



Hoe Leong Corporation Ltd.



***POSITIVE OUTLOOK
IN PROGRESS***

2018 ANNUAL REPORT

HOE LEONG Corporation Ltd.

was incorporated in 1994 and was successfully admitted to the Official List of the Singapore Exchange Securities Trading Limited (“SGX-ST”) in 2005.

CONTENTS

02	Corporate Profile
03	Chairman's Statement
05	Board of Directors
06	Key Management Team
08	Operations Review
10	Group Structure
11	Corporate Governance Report
27	Financial Contents
115	Shareholding Statistics
117	Notice of Annual General Meeting
	Proxy Form
	Corporate Information

CORPORATE PROFILE

*Incorporated on 18 November 1994, **Hoe Leong Corporation Ltd.** (“Hoe Leong” or the “Group”) was successfully admitted to the Official List of the Singapore Exchange Securities Trading Limited (“SGX-ST”) on 5 December 2005.*

The Group trades and distributes an extensive range of equipment parts for both heavy equipment and industrial machinery, which include brands such as Caterpillar, Cummins, Hitachi, Hyster, Kato, Kobelco, Komatsu, Mitsubishi, P&H and Sumitomo. It also designs and manufactures equipment parts for both heavy equipment and industrial machinery at its subsidiaries in the People’s Republic of China (“PRC”) since 2004, and South Korea since 2012, under its own in-house brand names – KBJ, OEM and ROSSI.

The Group sells directly to end-users as well as through distributors in Singapore and overseas markets including Indonesia, Malaysia, PRC and emerging markets like the Middle East. The end-users of its products are generally operators of heavy equipment and industrial machinery in the building and infrastructure construction, forestry, marine, mining and plantation industries. The Group provides an integrated one-stop solution to customers with its extensive industry experience, large and varied inventory, and regional sales network that provides easy access to replacement parts.

In 2013, the Group established Arkstar Offshore Pte Ltd, its offshore marine arm division, to consolidate its vessel chartering operations and resource management. With its fleet of anchor handling tug supply vessels, platform supply vessels and a mud-processing barge, Arkstar Offshore has a dedicated in-house ship management team led by experienced professionals as part of its commitment to client responsiveness. Arkstar Offshore aims to steadily grow its vessel chartering business with its close partnerships with strong and credible industry players, gainful ventures into diverse geographic markets, and sound investments in young and modern vessels.

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

On behalf of the Board of Directors, I am pleased to present to you the annual report of Hoe Leong Corporation Ltd. ("Hoe Leong", or the "Company", or with its subsidiaries, the "Group") for the financial year ended 31 December 2018 ("FY2018").

PERFORMANCE REVIEW

The Group's total revenue increased by 15.7% to S\$72.4 million in FY2018, from S\$62.5 million in the financial year ended 31 December 2017 ("FY2017"). The revenue increase of S\$9.8 million came from revenue increases in the Equipment segment of S\$8.9 million and in the Vessel Chartering segment of S\$0.9 million respectively.

The sales revenue for the Equipment segment rose by 17.2% to S\$60.6 million in FY2018, mainly due to higher sales of equipment parts to our customers. Additionally, charter revenue from the Vessel chartering segment increased by 8.7% to S\$11.8 million in FY2018.

The total cost of sales increased by 10.2% to S\$58.1 million in FY2018 from S\$52.7 million in FY2017. This was mainly due to the increase in the cost of sales for equipment parts by 20.4% to S\$49.8 million, which was offset by a 27% decrease in the cost of sales in the Vessel Chartering business to S\$8.3 million as a result of lower depreciation cost.

All in all, the Group recorded a profit after tax of S\$9.0 million in FY2018, as compared to a loss after tax of S\$47.9 million for FY2017. This was mainly due to the gain recognised from debt to equity swap of S\$12.5 million from Scheme of Arrangement that was successfully implemented in FY2018.

BUSINESS OVERVIEW & OUTLOOK

Accounting for 83.7% of our total revenue is the Equipment segment, which continues to be the Group's largest revenue contributor. In FY2018, we saw higher sales which continued to contribute strongly to the segment despite a competitive market and a challenging macroeconomic environment.

According to a report by Zion Market Research, the global heavy construction equipment market is expected to reach USD231.3 billion by 2025, with a CAGR of 6.9% between 2019 and 2025. With rising demand from various industries, such as construction, mining, and oil and gas, the global heavy construction equipment market is also expected to grow significantly within the next few years. Thus, the Group sees that the prospects for this segment will continue to be positive as the demand for equipment parts will continue to grow in correlation with more heavy equipment being put to use. On its part, the Group will continue to review its operations in order to improve efficiencies and align its resources to market needs.

