

	Group	
	2018	2017
	$'000	$'000
At 1 January	1,835	1,933
Less: Amortisation of government grant	(70)	(72)
Exchange differences	(62)	(26)
At 31 December	1,703	1,835

Notes to the Financial Statements

For the financial year ended 31 December 2018

31. DEFERRED TAX

Deferred income tax as at 31 December relates to the following:

	Group				
	Balance sheet			Net change in income statement	
	2018	31.12.2017	1.1.2017	2018	2017
	$'000	$'000	$'000	$'000	$'000
Deferred tax liabilities:					
Undistributed earnings of associates and joint venture	(229)	(229)	(229)	–	–
Unrealised profits	(200)	(198)	(192)	2	20
Exchange differences	6	2	13		
	(423)	(425)	(408)		
Deferred tax assets:					
Provisions	4	–	–	(4)	–
Deferred tax expense (Note 9)				(2)	20

Unrecognised temporary differences relating to investments in subsidiaries

At the end of the reporting period, no deferred tax liability (31 December 2017: $nil, 1 January 2017: $nil) has been recognised for taxes that would be payable on the undistributed earnings of certain subsidiaries.

Such temporary differences for which no deferred tax liability has been recognised aggregate to $6,744,000 (31 December 2017: $5,648,000, 1 January 2017: $4,940,000). The deferred tax liability is estimated to be approximately $339,000 (31 December 2017: $284,000, 1 January 2017: $247,000).

32. SHARE CAPITAL

	Group and Company			
	No. of ordinary shares			
	2018	2017	2018	2017
	'000	'000	$'000	$'000
Issued and paid-up:				
At 1 January	247,132	248,973	36,131	36,131
Purchase of treasury shares	(2,361)	(1,841)	(470)	(216)
At 31 December	244,771	247,132	35,661	35,915

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

Notes to the Financial Statements

For the financial year ended 31 December 2018

33. FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

	Group	
	2018	**2017**
	$'000	$'000
At 1 January	286	691
Net effect of exchange differences arising from translation of financial statements of foreign operations	(790)	(405)
At 31 December	(504)	286

34. STATUTORY RESERVE FUND

Under the present laws and regulations in the PRC, every company incorporated in PRC is required to make appropriations calculated at 10% of its profit after income tax from the retained earnings to the reserve fund every year until the accumulated balance in the reserve fund reaches 50% of the registered capital of that company. Further, every company in PRC is also required to make appropriations at the rates determined by its board of directors from its retained earnings to the enterprise expansion fund every year.

The statutory reserve fund may be used to cover losses incurred by the PRC companies and to increase its capital for the expansion of its production capacity. The enterprise expansion fund may be used to increase the capital of the company subject to approval from the relevant government authorities.

35. EMPLOYEE SHARE OPTION RESERVE

	Group and Company	
	2018	**2017**
	$'000	$'000
At 1 January	785	1,280
Forfeited	(205)	(495)
At 31 December	580	785

Notes to the Financial Statements

For the financial year ended 31 December 2018

35. EMPLOYEE SHARE OPTION RESERVE (cont'd)

Equity-settled share option scheme

The Company has two share option schemes for its non-executive directors and qualifying employees including directors. The schemes are administered by the Remuneration Committee which has the discretion to fix the exercise price for the options at a discount not exceeding 20% to the average of the closing price of the Company's shares for the last three trading days prior to the date of the grant ("average market price").

(a) Market price options

Options with subscription prices which are equal to the market price (the "Market price options") granted to employees may be exercised one year after the date of grant and would expire (i) ten years after such date of grant if granted to an executive director or employee, and (ii) five years after such date of grant if granted to a non-executive director.

(b) Discounted options

Options with subscription prices which represent a discount to the market price (the "Discounted options") may be exercised two years after the date of grant and would expire (i) ten years after such date of grant if granted to an executive director or employee, and (ii) five years after such date of grant if granted to a non-executive director. There have been no cancellation or modification to the share option plan during both 2018 and 2017.

Movement of share options during the financial year

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

	Group and Company			
	2018		2017	
	No. of share options	WAEP	No. of share options	WAEP
		$		$
Outstanding at 1 January	13,109,000	0.096	18,027,000	0.133
Forfeited	(2,477,000)	0.149	(4,918,000)	0.223
Outstanding at 31 December	10,632,000	0.083	13,109,000	0.096
Exercisable at 31 December	10,632,000	0.083	13,109,000	0.096

- No share options were exercised during the year.
- There are no options granted during the financial years ended 31 December 2018 and 2017.
- The options outstanding at the end of the year have a weighted average remaining contractual life of 4.79 years (2017: 5.08 years).
- The exercise price for options outstanding at the end of the year was $0.083 (2017: $0.096).
- There are no share-based payment expense recognised during the financial year ended 31 December 2018 and 2017.

Notes to the Financial Statements

For the financial year ended 31 December 2018

36. DIVIDENDS

	Group and Company	
	2018	**2017**
	$'000	$'000
Declared and paid during the year:		
Dividends on ordinary shares:		
- Final exempt (one-tier) dividend for 2018: 0.2 (2017: 0.2) cent per share	493	498
Proposed but not recognised as liability as at 31 December:		
Dividends on ordinary shares, subject to shareholders' approval at AGM:		
- Final exempt (one-tier) dividend for 2018: nil (2017: 0.2) cent per share	–	493

37. RELATED PARTIES TRANSACTIONS

(a) Sales and purchases of goods and services

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

	Group	
	2018	**2017**
	$'000	$'000
Engage of legal services from a firm related to a director	2	*
Sales of goods to related parties	–	99
Purchase of goods from a related party	335	144

* denotes less than $1,000

Sales of goods to related parties was made at the Group's usual list prices. Purchases of goods from a related party were made at market price discounted to reflect the quantity of goods purchased.

The Group has engaged Lee Bon Leong & Co., a firm of which one of the independent directors is the Senior Partner of the firm, for the provision of legal services in relation to the Group's affairs.

Notes to the Financial Statements

For the financial year ended 31 December 2018

37. RELATED PARTIES TRANSACTIONS (cont'd)

(b) Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	Group	
	2018	**2017**
	$'000	$'000
Short-term employee benefits	2,245	2,502
Central Provident Fund contributions	161	174
Directors' fees	100	110
	2,506	2,786
Comprise amounts paid to:		
- Directors of the Company	1,044	1,356
- Other key management personnel	1,462	1,430
	2,506	2,786

The remuneration of directors and key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

Directors' interests in employee share option

At the end of the reporting period, the total number of outstanding share options granted by the Company to the above-mentioned directors under the share option plan amounted to 2,780,000 (2017: 3,140,000).

38. COMMITMENTS

(a) Operating lease commitment – as lessee

The Group has entered into commercial property leases on certain properties and land rental. The lease has an average tenure of between 1 and 24 years (31 December 2017: 1 and 25 years, 1 January 2017: 1 and 26 years) with no renewal option or contingent rent provision included in the contracts. The Group is restricted from subleasing the leased properties and leasehold lands to third parties.