The Group's vessel chartering business continues to be impacted by subdued charter rates due to supply overhangs and price competition in a somewhat sluggish oil and gas industry. Concerns of a sharp economic slowdown have recently outweighed supply disruptions from Opec's production cutbacks and US sanctions on Iran and Venezuela. Currently, all of its Offshore Support Vessels ("OSV") are fully deployed, with the exception of its mud-processing barge Arkstar Energy. As part of its long-term strategy, the Group will continue to maintain its lean cost structure for its vessel chartering business while seeking opportunities to grow the segment. FY2019 is likely to remain challenging as oversupply will continue to put pressure on charter rates. Furthermore, all the vessels are due for dry docking in 2019 with one vessel already completing its dry docking by the first quarter of 2019.

CHAIRMAN'S STATEMENT

IN APPRECIATION

FY2018 was a challenging year for the Group and on behalf of the Board, I would like to express my gratitude to our management team and staff's dedication and efforts in helping the business to turnaround. I would also like to take this opportunity to acknowledge the strong support of our suppliers and business partners, as well as our shareholders for their support and trust in the Group.

With the unwavering support of all its stakeholders, the Group will continue to work towards improving its financial performance despite the challenging headwinds.

James Kuah Geok Lin
Chairman and Chief Executive Officer

BOARD OF DIRECTORS

MR JAMES KUAH GEOK LIN

Chairman and CEO

Mr James Kuah Geok Lin is our Chairman and CEO. He has been an Executive Director since 18 November 1994. He was last re-elected as a Director on 29 April 2016. Mr Kuah is a member of the Nominating Committee.

Mr Kuah holds a Bachelor degree in Architecture from the University of Singapore. He started as an architect in 1974 with the Housing Development Board. In 1978, Mr James Kuah joined the Company as a Director in charge of operations and played a key role in the Company's regional drive into Indonesia and Malaysia. Under his leadership, the Company was ranked 24th in the 2000 Enterprise 50 Award organized by Andersen Consulting and The Business Times with support from the Economic Development Board. His other advisory positions include that of Permanent Honorary Chairman of the Singapore Metal and Machinery Association, Advisor of Nanyang Kuah Si Association, Honorary council member of the Singapore Chinese Chamber of Commerce & Industry, Vice-Chairman of the Singapore Ann Kway Association.

MR PAUL KUAH GEOK KHIM

Sales and Marketing Director (Overseas)

Mr Paul Kuah Geok Khim has been our Sales and Marketing Director (Overseas) since 22 December 1994 and was last re-elected as a Director on 27 April 2018. He began his career with our Group in 1979. Prior to his present position, he was in charge of warehousing and inventory control, gaining valuable experience in this field. Presently, as a Sales and Marketing Director, he oversees all our branches' operations and major export markets. With a team of business development personnel under him, he ensures that every business opportunity in the emerging markets is well tapped.

MR QUAH YOKE HWEI

Sales and Marketing Director (Singapore)

Mr Quah Yoke Hwei is our Sales and Marketing Director (Singapore). He joined the Board on 18 November 1994 and was appointed the Managing Director of the Company on 15 January 1996. He was last re-elected as a Director on 27 April 2018. He is responsible for overseeing the Company's daily trading and distribution operations in Singapore and the after-sales and front office services. Mr Quah has extensive experience in the equipment parts trading and distribution business.

MR ANG MONG SENG

Independent Director

Mr Ang Mong Seng was appointed as an Independent Director on 29 September 2005 and was last re-elected as a Director on 29 April 2016. He is the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nominating Committee.

Mr Ang was a former Member of Parliament for Hong Kah GRC and the ex-Chairman of Hong Kah Town Council. Mr Ang has more than 33 years of experience in Estate Management. Mr Ang is also an Independent Director of Chip Eng Seng Corporation Ltd and Emerging Town & Cities Singapore Ltd. Mr Ang obtained a Bachelor of Arts degree from Nanyang University in 1973.

MR YEOH SENG HUAT GEOFFREY

Independent Director

Mr Yeoh Seng Huat Geoffrey was appointed as an Independent Director on 2 January 2015 and was last re-elected as a Director on 28 April 2017. He is the Chairman of the Nominating Committee and a member of the Audit Committee and the Remuneration Committee.

Mr Yeoh holds a BSc (Econ), First Class Honours, from the London School of Economics and is a Fellow of the Association of Chartered Certified Accountants in the United Kingdom. He was in banking for 16 years till 1996. After that, he took on senior management positions in certain SGX listed companies until 2014. Mr Yeoh is also an Independent Director of Global Testing Corporation Limited and World Class Global Limited.

MR HOON CHING SING

Independent Director

Mr Hoon Ching Sing was appointed as an Independent Director on 1 October 2014 and was last re-elected as Director on 28 April 2017. He is the Chairman of the Audit Committee and a member of the Remuneration Committee.

Mr Hoon is a Fellow of the Institute of Singapore Chartered Accountants. He is a Past President of The Association of Chartered Certified Accountants, Singapore Branch. He has attended training programs at INSEAD and The Wharton School and Financial Risk Management programs. Mr Hoon has more than 31 years of audit and advisory experience. His audit experience covers a wide range of listed and unlisted entities including government-linked entities, banks, insurers, securities brokers, fund managers, and funds. His advisory experience covers business acquisition, integration, separation and closures, corporate finance, fund-raising, insolvencies, corporate governance, risk management, internal audits, bank treasury controls, and financial investigations. Mr Hoon was a partner of KPMG until September 2013.

KEY MANAGEMENT TEAM

MR LIM LIAN TUAN

*Director of Sales and Marketing
Ho Leong Tractors Sdn. Bhd.*

Mr Lim Lian Tuan is the Sales and Marketing Director of our wholly-owned subsidiary, Ho Leong Tractors Sdn Bhd (“HL Tractors”) in Malaysia. He joined HL Tractors in 1987 and oversees its sales and marketing operations. From 1984 to 1986, he worked in Ho Leong Machinery Sdn. Bhd. as a Sales Executive for the Malaysian operations. Prior to that, Mr Lim worked as a Sales Executive with TAS Berhad and Trackspare Sdn Bhd, both of whom were distributors of equipment parts for both heavy equipment and industrial machinery. He holds the equivalent of a GCE ‘O’ certificate.

MR CHO HANG LAE

*President
Korea Crawler Track Ltd*

Mr Cho Hang Lae is the President of our wholly-owned subsidiary, Korea Crawler Track Ltd (“Korea Crawler”) in South Korea. He joined Korea Crawler in 2010 and oversees its sales and manufacturing operations. Prior to joining us, Mr Cho has been working in the undercarriage industry for more than 13 years in sales, production and operations management. He holds a Bachelor degree in International Trade from the University of Kyungnam in South Korea.

MR BRADLEY OATS

*Regional Director
Trackspares (Australia) Pty Ltd and Trackex Pty Ltd.*

Mr Bradley Oats is the Resident Director of our wholly-owned subsidiaries, Trackspares (Australia) Pty Ltd (Trackspares) and Trackex Pty Ltd. He joined Trackspares in August 2012 and oversees the management and operations within Eastern Australia and the sales of equipment parts and services to the earthmoving and mining industry in this region. He holds an AD in Business Management & Marketing & has had vast experience in the earthmoving & construction at a management level over the past 16 years.

MDM KUAH GEOK KHIM

Operations Manager

Mdm Kuah Geok Khim is our Operations Manager. She joined our Company in 1975 and is responsible for the administrative functions of the Group including general office administration, the maintenance and procurement of office equipment and computerization. She is also in charge of our inventory management and management information system. In addition, she is responsible for our sales and purchases, shipping, import and export functions. She holds the equivalent of a GCE ‘O’ certificate.

KEY MANAGEMENT TEAM

MR ALVIN KUAH HAN ZHOU

Senior Manager, Group Business Development

Mr Alvin Kuah Han Zhou is our Senior Manager (Business Development). He joined our company in 2009 and was promoted to Business Development Manager on 1 April 2010 and subsequently Group Business Development Manager on 1 April 2013 and concurrently holding the position of Director for the vessel chartering business under Arkstar Offshore Group and its subsidiaries. Mr Alvin Kuah is responsible for all the commercial, business development, new market activities and new investment strategy for the oil and gas sector. He also oversees the planning & budgeting of vessel chartering business and involved in the group's corporate activities. Prior to joining our company, Mr Alvin Kuah was in the semiconductor manufacturing industry for two years specializing in application sales engineering. He holds a Bachelor degree in Electrical Electronics and Engineering from Royal Melbourne Institute of Technology from Australia.

MR KELVIN KUAH ZHICHAO

Senior Manager, Group Business Development

Mr Kelvin Kuah Zhichao is our Senior Manager (Business Development). He joined our company in 2011. He is responsible for all the major activities of the equipment parts business, including the factory and branch management, sales development, purchasing and in overseas sales and marketing activities predominantly for Europe and Asia. Prior to joining our company, he was working in the Credit Control department of Kim Eng Securities Pte Ltd and as a Business Development Manager in Hoe Leong Metal & Machinery Pte Ltd, spending two years in each company. He holds a Bachelor degree in Electrical and Electronic Engineering from Nanyang Technological University in Singapore.

MR RAYMOND QUAH ENG KIAT

Senior Manager, Group Sales and Marketing

Mr Raymond Quah Eng Kiat is our Senior Manager (Sales and Marketing). He joined our company in 2008 and was promoted to Senior Sales and Marketing Manager on 26 February 2016. He is responsible for the day-to-day operations of the Ship Management business and partially oversees the sales and marketing activities for Russia and CIS countries for equipment parts. Prior to joining our company, Mr Raymond Quah was in the banking sector for five years specializing in anti-money laundering and compliance matters for Standard Chartered Bank and Citigroup respectively. He holds a Master degree majoring in International Business from the University of New South Wales from Sydney.