Minimum lease payments recognised as an expense in profit or loss for the financial year ended 31 December 2018 amounted to $212,000 (31 December 2017: $367,000, 1 January 2017: $435,000).

Notes to the Financial Statements

For the financial year ended 31 December 2018

38. COMMITMENTS (cont'd)

(a) Operating lease commitment – as lessee (cont'd)

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

	Group		
	2018	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000
Not later than one year	191	190	516
Later than one year but not later than five years	765	726	1,033
Later than five years	3,620	3,612	4,034
	4,576	4,528	5,583

(b) Capital commitments

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

	Group		
	2018	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000
Capital commitments in construction of wastewater plants	–	39	1,457

39. CORPORATE GUARANTEE – COMPANY LEVEL

The Company has issued corporate guarantees to several financial institutions for borrowings granted to certain subsidiaries for $53,157,000 (2017: $59,597,000), of which $32,147,000 (2017: $29,996,000) were utilised at the end of the reporting period.

Notes to the Financial Statements

For the financial year ended 31 December 2018

40. SEGMENT INFORMATION

The following segment information is prepared based on the nature of the principal activities of the Company and its subsidiaries. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. They are segregated primarily into four reporting segments; i.e. distribution of stainless steel piping products; manufacturing of steel flanges; engineering construction of piping process system and environmental business. Except as indicated above, no operating segments have been aggregated to form the above reportable segments.

Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments. Transfer pricing between operating segments are on an arms' length basis in the manner similar to transactions with third parties.

Segment revenue and results are the operating revenue and results as reported in the Group's income statement that are directly attributable to a segment and can be allocated on a reasonable basis to that segment.

Segment assets include all operating assets used by a segment and consist principally of trade receivables, inventories and property, plant and equipment. Capital expenditure includes the total cost incurred to acquire property, plant and equipment and intangible asset which are directly attributable to the segment. Segment liabilities include all operating liabilities and consist principally of trade payables and accruals.

Income from associate and joint venture is allocated to each segment on the basis they are specifically attributable to that segment, and correspondingly the investment in an associate are included as segment assets of the Group.

Notes to the Financial Statements

For the financial year ended 31 December 2018

40. SEGMENT INFORMATION (cont'd)

(a) Business segments

	Distribution		Manufacturing of steel flanges		Engineering construction		Environmental business		Elimination			Consolidation	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	Note	2018	2017
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000		$'000	$'000
Revenue													
External revenue	44,689	35,088	2,448	2,752	–	–	9,629	11,498	–	–		56,766	49,338
Inter-segment revenue	3,284	2,373	3,533	2,215	–	–	174	–	(6,991)	(4,588)	A	–	–
Total revenue	47,973	37,461	5,981	4,967	–	–	9,803	11,498	(6,991)	(4,588)		56,766	49,338
Result													
Segment results	(1,904)	(3,394)	293	(279)	(66)	46	1,965	2,735	545	4,443	B	833	3,551
Share of profits of associates	–	–	–	–	–	–	1,964	673	–	–		1,964	673
Interest income												41	146
Finance costs												(1,157)	(1,033)
Profit before tax												1,681	3,337
Income tax												(326)	(241)
Profit for the year												1,355	3,096

Notes to the Financial Statements

For the financial year ended 31 December 2018

40. SEGMENT INFORMATION (cont'd)

(a) Business segments (cont'd)

	Distribution			Manufacturing of steel flanges			Engineering construction			Environmental business			Consolidation		
	31.12.2018	**31.12.2017**	**1.1.2017**	**31.12.2018**	**31.12.2017**	**1.1.2017**	**31.12.2018**	**31.12.2017**	**1.1.2017**	**31.12.2018**	**31.12.2017**	**1.1.2017**	**31.12.2018**	**31.12.2017**	**1.1.2017**
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets															
Segment assets	44,524	45,725	50,962	16,545	17,231	20,226	21	129	78	33,396	31,692	25,628	94,486	94,777	96,894
Investment in an associate	–	–	–	–	–	–	–	–	–	13,838	12,441	3,207	13,838	12,441	3,207
Investment in a joint venture	–	–	–	–	–	–	–	–	–	–	–	3,842	–	–	3,842
Consolidated total assets													108,324	107,218	103,943
Liabilities															
Segment liabilities	10,388	9,972	10,218	2,706	2,078	2,601	4	6	4	10,327	9,745	7,530	23,425	21,801	20,353
Bank loans	12,425	11,504	10,980	7,374	7,742	8,835	–	–	–	3,826	4,634	4,118	23,625	23,880	23,933
Consolidated total liabilities													47,050	45,681	44,286
Other information															
Depreciation and amortisation	1,212	1,235	1,234	393	413	426	–	–	10	1,175	913	748	2,780	2,561	2,418
Capital expenditure	203	334	443	164	29	23	–	–	–	2,051	4,676	5,626	2,418	5,039	6,092
Other non-cash expenses	631	973	4,212	(28)	(116)	(181)	63	–	–	(129)	(107)	22	537	750	4,053

Notes to the Financial Statements

For the financial year ended 31 December 2018

40. SEGMENT INFORMATION (cont'd)

(a) Business segments (cont'd)

Notes Nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements.

A Inter-segment revenues are eliminated on consolidation.

B The following items are deducted from segment profits to arrive at "profit before tax" presented in the consolidated income statement:

	2018 $'000	2017 $'000
Profit from inter-segment sales	(4)	(75)
Unallocated corporate expenses	549	(66)
Gain on dilution of interest in investment (Note 5)	–	4,584
	545	4,443

(b) Geographical information

The Group's operations are located in Singapore, Malaysia and the PRC. The Group's engineering construction and the distribution of steel products divisions are in Singapore while the Group's manufacturing of steel flanges is in Malaysia and environmental business divisions are based in Singapore and the PRC.

Notes to the Financial Statements

For the financial year ended 31 December 2018

40. SEGMENT INFORMATION (cont'd)

(b) Geographical information (cont'd)

The following table provides an analysis of the Group's revenue by geographical markets, irrespective of the origin of the goods or services:

	Group	
	2018	2017
	$'000	$'000
By geographical markets:		
Singapore	14,136	14,232
Malaysia	5,260	4,453
PRC	9,580	10,375
India	9,856	2,756
Russia	–	3,523
Indonesia	1,783	3,102
Vietnam	770	995
Korea	10,616	3,942
Canada	401	1,215
Philippines	1,278	1,746
Others [1]	3,086	2,999
	56,766	49,338

[1] Others mainly comprise USA, Australia, Brazil, New Zealand and Thailand, which individually do not contribute more than 10% of the Group's revenue.

The following is an analysis of the non-current assets by geographical area in which the assets are located:

	Non-current assets		
	2018	31.12.2017	1.1.2017
	$'000	$'000	$'000
Singapore	19,390	20,502	26,624
Malaysia	11,200	11,721	13,189
Korea	23	19	–
PRC	35,281	33,792	19,407
	65,894	66,034	59,220

Non-current assets information presented above consists of property, plant and equipment, land use rights, goodwill, intangible assets, investment in associates and a joint venture, financial assets at fair value through profit or loss, club membership, refundable deposits, financial derivative assets and deferred tax assets as presented in the consolidated balance sheet.