MS YAP SUAT KAM

Group Financial Controller

Yap Suat Kam is our Group Financial Controller. Prior to joining our group, she held several key finance positions in various organisations. She graduated with a Master of Finance from RMIT University Melbourne, Australia. She is an associate member of Chartered Institute of Management Accountants (CIMA, UK), and a Chartered Global Management Accountant. She is also a Chartered Accountant of Institute of Singapore Chartered Accountants (ISCA).

OPERATIONS REVIEW

STATEMENT OF PROFIT OR LOSS

The Group reported profit after tax of S\$9.0 million for the year ended 31 December 2018 (“FY2018”) as compared to loss after tax of S\$47.9 million for the year ended 31 December 2017 (“FY2017”) due to the following factors:

Total revenue increased by S\$9.8 million, or 15.7%, to S\$72.4 million FY2018 as compared to S\$62.5 million in FY2017. The increase in total revenue was due to increase in revenue from both the Group’s Equipment segment of S\$8.9 million and the Group’s Vessel Chartering segment of S\$0.9 million.

Sales revenue from the Equipment segment increased by S\$8.9 million, or 17.2%, to S\$60.6 million in FY2018 as compared to S\$51.7 million in FY2017 mainly due to higher sales of equipment parts to our customers.

Charter revenue from the Vessel Chartering segment increased by S\$0.9 million, or 8.7%, to S\$11.8 million in FY2018 as compared to S\$10.8 million in FY2017.

Total cost of sales increased by S\$5.4 million, or 10.2%, to S\$58.1 million in FY2018 as compared to S\$52.7 million in FY2017 mainly due to increase in cost of sales of equipment parts by S\$8.4 million or 20.4% to S\$49.8 million, offset by decrease in cost of sales (due to lower depreciation cost) of the Vessel Chartering segment by S\$3.1 million or 27% to S\$8.3 million in FY2018.

Overall gross profit margin increased to 19.7% in FY2018 as compared to 15.7% in FY2017. This is due to increased gross profit for Equipment segment by S\$0.5 million and Vessel Chartering segment by S\$4.0 million in FY2018.

OPERATING INCOME & EXPENSES

Other income increased by S\$12.6 million, to S\$12.9 million in FY2018 due to the gain recognised from the difference between carrying value of financial liabilities extinguished and fair value equity shares issued in the debt to equity swap of S\$12.5 million, and sales of scrapped raw material of S\$0.1 million.

Distribution expenses decreased by S\$0.2 million, or 5.6%, to S\$4.1 million in FY2018 mainly due to decrease in advertising, packing and delivery expenses.

Administrative expenses decreased slightly by 0.9% in FY2018 to S\$7.6 million in FY2018 mainly due to decrease in staff related costs offset by higher legal expenses incurred.

Other expenses decreased by S\$36.6 million, or 89.8% to S\$4.2 million in FY2018 mainly due to decrease in allowance of doubtful debts trade receivables of S\$5.0 million, decrease in provision of stock obsolescence of \$0.9 million, decrease in impairment of property, plant and equipment of S\$30.9 million and foreign exchange gain of S\$1.3 million offset by provision for closure of a non-profitable operation of \$0.8 million in FY2018.

Net finance costs was S\$2.4 million in FY2018 as compared to net finance costs of S\$4.2 million in FY2017. This is due to decrease in bank borrowings resulted from the Scheme of Arrangement that was successfully implemented in May 2018.

OPERATIONS REVIEW

OTHER COMPREHENSIVE INCOME

Foreign currency translation loss of S\$1.2 million arising from foreign operations in FY2018 is mainly due to the Group's substantial foreign operations whose functional currencies are denominated in currencies other than Singapore dollar ("SGD") ie Australia dollar, United States dollar, Korean won, Malaysia ringgit and Chinese yuan.

STATEMENT OF FINANCIAL POSITION

Property, plant and equipment decreased by S\$2.7 million, or 9.2%, to S\$27.0 million as at 31 December 2018 mainly due to impairment loss of \$1.2 million and depreciation expenses of \$3.1 million offset by new purchases of \$1.6 million.

Inventories decreased by S\$0.9 million, or 3.9%, to S\$22.6 million as at 31 December 2018 due to increase in sales of equipment parts in the last quarter.

Trade and other receivables increased by S\$3.1 million, or 19.6%, to S\$19.1 million as at 31 December 2018 mainly due to increase in last quarter's sales.

Loans and borrowings decreased by S\$38.0 million, or 55.5%, to S\$30.5 million at 31 December 2018 mainly due to the debt to equity swap.

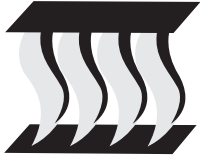
Trade and other payables decreased by S\$13.0 million, or 45.5%, to S\$15.6 million as at 31 December 2018 mainly due to the debt to equity swap.