Notes to the Financial Statements

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group and the Company is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, foreign currency risk and interest rate risk. The Board of directors reviews and agrees policies and procedures for the management of these risks, which are executed by the Chief Executive Officer and Executive Director. The Audit Committee provides independent oversight to the effectiveness of the risk management process. It is, and has been throughout the current and previous financial year, the Group's policy that no derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient. The Group and the Company do not apply hedge accounting.

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks. There have been no changes to the Group's exposure to these financial risks or the manner in which it manages and measures the risks.

(a) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations.

The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and bank balances), the Group and Company minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

The Group has determined the default event on a financial asset to be when the counterparty fails to make contractual payments, within 90 days when they fall due, which are derived based on the Group's historical information.

The Group considers "low risk" to be an investment grade credit rating with at least one major rating agency for those investments with credit rating. To assess whether there is a significant increase in credit risk, the company compares the risk of a default occurring on the asset as at reporting date with the risk of default as at the date of initial recognition. The Group considers available reasonable and supportive forwarding-looking information which includes the following indicators:

- Internal credit rating
- External credit rating
- Actual or expected adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligation

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making contractual payment.

Notes to the Financial Statements

For the financial year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) Credit risk (cont'd)

The Group determined that its financial assets are credit-impaired when:

- There is significant difficulty of the issuer or the borrower
- A breach of contract, such as a default or past due event
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation
- There is a disappearance of an active market for that financial asset because of financial difficulty

The Group categorises a loan or receivable for potential write-off when a debtor fails to make contractual payments more than 90 days past due. Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where loans and receivables have been written off, the company continues to engage enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

The following are credit risk management practices and quantitative and qualitative information about amounts arising from expected credit losses for each class of financial assets.

Trade receivables

The Group provides for lifetime expected credit losses for all trade receivables using a provision matrix. The provision rates are determined based on the Group's historical observed default rates analysed in accordance to days past due by grouping of customers based on geographical region. The loss allowance provision as at 31 December 2018 is determined as follows, the expected credit losses below also incorporate forward looking information such as forecast of economic conditions where the gross domestic product will deteriorate over the next year, leading to an increased number of defaults.

Summarised below is the information about the credit risk exposure on the Group's trade receivables using provision matrix, grouped by geographical region:

Singapore:

31 December 2018	**Current**	**Less than 30 days**	**30 to 60 days**	**61 to 90 days**	**More than 90 days**	**Total**
	$'000	$'000	$'000	$'000	$'000	$'000
Gross carrying amount	2,347	1,384	733	343	1,602	6,409
Loss allowance provision	9	10	7	7	556	589

Other geographical areas:

31 December 2018	**Current**	**Less than 30 days**	**30 to 60 days**	**61 to 90 days**	**More than 90 days**	**Total**
	$'000	$'000	$'000	$'000	$'000	$'000
Gross carrying amount	1,688	912	613	371	1,543	5,127
Loss allowance provision	1	15	7	5	59	87

Information regarding loss allowance movement of trade receivables are disclosed in Note 22.

Notes to the Financial Statements

For the financial year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) Credit risk (cont'd)

Concentration risk

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk is limited due to the customer base being large and unrelated. The credit risk on liquid funds is limited because the Group places its cash with reputable financial institutions.

Exposure to credit risk

The extent of the Group's credit exposure is represented by the aggregate carrying amount of cash and bank balances, trade and other receivables and amounts due from associates and a joint venture.

The maximum amount that the Company could be forced to settle under corporate guarantee contracts to the banks in respect of facilities extended to its subsidiaries is $32,147,000 (31 December 2017: $29,996,000, 1 January 2017: $30,126,000).

Information regarding credit enhancements for trade and other receivables is disclosed in Note 22.

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country profile of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's trade receivables (net) at the balance sheet date is as follows:

	2018		31 December 2017		1 January 2017	
	$'000	% of total	$'000	% of total	$'000	% of total
By country:						
Singapore	5,819	54%	6,444	60%	3,916	41%
Malaysia	556	5%	150	1%	1,171	12%
PRC	2,523	23%	3,079	29%	1,498	16%
Others	1,962	18%	1,076	10%	2,991	31%
	10,860	100%	10,749	100%	9,576	100%

At the balance sheet date, nil% (2017: nil%) of the Group's trade receivables were due from related parties. There were no customers who represented more than 5% of the total balance of trade receivables.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and bank balances that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Notes to the Financial Statements

For the financial year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) Credit risk (cont'd)

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 22.

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group aims to maintain committed bank facilities prudently in excess of its estimated gross borrowing requirements.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's financial assets and liabilities at the balance sheet date based on contractual undiscounted repayment obligations.

	2018			
	1 year or less	**1 to 5 years**	**After 5 years**	**Total**
	$'000	$'000	$'000	$'000
Group				
Financial assets:				
Trade and other receivables [(1)]	15,375	–	–	15,375
Refundable deposits	–	–	869	869
Financial derivative assets (net-settled)	1	–	–	1
Cash and bank balances	5,468	–	–	5,468
Total undiscounted financial assets	20,844	–	869	21,713
Financial liabilities:				
Trade and other payables [(2)]	8,368	43	–	8,411
Finance leases	48	80	–	128
Amounts due to associates and a joint venture	2,646	–	–	2,646
Bank loans, bills payables and government loans	16,548	8,332	9.565	34,445
Financial derivative liabilities (net-settled)	–	12	–	12
Total undiscounted financial liabilities	27,610	8,467	9,565	45,642
Total net undiscounted financial liabilities	(6,766)	(8,467)	(8,696)	(23,929)

(1) Exclude GST receivables and advances to suppliers.
(2) Exclude GST payables and advances from customers.

Notes to the Financial Statements

For the financial year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(b) Liquidity risk (cont'd)

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

	31 December 2017			
	1 year or less $'000	1 to 5 years $'000	After 5 years $'000	Total $'000
Group				
Financial assets:				
Trade and other receivables [1]	12,877	–	–	12,877
Refundable deposits	–	–	899	899
Amounts due from associates and a joint venture	525	–	–	525
Cash and bank balances	6,189	–	–	6,189
Total undiscounted financial assets	19,591	–	899	20,490
Financial liabilities:				
Trade and other payables [2]	6,871	–	–	6,871
Finance leases	60	41	–	101
Amounts due to associates and a joint venture	3,906	–	–	3,906
Bank loans, bills payables and government loans	17,332	5,903	10,714	33,949
Bank overdrafts	199	–	–	199
Financial derivative liabilities (net-settled)	1	48	–	49
Total undiscounted financial liabilities	28,369	5,992	10,714	45,075
Total net undiscounted financial liabilities	(8,778)	(5,992)	(9,815)	(24,585)

(1) Exclude GST receivables and advances to suppliers.
(2) Exclude GST payables and advances from customers.