STATEMENT OF CASH FLOWS

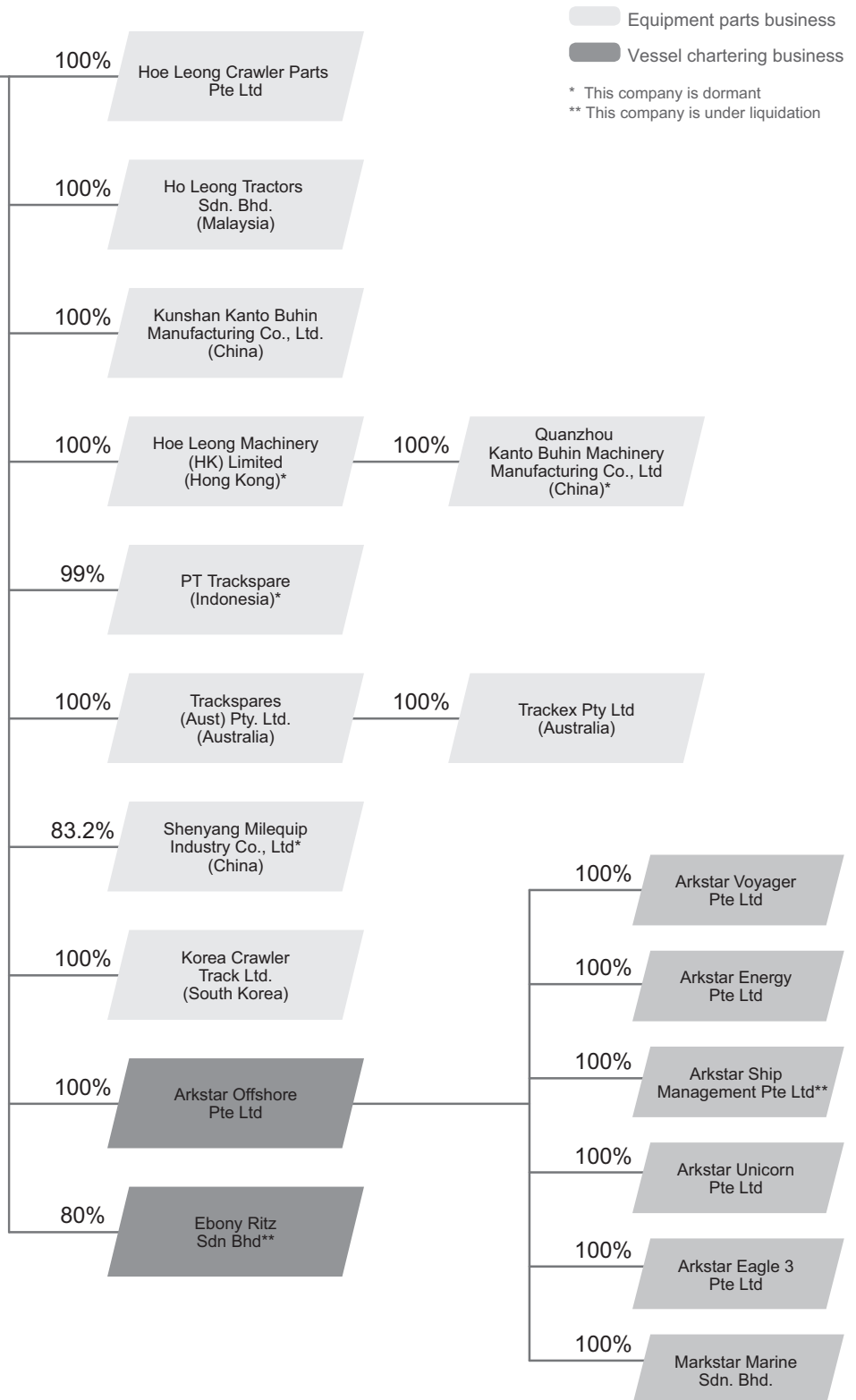
In FY2018, the Group generated net cash inflows of S\$1.9 million, mainly comprising net cash inflows from operating activities of S\$2.5 million, offset by net cash outflows from investing activities of S\$0.9 million due to capital expenditure, and net cash inflows from financing activities of S\$0.3 million.

At 31 December 2018, the Group's cash and cash equivalents amounted to S\$3.3 million (31 December 2017: S\$1.7 million).

GROUP STRUCTURE



Hoe Leong Corporation Ltd.



CORPORATE GOVERNANCE REPORT

The Board of Directors (the “Board”) is committed to ensure high standards of corporate governance to protect the interests of shareholders and at the same time to enhance long term shareholders’ value through corporate performance and accountability. The Board observes and adheres to the principles and guidelines set out in the revised Code of Corporate Governance 2012 (the “Code”). Where there are deviations from the Code, appropriate explanations are provided.

In the opinion of the Board, the Company has generally complied with all the provisions as set out in the Code for the financial year ended 31 December 2018 (“FY2018”).

A. BOARD MATTERS

The Board’s Conduct of its 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 success of the company. The Board works with the Management to achieve this and the Management remains accountable to the Board.

The Board is entrusted with the responsibility of the overall management of the Company and their main duties are to:–

- (a) provide entrepreneurial leadership, set strategic aims, and ensure that the necessary financial and human resources are in place for the Company to meet its objective;
- (b) approve board policies, strategic plans, and financial objectives of the Group and monitor the performance of Management;
- (c) approve annual budgets, funding, material investment and divestment proposals;
- (d) approve interim and full year results and announcements and annual report;
- (e) ensure an adequate system of internal controls and compliance with financial reporting requirements;
- (f) review the financial performance of the Group, proposal of dividends and review interested person transactions;
- (g) approve the nomination of directors and appointment of key personnel; and
- (h) assume responsibility for corporate governance.

To facilitate effective management, certain functions have been delegated by the Board to various Board Committees, namely the Audit Committee (“AC”), the Nominating Committee (“NC”) and the Remuneration Committee (“RC”). The Board Committees operate under clearly defined terms of reference. The Chairman of the respective Committees will report to the Board with their decisions and/or recommendations, the ultimate responsibility on all matters are made by the Board as a whole.

The Board holds at least four meetings every year. The Board and Board Committees meetings, as well as the Company’s Annual General Meeting (“AGM”) for the financial year are scheduled in advance, usually at the end of the previous financial year or at the beginning of the current financial year. This is to allow Directors to plan their schedule ahead and be able to participate in the meetings, either in person or via telecommunication. Ad-hoc meetings are convened when circumstances require, especially when considerable deliberation on the subject matter is warranted. Article 106 of the Company’s Constitution permits meetings of the Directors to be conducted by means of telephone conference or other methods of simultaneous communication by electronic or telegraphic means.

CORPORATE GOVERNANCE REPORT

A record of the Directors' attendances at Board, Board Committee meetings and Annual General Meeting ("AGM") during the financial year ended 31 December 2018 is disclosed as follows:

Name of Director	Board		Audit Committee		Nominating Committee		Remuneration Committee		Annual General Meeting	
	No. of meetings	Attendance	No. of meetings	Attendance	No. of meetings	Attendance	No. of meetings	Attendance	No. of meetings	Attendance
	Kuah Geok Lin	4	4	-	-	1	1	-	-	1
Kuah Geok Khim	4	4	-	-	-	-	-	-	1	1
Quah Yoke Hwee	4	4	-	-	-	-	-	-	1	1
Ang Mong Seng	4	4	4	4	1	1	1	1	1	1
Hoon Ching Sing	4	4	4	4	-	-	1	1	1	1
Yeoh Seng Huat										
Geoffrey	4	4	4	4	1	1	1	1	1	1

If there is any new appointment, a formal letter will be given to each of the new Director upon his/her appointment, setting out the Director's duties and obligations. If the new Director has not served on any public listed company, he/she will be encouraged to attend the basic course for new Directors conducted by the Singapore Institute of Directors. The newly appointed Director will receive appropriate induction that includes briefings on the Group's structure, strategic objectives, business operations and policies and governance practices and orientations on the business activities of the Group. No new Director was appointed to the Board in FY2018.

The Directors are provided with regular updates on changes in the relevant laws and regulations during Board Meetings. Where possible and when opportunity arises, the Directors will be invited to locations within the Group's operating businesses to enable them to obtain a better perspective of the business and enhance their understanding of the Group's operations. The directors of the Company are encouraged to attend seminars and trainings conducted by external organisations at the expense of the Company so that they are able to keep pace with new laws, regulations, changing commercial risk and accounting standards.

Board Composition and Guidance

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

The Board comprises six directors, three of whom are Independent Directors.

Half of the Board is independent. The strong independent element on the Board ensures that it is able to exercise objective and independent judgment on corporate affairs.

The Board feels that the role of the Independent Directors is particularly important in ensuring that the strategies proposed by Management are constructively challenged, fully discussed and examined, and take into account the long term interests of the Group's stakeholders, which includes shareholders, employees, customers and suppliers.

To determine whether a Director is independent, the Board has established a process whereby the Non-Executive Directors ("NEDs") are required to submit a declaration form on an annual basis. The NC will take into consideration the NEDs' declaration during its review of the NEDs' independence. The existence of any of the following relationships or circumstances will also deem the NED not independent:-

- (a) the NED has been employed by the Company or any of its related corporations for the current or any of the past three financial years;

CORPORATE GOVERNANCE REPORT

- (b) the NED has an immediate family member who is, or has been in any of the past three financial years, employed by the Company or any of its related corporations and whose remuneration is determined by the RC;
- (c) the NED, or an immediate family member, accepting any significant compensation from the Company or any of its related corporations for the provision of services, for the current or immediate past financial year, other than compensation for board service;
- (d) the NED:
 - (i) who, in the current or immediate past financial year, is or was; or
 - (ii) whose immediate family member, in the current or immediate past financial year, is or was, a 10% shareholder of, or a partner in (with 10% or more stake), or an executive officer of, or a director of, any organization to which the Company or any of its subsidiaries made, or from which the Company or any of its subsidiaries received, significant payments or material services (which may include auditing, banking, consulting and legal services), in the current or immediate past financial year. As a guide, payments aggregated over any financial year in excess of S\$200,000 should generally be deemed significant;
- (e) the NED who is a 10% shareholder or an immediate family member of a 10% shareholder of the Company; or
- (f) the NED who is or has been directly associated with a 10% shareholder of the Company, in the current or immediate past financial year.