Notes to the Financial Statements

For the financial year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(b) Liquidity risk (cont'd)

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

	1 January 2017			
	1 year or less $'000	1 to 5 years $'000	After 5 years $'000	Total $'000
Group				
Financial assets:				
Trade and other receivables [1]	14,144	–	–	14,144
Refundable deposits	–	–	892	892
Amounts due from associates and a joint venture	709	–	–	709
Cash and bank balances	7,369	–	–	7,369
Total undiscounted financial assets	22,222	–	892	23,114
Financial liabilities:				
Trade and other payables [2]	5,579	618	–	6,197
Finance leases	97	39	–	136
Amounts due to associates and a joint venture	3,157	–	–	3,157
Bank loans, bills payables and government loans	14,472	6,990	12,623	34,085
Bank overdrafts	154	–	–	154
Financial derivative liabilities (net-settled)	–	48	–	48
Total undiscounted financial liabilities	23,459	7,695	12,623	43,777
Total net undiscounted financial liabilities	(1,237)	(7,695)	(11,731)	(20,663)

(1) Exclude GST receivables and advances to suppliers.
(2) Exclude GST payables and advances from customers.

Notes to the Financial Statements

For the financial year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(b) Liquidity risk (cont'd)

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

	2018			
	1 year or less $'000	1 to 5 years $'000	After 5 years $'000	Total $'000
Company				
Financial assets:				
Trade and other receivables [1]	120	–	–	120
Amounts due from subsidiaries, associates and a joint venture	11,435	–	–	11,435
Cash and bank balances	257	–	–	257
Total undiscounted financial assets	11,812	–	–	11,812
Financial liabilities:				
Other payables and accruals [2]	428	–	–	428
Amounts due to subsidiaries, associates and a joint venture	131	–	–	131
Loans and borrowings	202	–	–	202
Total undiscounted financial liabilities	761	–	–	761
Total net undiscounted financial liabilities	11,051	–	–	11,051

Notes to the Financial Statements

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(b) Liquidity risk (cont'd)

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

	31 December 2017			
	1 year or less	1 to 5 years	After 5 years	Total
	$'000	$'000	$'000	$'000
Company				
Financial assets:				
Trade and other receivables [1]	52	–	–	52
Amounts due from subsidiaries, associates and a joint venture	12,774	9,283	–	22,057
Cash and bank balances	261	–	–	261
Total undiscounted financial assets	13,087	9,283	–	22,370
Financial liabilities:				
Other payables and accruals [2]	1,408	–	–	1,408
Amounts due to subsidiaries, associates and a joint venture	131	–	–	131
Total undiscounted financial liabilities	1,539	–	–	1,539
Total net undiscounted financial liabilities	11,548	9,283	–	20,831

Notes to the Financial Statements

For the financial year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(b) Liquidity risk (cont'd)

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

	1 January 2017			
	1 year or less $'000	1 to 5 years $'000	After 5 years $'000	Total $'000
Company				
Financial assets:				
Trade and other receivables [1]	2,014	–	–	2,014
Amounts due from subsidiaries, associates and a joint venture	13,117	8,261	–	21,378
Cash and bank balances	1,556	–	–	1,556
Total undiscounted financial assets	16,687	8,261	–	24,948
Financial liabilities:				
Other payables and accruals [2]	1,637	618	–	2,255
Amounts due to subsidiaries, associates and a joint venture	521	–	–	521
Total undiscounted financial liabilities	2,158	618	–	2,776
Total net undiscounted financial liabilities	14,529	7,643	–	22,172

[1] Exclude advances to suppliers.
[2] Exclude GST payables.

Notes to the Financial Statements

For the financial year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(b) Liquidity risk (cont'd)

The table below shows the contractual expiry by maturity of the Company's contingent liabilities and commitments. The maximum amount of the financial guarantee contracts are allocated to the earliest period in which the guarantee could be called.

	2018				31 December 2017				1 January 2017			
	1 year or less	1 to 5 years	After 5 years	Total	1 year or less	1 to 5 years	After 5 years	Total	1 year or less	1 to 5 years	After 5 years	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Company												
Financial guarantees	16,069	6,946	9,132	32,147	14,794	6,115	9,087	29,996	13,368	5,148	11,610	30,126

(c) Foreign currency risk

The Group transacts business in various foreign currencies and therefore is exposed to foreign exchange risk. The Group's foreign currency exposures arise mainly from the exchange rate movements of the United States dollar against the Singapore dollar. To the extent possible, sales and purchases which are denominated in United States dollar provide natural hedges. The remaining foreign currency exposure is considered limited.

It is the Group's policy not to enter into forward contracts until a firm commitment is in place. It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise the economic hedge.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the USD (against SGD), with all other variables held constant, of the Group's profit net of tax.

		2018	2017
		Profit net of tax	Profit net of tax
		$'000	$'000
Group			
USD/SGD	- strengthened 10% (2017:10%)	(41)	46
	- weakened 10% (2017:10%)	41	(46)

Notes to the Financial Statements

For the financial year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from their loans and borrowings. All of the Group's financial liabilities at floating rates are contractually re-priced at intervals of less than 6 months (2017: less than 6 months) from the end of the reporting period. The Group's policy is to manage interest cost using a mix of fixed and floating rate debts. The Group's policy is to keep 40% to 70% (2017: 40% to 70%) of its loans and borrowings at fixed rates of interest.

Sensitivity analysis for interest rate risk

At the end of the reporting period, if SGD interest rates had been 20 (2017: 20) basis points higher/lower with all other variables held constant, the Group's profit before tax would have been $47,000 (2017: $47,000) higher/lower, arising mainly as a result of higher/lower interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility as in prior years.

42. FAIR VALUES OF ASSETS AND LIABILITIES

(a) Fair value hierarchy

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

- Level 1 – Quoted prices (unadjusted) in active market for identical assets or liabilities that the Group can access at the measurement date;

- Level 2 – Inputs other that quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3 – Unobservable inputs for the asset or liability.

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

There have been no transfers of items amongst the level during the financial year ended 31 December 2018 and 2017.

Notes to the Financial Statements

For the financial year ended 31 December 2018

42. FAIR VALUES OF ASSETS AND LIABILITIES (cont'd)

(b) Assets and liabilities measured at fair value

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

	Fair value measurements at the end of the reporting period using			
	Quoted prices in active markets for identical instruments (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)	Total
2018				
Group				
Assets measured at fair value				
Finance Assets:				
Financial derivative assets:				
Interest rate swaps	–	1	–	1
Financial assets as at 31 December 2018	–	1	–	1
Liabilities measured at fair value				
Finance liabilities:				
Financial derivative liabilities:				
- Interest rate swaps	–	(12)	–	(12)
Financial liabilities as at 31 December 2018	–	(12)	–	(12)
31 December 2017				
Group				
Liabilities measured at fair value				
Finance liabilities:				
Financial derivative liabilities:				
- Interest rate swaps	–	(48)	–	(48)
- Forward currency contract	–	(1)	–	(1)
Financial liabilities as at 31 December 2017	–	(49)	–	(49)
1 January 2017				
Group				
Liabilities measured at fair value				
Finance liabilities:				
Financial derivative liabilities:				
Interest rate swaps	–	(48)	–	(48)
Financial liabilities as at 1 January 2017	–	(48)	–	(48)

Notes to the Financial Statements

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42. FAIR VALUES OF ASSETS AND LIABILITIES (cont'd)

(c) Level 2 fair value measurements

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

Finance derivative instruments

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

(d) Assets and liabilities not measured at fair value but for which fair values are disclosed

The following table shows an analysis of the Group's assets and liabilities not measured at fair value but for which fair value is disclosed:

	Fair value measurements at the end of the reporting period using			
	Quoted prices in active markets for identical instruments (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)	Total
2018				
Group				
Liabilities:				
- Government loans (Note 28)	–	–	1,446	1,446
- Loans and borrowings (Note 28)	–	–	13,684	13,684
- Finance lease obligations (Note 28)	–	–	118	118
Financial liabilities as at 31 December 2018	–	–	15,248	15,248
31 December 2017				
Group				
Liabilities:				
- Government loans (Note 28)	–	–	1,461	1,461
- Loans and borrowings (Note 28)	–	–	15,422	15,422
- Finance lease obligations (Note 28)	–	–	97	97
Financial liabilities as at 31 December 2017	–	–	16,980	16,980

Notes to the Financial Statements

For the financial year ended 31 December 2018

42. FAIR VALUES OF ASSETS AND LIABILITIES (cont'd)

(d) Assets and liabilities not measured at fair value but for which fair values are disclosed (cont'd)

	Fair value measurements at the end of the reporting period using			
	Quoted prices in active markets for identical instruments (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)	Total
1 January 2017				
Group				
Liabilities:				
- Government loans (Note 28)	–	–	1,317	1,317
- Loans and borrowings (Note 28)	–	–	15,974	15,974
- Finance lease obligations (Note 28)	–	–	131	131
Financial liabilities as at 1 January 2017	–	–	17,422	17,422

	Fair value measurements at the end of the reporting period using			
	Quoted prices in active markets for identical instruments (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)	Total
2018				
Company				
Liabilities:				
- Loans and borrowings (Note 28)	–	–	190	190
Financial liabilities as at 31 December 2018	–	–	190	190

Notes to the Financial Statements

For the financial year ended 31 December 2018

42. FAIR VALUES OF ASSETS AND LIABILITIES (cont'd)

(d) Assets and liabilities not measured at fair value but for which fair values are disclosed (cont'd)

	Group					
	2018		31 December 2017		1 January 2017	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	$'000	$'000	$'000	$'000	$'000	$'000
Assets:						
Refundable deposit (Note 20)	869	#	899	#	892	#
Liabilities:						
Government loans (Note 28)	1,510	1,446^^	1,563	1,461^^	1,456	1,317^^
Loans and borrowings (Note 28)	22,115	13,684^^	22,119	15,422^^	22,323	15,974^^
Finance lease obligations (Note 28)	118	118##	98	97##	132	131##

Notes to the Financial Statements

For the financial year ended 31 December 2018

42. FAIR VALUES OF ASSETS AND LIABILITIES (cont'd)

(d) Assets and liabilities not measured at fair value but for which fair values are disclosed (cont'd)

	Company					
	2018		31 December 2017		1 January 2017	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	$'000	$'000	$'000	$'000	$'000	$'000
Assets:						
Amounts due from subsidiaries (Note 23)	–	–	9,283	#	8,261	#
Liabilities:						
Loans and borrowings (Note 28)	200	190^^	–	–	–	–

\# Refundable deposits and amounts due from subsidiaries (non-current)

It is not practical to estimate the fair value of the non-current refundable deposits and amounts due from subsidiaries as the amounts are not repayable within a year and have no fixed repayment terms. Hence, the timing of future cash flows cannot be estimated reliably.

^^ Government loans and loans and borrowings

The fair value, determined using significant unobservable inputs (level 3), is estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the end of the reporting period.

\#\# Finance lease obligations

The fair value, determined using significant unobservable inputs (level 3), is estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the end of the reporting period. The fair value is similar to the carrying amount as the current market rate does not differ significantly from the intrinsic rate of the deferred consideration payable.

Notes to the Financial Statements

For the financial year ended 31 December 2018

43. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of the categories of financial instruments as at the end of the reporting period are as follows:

Group	Note	Loans and receivables $'000	Liabilities at amortised cost $'000	Total $'000
2018				
Assets:				
Refundable deposits	20	869	–	869
Trade and other receivables [(1)]	22	15,375	–	15,375
Financial derivative assets	29	1	–	1
Cash and bank balances	24	5,468	–	5,468
Total		21,713	–	21,713
Liabilities:				
Trade payables	26	–	2,627	2,627
Other payables and accruals [(2)]	27	–	5,784	5,784
Amount due to associates	23	–	2,646	2,646
Loans and borrowings	28	–	32,439	32,439
Financial derivative liabilities	29	–	12	12
Total		–	43,508	43,508
31 December 2017				
Assets:				
Refundable deposits	20	899	–	899
Trade and other receivables [(1)]	22	12,877	–	12,877
Amount due from associates	23	525	–	525
Cash and bank balances	24	6,189	–	6,189
Total		20,490	–	20,490
Liabilities:				
Trade payables	26	–	2,545	2,545
Other payables and accruals [(2)]	27	–	4,326	4,326
Amount due to associates	23	–	3,906	3,906
Loans and borrowings	28	–	31,660	31,660
Financial derivative liabilities	29	–	49	49
Total		–	42,486	42,486

(1) Exclude GST receivables and advances to suppliers.
(2) Exclude GST payables and advances from customers.

Notes to the Financial Statements

For the financial year ended 31 December 2018

43. FINANCIAL INSTRUMENTS BY CATEGORY (cont'd)

Group	Note	Loans and receivables $'000	Liabilities at amortised cost $'000	Total $'000
1 January 2017				
Assets:				
Refundable deposits	20	892	–	892
Trade and other receivables [(1)]	22	14,144	–	14,144
Amount due from associates	23	709	–	709
Cash and bank balances	24	7,369	–	7,369
Total		23,114	–	23,114
Liabilities:				
Trade payables	26	–	1,973	1,973
Other payables and accruals [(2)]	27	–	4,224	4,224
Amount due to associates	23	–	420	420
Amount due to a joint venture	23	–	2,737	2,737
Loans and borrowings	28	–	31,714	31,714
Financial derivative liabilities	29	–	48	48
Total		–	41,116	41,116

(1) Exclude GST receivables and advances to suppliers.

(2) Exclude GST payables and advances from customers.