In FY2018, all the NEDs who are considered independent, and did not have any of the above relationships or circumstances.

The independence of any NED who has served on the Board beyond nine years would be subject to particularly rigorous review. The NC has performed a rigorous review on the independence of Mr Ang Mong Seng who has served the Board for more than nine years (appointed on 29 September 2005) and has determined that Mr Ang has remained independent in character and judgment despite his length of service. The Board has concurred with the NC's views.

The Executive Directors have extensive experience in the heavy equipment and industrial machinery parts industry and the non-executive directors are experienced and successful in their respective professions. The Board's structure, size and composition is reviewed annually by the Nominating Committee which is of the view that the current size of the Board is appropriate, taking into account the nature and scope of the Group's operations, to facilitate effective decision making. The Nominating Committee is satisfied that the Board comprises directors who as a group provide core competencies such as accounting, finance, business and management experience, industry knowledge, strategic planning experience and customer-based experience and knowledge to lead the company effectively. Profiles of the Directors are set out in the "Board of Directors" section in this Annual Report.

To facilitate a more effective check on Management, the three NEDs who were not involved in the operations of the Company had met regularly for discussion on the matters of the Company without the presence of the Management.

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities at the top of the company – the working of the Board and the executive responsibility of the company's business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

The Chairman and Chief Executive Officer ("CEO") of the Company is Mr Kuah Geok Lin. The Board, after careful consideration, is of the opinion that it is not necessary, under current circumstances, to separate the roles of the Chairman and CEO. This is after taking into consideration the size, scope and nature of the operations of our Group, together with the strong presence of our Independent Directors which comprises half of the Board, who ensure that decision-making is based on collective decision and that there is no concentration of power and authority vested in one individual.

Our Chairman cum CEO has played an instrumental role in developing the business of our Group. He has extensive industry experience and has also provided our Group with strong leadership and vision. It is hence the view of the Board that it is in the best interests of our Group to adopt a single leadership structure, whereby the Chairman and CEO are the same individual.

The Chairman takes an active role in the management of the Group and also bears responsibility for the workings of the Board, ensuring the integrity and effectiveness of the governance process of the Board, ensuring that Board meetings are held regularly, and setting the Board meeting agenda in consultation with all members of the Board. The Chairman reviews board papers before they are presented to the Board and ensures that Board members are provided with adequate and timely information.

As the Chairman and the CEO is the same person, the Board had appointed Mr Yeoh Seng Huat, Geoffrey as the Lead Independent Director ("ID"). This is to offer shareholders an avenue of contact where their concerns can be addressed when the normal channels of contact through the Chairman or CEO has failed to provide satisfactory resolution, or when such contact is inappropriate.

Board Membership

Principle 4: There should be a formal and transparent process for the appointment of new directors to the Board.

The NC is established for the purposes of ensuring that there is a formal and transparent process for all Board appointments. The NC comprises the following three members, majority of whom are Independent Directors:–

Mr Yeoh Seng Huat Geoffrey (*Chairman*)

Mr Ang Mong Seng (*Member*)

Mr Kuah Geok Lin (*Member*)

The NC has adopted written terms of reference defining its membership, administration and duties. Duties and responsibilities of the NC include:

- (a) Reviewing and recommending the (i) Board succession plans of the Directors, in particular the Chairman and Chief Executive Officer, (including Independent Directors) taking into consideration each Director's contribution and performance; (ii) the development of a process for evaluation of the performance of the Board of Directors, the board committees and Directors; (iii) the review of training and professional development programmes for the Board of Directors; (iv) the appointment and re-appointment of Directors (including alternate Directors, if applicable);
- (b) Reviewing annually the composition of the Board to ensure that our Board has an appropriate balance of expertise, skills, attributes and abilities;

CORPORATE GOVERNANCE REPORT

- (c) Determining annually whether or not a Director is independent in accordance with the Revised Code of Corporate Governance and any other salient factors;
- (d) Reviewing and deciding whether or not a Director is able to and has been adequately carrying out his duties as a Director;
- (e) Reviewing and approving of any new employment of related persons and the proposed terms of their employment; and
- (f) Evaluating the performance and effectiveness of the Board as a whole.

Each member of our NC shall abstain from voting on any resolution in respect of his re-nomination as a director.