Notes to the Financial Statements

For the financial year ended 31 December 2018

43. FINANCIAL INSTRUMENTS BY CATEGORY (cont'd)

Company	Note	Loans and receivables $'000	Liabilities at amortised cost $'000	Total $'000
2018				
Assets:				
Trade and other receivables	22	120	–	120
Amounts due from subsidiaries	23	11,435	–	11,435
Cash and bank balances	24	257	–	257
Total		11,812	–	11,812
Liabilities:				
Amounts due to subsidiaries	23	–	131	131
Other payables and accruals [1]	27	–	428	428
Loans and borrowings	28	–	200	200
Total		–	759	759
31 December 2017				
Assets:				
Trade and other receivables	22	52	–	52
Amounts due from subsidiaries	23	22,057	–	22,057
Cash and bank balances	24	261	–	261
Total		22,370	–	22,370
Liabilities:				
Amounts due to subsidiaries	23	–	131	131
Other payables and accruals [1]	27	–	1,408	1,408
Total		–	1,539	1,539

(1) Exclude GST payables.

Notes to the Financial Statements

For the financial year ended 31 December 2018

43. FINANCIAL INSTRUMENTS BY CATEGORY (cont'd)

Company	Note	Loans and receivables $'000	Liabilities at amortised cost $'000	Total $'000
1 January 2017				
Assets:				
Trade and other receivables	22	2,014	–	2,014
Amounts due from subsidiaries	23	21,378	–	21,378
Cash and bank balances	24	1,556	–	1,556
Total		24,948	–	24,948
Liabilities:				
Amounts due to subsidiaries	23	–	521	521
Other payables and accruals [1]	27	–	2,255	2,255
Total		–	2,776	2,776

[1] Exclude GST payables.

Notes to the Financial Statements

For the financial year ended 31 December 2018

44. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into several service concession arrangements within certain governing bodies and agencies of the PRC government to construct and operate wastewater treatment plants.

Group	Construction revenue $'000	Operating income of wastewater treatment plants $'000	Total service concession revenue $'000
For financial year ended 31 December 2018	1,992	5,657	7,649
For financial year ended 31 December 2017	2,726	5,187	7,913

The revenue recognised in relation to construction represents the fair value of the construction services provided in constructing the wastewater treatment plants.

The details of service concession arrangements are as follows:

Name of subsidiary	Plant type	Type and period of concession
ChangXing AW	Wastewater treatment plant	Build-Operate-Transfer ("BOT"), 30 years
LJX	Wastewater treatment plant	BOT, 30 years
CX LinSheng	Wastewater treatment plant	BOT, 50 years
CX WuSheng	Wastewater treatment plant	BOT, 50 years
CX Annyi	Wastewater treatment plant	BOT, 30 years
CX Hengyi	Wastewater treatment plant	BOT, 30 years
CX Linyi	Wastewater treatment plant	Build-Operate-Own ("BOO"), 30 years

The subsidiaries are required to hand back these respective plants and other related facilities under the BOT arrangements to the respective local municipal government body/agency at the end of the respective concession periods without any consideration.

Subject to the approval of the local municipal government, the various concession arrangements allow for tariff adjustment based on the increases in key operating costs, overall adjustment of water tariff rates in the region where the plants operate, and the government policies regarding the management of water resources.

Notes to the Financial Statements

For the financial year ended 31 December 2018

45. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern, while maximising the return to stockholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt which includes borrowings as disclosed in Notes 28 and equity attributable to equity holders of the Company, comprising issued capital and reserves as disclosed in Notes 32 to 35.

Management reviews the capital structure of the Company on a yearly basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The management also ensures that the Group maintains the capital requirements and complies with the financial covenants within the range imposed by various banks for the borrowings extended to the Group.

The Group's overall strategy for 2018 has remained unchanged from 2017.

The Group monitors capital based on gearing ratio which is total liabilities divided by total equity. At 31 December 2018, total liabilities and total equity are $47,050,000 (2017: $45,681,000) and $61,274,000 (2017: $61,537,000) respectively. The Group seeks to maintain a balance between higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. At 31 December 2018, the Group's gearing ratio was 0.77 (2017: 0.74).

46. AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 29 March 2019.

Statistics of Shareholdings

As at 18 March 2019

SHAREHOLDERS' INFORMATION AS AT 18 MARCH 2019

Number of Equity Securities	: **244,770,900***
Class of Equity Securities	: **Ordinary shares**
Voting Rights	: **One vote per share**

* Excluding non-voting 4,202,100 treasury shares.

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 99	9	0.71	297	0.00
100 - 1,000	35	2.75	22,500	0.01
1,001 - 10,000	366	28.73	2,533,200	1.03
10,001 - 1,000,000	835	65.54	66,671,855	27.24
1,000,001 and above	29	2.27	175,543,048	71.72
Total	**1,274**	**100.00**	**244,770,900**	**100.00**

DISTRIBUTION OF SHAREHOLDINGS

(As recorded in the Register of Substantial Shareholders)

	Direct Interest	%	Indirect Interest	%
Ow Chin Seng*	74,362,958	30.38	8,274,924	3.38
Low Kheng*	8,274,924	3.38	74,362,958	30.38

* Ow Chin Seng and Low Kheng are husband and wife.

Statistics of Shareholdings

As at 18 March 2019

TWENTY LARGEST SHAREHOLDERS

No.	Name	No. of Shares	%
1	CITIBANK NOMINEES SINGAPORE PTE LTD	81,890,400	33.46
2	MAYBANK KIM ENG SECURITIES PTE. LTD.	14,365,103	5.87
3	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	11,240,400	4.59
4	LOW KHENG	8,274,924	3.38
5	LOW SIM YAM	5,877,300	2.40
6	LEE TECK LEONG	4,603,800	1.88
7	OW CHIN SENG	4,362,958	1.78
8	LIAN LAY KHENG	4,344,600	1.77
9	HONG LEONG FINANCE NOMINEES PTE LTD	3,871,100	1.58
10	SEOW ZI-HUA	3,662,000	1.50
11	CHEW KIT LENG	3,330,646	1.36
12	EVE PHUA SIN YEE (PAN XINYI)	2,664,000	1.09
13	KWEK GEOK YONG	2,466,072	1.01
14	EE KIM CHUAN @ YEE KIM CHUAN	2,229,200	0.91
15	ANG MONG SENG	2,220,000	0.91
16	KWA CHING TZE	2,000,000	0.82
17	NG THENG LOCK	1,962,309	0.80
18	DBS NOMINEES (PRIVATE) LIMITED	1,951,600	0.80
19	ANG MONG AIANG OR ANG THONG HUANG (HONG ZHONGHAN)	1,650,000	0.67
20	YAP KOK VEE	1,635,000	0.67
	TOTAL	**164,601,412**	**67.25**

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

Approximately 60.91% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual Section B: Rules of Catalist of the SGX-ST.

TREASURY SHARES

Total number of ordinary shares held in Treasury	: 4,202,100
Voting rights	: None
Percentage of this shareholding against total number of issued shares excluding Treasury Shares	: 1.72%

Company has nil subsidiary holdings as at 31 December 2018 (31 December 2017: nil).

Notice of Annual General Meeting

ANNAIK LIMITED
(Company Registration No. 197702066M) / (Incorporated in the Republic of Singapore)

NOTICE IS HEREBY GIVEN that the Annual General Meeting of AnnAik Limited (the "**Company**") will be held at 52 Tuas Avenue 9, Singapore 639193 on 30 April 2019 at 10.00 a.m. for the following purposes:-

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Statement and the Audited Financial Statements of the Company and the Group for the year ended 31 December 2018 together with the Auditors' Report thereon.
(Resolution 1)

2. To re-elect the following Directors of the Company who are retiring pursuant to Regulation 121 and 125 of the Constitution of the Company:-

   (i) Mr Ow Chin Seng (Regulation 121) **(Resolution 2)**
   (ii) Ms Tan Poh Hong (Regulation 125) **(Resolution 3)**

   [See Explanatory Note (i)]

3. To note the retirement of Mr Lee Bon Leong as a Director of the Company who is retiring pursuant to Regulation 121 of the Constitution of the Company and will not be seeking for re-election.

   Upon the retirement of Mr Lee Bon Leong, he will be relinquishing his position as Independent Director, Chairman of the Nominating Committee and a member of Remuneration and Audit Committees.

4. To approve the payment of Directors' fees of S$100,200 for the financial year ended 31 December 2018. (FY2017: S$110,200)
(Resolution 4)

5. To re-appoint Messrs Ernst & Young LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration.
(Resolution 5)

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

AS SPECIAL BUSINESS

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

7. **General mandate to issue new shares**

   That pursuant to Section 161 of the Companies Act, Chapter 50 (the "**Companies Act**") and Rule 806 of the Listing Manual Section B: Rules of Catalist ("**Catalist Rules**") of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), the Directors of the Company be authorised and empowered to:-

   (a) (i) issue shares in the Company ("**shares**") whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

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

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

(the "**Share Issue Mandate**")

provided that:-

(1) the aggregate number of shares (including shares to be issued in pursuant of the Instruments, made or granted pursuant to this Resolution) and Instruments to be issued pursuant to this Resolution shall not exceed one hundred per centum (100%) of the total number of issued shares (excluding treasury shares) and subsidiary holdings in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares and Instruments to be issued other than on a *pro rata* basis to existing shareholders of the Company shall not exceed fifty per centum (50%) of the total number of issued shares (excluding treasury shares) and subsidiary holdings in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares and Instruments that may be issued under sub-paragraph (1) above, the total number of issued shares and Instruments shall be based on the total number of issued shares (excluding treasury shares) and subsidiary holdings in the capital of the Company at the time of the passing of this Resolution, after adjusting for:-

(a) new shares arising from the conversion or exercise of the Instruments or any convertible securities;

(b) new shares arising from exercising share options or vesting of share awards outstanding and subsisting at the time of the passing of this Resolution; and

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

(3) in exercising the Share Issue Mandate conferred by this Resolution, the Company shall comply with the provisions of the Catalist Rules of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution of the Company; and

(4) unless revoked or varied by the Company in a general meeting, the Share Issue Mandate shall continue in force (i) until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of the Instruments.

(Resolution 6)

[See Explanatory Note (ii)]

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ANNAIK LIMITED
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8. **Authority to allot and issue new ordinary shares pursuant to the AnnAik Limited Scrip Dividend Scheme**

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

(a) allot and issue such number of new ordinary shares in the capital of the Company as may be required to be allotted and issued pursuant to the application of the AnnAik Limited Scrip Dividend Scheme; and/or

(b) notwithstanding that the authority conferred by this Resolution may have ceased to be in force, allot and issue such number of new ordinary shares in the capital of the Company pursuant to the application of the AnnAik Limited Scrip Dividend Scheme to any dividend which was approved while the authority conferred by this Resolution was in office;

provided that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

(Resolution 7)

[See Explanatory Note (iii)]

9. **Authority to grant options and issue shares under the AnnAik Employee Share Option Scheme 2013**

That pursuant to Section 161 of the Companies Act, Chapter 50, the Directors of the Company be authorised and empowered to offer and grant options under the AnnAik Employee Share Option Scheme 2013 (the "**Scheme**") and to issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of share options granted by the Company under the Scheme, whether granted during the subsistence of this authority or otherwise, provided always that the aggregate number of additional ordinary shares to be issued pursuant to the Scheme shall not exceed fifteen per centum (15%) of the total number of issued shares (excluding treasury shares) and subsidiary holdings in the capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

(Resolution 8)

[See Explanatory Note (iv)]

10. **Renewal of Share Buy-Back Mandate**

That approval be and is hereby given:-

(a) for the purposes of Sections 76C and 76E of the Companies Act, Chapter 50 and the Catalist Rules of the SGX-ST, the exercise by the Directors of the Company of all the powers of the Company to purchase or otherwise acquire issued ordinary shares in the share capital of the Company (the "**Shares**") not exceeding in aggregate the Maximum Limit (as hereafter defined), at such price or prices as may be determined by the Directors of the Company from time to time up to the Maximum Price (as hereafter defined), whether by way of:-

(i) on-market purchases ("**Market Purchases**") transacted on the SGX-ST through the ready market, and which may be transacted through one or more duly licensed stockbrokers appointed by the Company for such purpose; and/or

Notice of Annual General Meeting

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(ii) off-market purchases ("**Off-Market Purchases**") effected pursuant to any equal access scheme(s) as may be determined or formulated by the Directors in their discretion, which scheme(s) shall satisfy all the conditions prescribed by the Companies Act, Chapter 50,

and otherwise be in accordance with all other laws, the Catalist Rules of the SGX-ST and other regulations and rules of the SGX-ST,

(the "**Share Buy-Back Mandate**");

(b) unless varied or revoked by the Company in a general meeting, the authority conferred on the Directors of the Company pursuant to the Share Buy-Back Mandate may be exercised by the Directors of the Company at any time and from time to time during the period commencing from the date of the passing of this Resolution and expiring on the earliest of:-

(i) the date on which the next Annual General Meeting of the Company is held or required by law to be held; or

(ii) the date on which the authority conferred by the Share Buy Back Mandate is revoked or varied by the Company in a general meeting, or

(iii) the date on which the purchases or acquisitions of Shares pursuant to the Share Buy-Back Mandate are carried out to the full extent mandated; and

(c) the Directors of the Company and/or any of them be and is hereby authorised to do such acts and things (including, without limitation, enter into all transactions, arrangements and agreements and executing such documents) as they and/or he may consider necessary or expedient to give effect to this Resolution.

In this Resolution:-

"**Maximum Limit**" means that number of Shares representing 10% of the total number of issued Shares (excluding treasury shares) as at the date of the passing of this Resolution, unless the Company has, at any time during the Relevant Period (as defined below), effected a reduction of its share capital in accordance with the applicable provisions under the Companies Act, Chapter 50, in which event the total number of Shares shall be taken to be the total number of Shares as altered by the capital reduction. Any of the Shares held by the Company as treasury shares shall be disregarded for purposes of computing the 10% limit;

"**Maximum Price**" in relation to a Share to be purchased or acquired, means the price paid per Share which does not exceed 105% of the average of the closing market prices of the Shares over the last 5 Market Days, on which transactions in the Shares were recorded, before the day on which the purchases are made and deemed to be adjusted for any corporate action which occurs after the relevant 5-day period.

The Maximum Price shall apply to both Market Purchases and Off-Market Purchases and shall exclude brokerage fees, commission, stamp duties payable, applicable goods and services tax, clearance fees and other related expenses; and

"**Relevant Period**" means the period commencing from the date on which the Annual General Meeting of the Company at which this Resolution is passed is held and expiring on the date the next Annual General Meeting of the Company is held or is required by law to be held, whichever is earlier, after the date of the passing of this Resolution.

(Resolution 9)

[See Explanatory Note (v)]

Notice of Annual General Meeting

ANNAIK LIMITED
(Company Registration No. 197702066M) / (Incorporated in the Republic of Singapore)

By Order of the Board

Siau Kuei Lian
Company Secretary
Singapore

11 April 2019

Explanatory Notes:-

(i) (a) Mr Ow Chin Seng will, upon re-election as a Director of the Company, remain as Executive Chairman cum Chief Executive Officer and will be considered Non-Independent Director. Please refer to Table A of the Corporate Governance Report on page 32 to page 37 of the Annual Report for the detailed information required pursuant to Rule 720(5) of the Catalist Rules of the SGX-ST.

(b) Ms Tan Poh Hong will, upon re-election as a Director of the Company, remain as a Chairman of the Remuneration Committee and a member of Nominating Committee and Audit Committee and will be considered independent pursuant to Rule 704(7) of the Catalist Rules of the SGX-ST. Please refer to Table A of the Corporate Governance Report on page 32 to page 37 of the Annual Report for the detailed information required pursuant to Rule 720(5) of the Catalist Rules of the SGX-ST.

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

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

(iii) The Ordinary Resolution 7 in item 8 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to allot and issue new ordinary shares in the Company pursuant to the AnnAik Limited Scrip Dividend Scheme (as approved by shareholders in Extraordinary General Meeting dated 30 April 2018) to shareholders who, in respect of a qualifying dividend, elect to receive scrip in lieu of part or all of the cash amount of that qualifying dividend.

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(iv) The Ordinary Resolution 8 in item 9 above, if passed, will empower the Directors of the Company from the date of this Annual General Meeting until the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or the date which such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to offer and grant options under the Scheme and to allot and issue shares in the Company pursuant to the exercise of options granted or to be granted under the Scheme up to a number not exceeding in aggregate (for the entire duration of the Scheme) fifteen per centum (15%) of the total number of issued shares in the capital of the Company from time to time.

(v) The Ordinary Resolution 9 in item 10 above, if passed, will empower the Directors of the Company from the date of this Annual General Meeting until the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or the date which such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to repurchase Shares by way of Market Purchases and/or Off-Market Purchases of up to 10% of the total number of Shares (excluding treasury shares) at the Maximum Price (as defined in Resolution 9). Information relating to this proposed Resolution is set out in the Appendix dated 11 April 2019 (in relation to the Renewal of Share Buy-Back Mandate).

Notes:-

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

2. A Relevant Intermediary may appoint more than two proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified.)

3. The instrument appointing a proxy must be deposited at the registration office of the Company at 52 Tuas Avenue 9, Singapore 639193 not less than seventy-two (72) hours before the time appointed for holding the Meeting.

* A Relevant Intermediary is:-

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

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

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

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ANNAIK LIMITED
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PERSONAL DATA PRIVACY

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, proxy lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, Hong Leong Finance Limited (the "**Sponsor**"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"). The Sponsor has not independently verified the contents of this announcement.

This announcement has not been examined or approved by the SGX-ST. The Sponsor and SGX-ST assume no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

The contact person for the sponsor is Mr Tang Yeng Yuen, Vice President, Head of Corporate Finance, Hong Leong Finance Limited, at 16 Raffles Quay, #01-05 Hong Leong Building, Singapore 048581. Telephone (65) 6415-9886.

ANNAIK LIMITED

(Company Registration No. 197702066M)
(Incorporated In the Republic of Singapore)

PROXY FORM

(Please see notes overleaf before completing this Form)

IMPORTANT:-
1. An investor who holds shares under the Central Provident Fund Investment Scheme ("**CPF Investor**") and/or the Supplementary Retirement Scheme ("**SRS Investor**") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.
2. This Proxy Form is not valid for use by CPF and SRS investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

I/We, ______________________________ (Name) ______________ (NRIC/Passport No.)
of ____ (Address)
being a member/members of AnnAik Limited (the "**Company**"), hereby appoint:-

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

and/or (delete as appropriate)

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

or failing him/her, the Chairman of the meeting, as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting (the "**Meeting**") of the Company to be held at 52 Tuas Avenue 9, Singapore 639193 on 30 April 2019 at 10.00 a.m. and at any adjournment thereof.

I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion.

No.	Resolutions relating to:-	No. of votes 'For'*	No. of votes 'Against'*
	Ordinary Businesses		
1	Directors' Statement and Audited Financial Statements for the financial year ended 31 December 2018		
2	Re-election of Mr Ow Chin Seng as a Director of the Company		
3	Re-election of Ms Tan Poh Hong as a Director of the Company		
4	Approval of Directors' fees amounting to S$100,200 for the financial year ended 31 December 2018		
5	Re-appointment of Messrs Ernst & Young LLP as Auditors and to authorise the Directors of the Company to fix their remuneration		
	Special Businesses		
6	General mandate to issue new shares		
7	Authority to allot and issue new ordinary shares pursuant to AnnAik Limited Scrip Dividend Scheme		
8	Authority to grant options and issue shares under the AnnAik Employee Share Option Scheme 2013		
9	Renewal of Share Buy-Back Mandate		

* *If you wish to exercise all your votes 'For' or 'Against', please tick (√) within the box provided. Alternatively, please indicate the number of votes as appropriate.*

Dated this ________ day of ________________ 2019

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

____
Signature of Shareholder(s)
and, Common Seal of Corporate Shareholder

IMPORTANT: PLEASE READ NOTES ON THE REVERSE

Notes:-

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. A member of the Company (other than a Relevant Intermediary*), entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

3. Where a member (other than a Relevant Intermediary*) appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.

4. A Relevant Intermediary may appoint more than two proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number or class of shares shall be specified).

5. Subject to note 9, completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.

6. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 52 Tuas Avenue 9, Singapore 639193 not less than 72 hours before the time appointed for the Meeting.

7. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorized in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorized. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

8. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore, and the person so authorised shall upon production of a copy of such resolution certified by a director of the corporation to be a true copy, be entitled to exercise the powers on behalf of the corporation so represented as the corporation could exercise in person if it were an individual.

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

* A Relevant Intermediary is:-

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

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

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

Personal Data Privacy:-

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 11 April 2019.

General:-

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

ANNAIK LIMITED

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(Company Registration No. 197702066M)