The search and nomination process for new directors, if any, will be through search companies, contacts and recommendations that go through the normal selection process, to cast its net as wide as possible for the right candidates.

In considering new appointment and re-appointment of directors, the NC will consider amongst other things, the board size, the board composition and whether there is a need for renewal.

The Constitution of the Company requires one-third of the Directors, or if their number is not a multiple of three, the number nearest to but not less than one-third of our Directors, to retire and subject themselves to re-election by the shareholders at every Annual General Meeting (“AGM”). In addition, all Directors of the Company, including the Managing Director after his initial term of engagement as Managing Director, shall retire from office at least once every three years. A retiring Director is eligible for re-election at the meeting at which he retires.

Pursuant to Article 95(2) of the Company’s Constitution, Mr Kuah Geok Lin and Mr Ang Mong Seng shall retire at the forthcoming AGM. The retiring Directors, being eligible, have offered themselves for re-election at the forthcoming AGM. The NC, having considered the attendance and participation of these Directors at the Board and Board committee meetings and in particular, their contribution to the business and operations of the Company, has recommended their re-election. The Board has concurred with the NC’s recommendation.

As an individual Director’s ability to commit time to the Group’s affair is essential, the NC has determined that the maximum number of listed company board representations which any Director of the Company may hold is eight. All the Directors have complied with this requirement.

The NC is charged with the responsibility of determining annually, and as and when circumstances require, if a director is independent, bearing in mind the relationships and circumstances set forth in Guideline 2.3 and 2.4 of the Code. Once a year, after each financial year end, the NEDs are required to make a self-declaration. The self-declaration compels each NED to consider if he meets the criteria of independence as set out in the Code. The NC, when performing the review of the NED’s independence, will take into consideration the NED’s declaration. The NC had determined that all the NEDs are independent in FY2018. The Board concurred with the NC’s assessment. Each of the NEDs had abstained from deliberating on his own independence.

The Company would generally avoid approving the appointment of alternate directors unless in exceptional cases such as when a director has a medical emergency. No alternate director was appointed in FY2018.

CORPORATE GOVERNANCE REPORT

Board Performance

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

The Board acknowledges the importance of a formal assessment of Board performance. It has adopted a formal system of evaluating Board performance with the use of evaluation forms to assess the effectiveness of the Board and Board Committees and the contribution by each Director. All Directors are required to complete the evaluation questionnaire annually. The Company Secretary compiles the Directors' responses to the evaluation forms into a consolidated report. The report is reviewed at the NC meeting and then reported to the Board.

The evaluation of the Board's performance as a whole deals with matters on Board composition, information flow to the Board, Board procedures and Board accountability. Factors such as the structure, size and processes of the Board and the Board's access to information, management and the effectiveness of the Board's oversight of the Company's performance are applied to evaluate the performance of the Board as a whole. The evaluation of the Board Committees' performance deals with the ideality of the size and composition of the committee, responsibilities, resources and relevant expertise of each of the Directors, Board's access of information, guidance to and communication with the Management and the standard of conduct and performance of the Board's principal functions. The evaluation of the performance of an individual director deals with matters on an individual director's attendance at meetings, observance of the individual directors' duties towards the Company and the individual director's know-how and interaction with fellow directors.

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 Director's evaluation was conducted in 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 and the Board Committees. 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. The Company did not engage any external consultant to facilitate the evaluation for FY2018.

Access to Information

Principle 6: In order to fulfill their responsibilities, Board members should be provided with complete, adequate and timely information prior to Board meetings and on an ongoing basis.

Management provides the Board with adequate and timely information as well as a review of the Group's performance prior to the Board meetings. The Board has separate and independent access to the Group's senior management including the CEO and other key management as well as the Group's internal and external auditors should they have any queries on the affairs of the Group.

As a general rule, board papers are sent to Directors one week in advance in order for Directors to be adequately prepared for the meeting. As and when there are important matters that require the Directors' attention, the information will be furnished to the Directors as soon as practicable.

Should the Directors, whether as a group or individually, require independent professional advice, the Company will bear the expenses incurred if such advice is required to enable the directors to discharge their duties professionally.

CORPORATE GOVERNANCE REPORT

All Directors have separate and independent access to the advice and services of the Company Secretary. The Company Secretary attends the Board and Board Committee meetings and is responsible for ensuring that Board procedures are followed and that applicable rules and regulations (in particular the Companies Act, the SGX-ST Listing Manual) and the Code of Corporate Governance) are complied with. Under the direction of the Chairman, the Company Secretary is responsible for ensuring good information flow within the Board and its committees and between Management and non-executive Directors.

Pursuant to the Company's Constitution, the decision to appoint or remove the Company Secretary can only be taken by the Board as a whole.

B. REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

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 Remuneration Committee ("RC") is established for the purposes of ensuring that there is a formal and transparent process for developing policy on executive remuneration and for fixing the remuneration packages of individual directors and key executives. The RC comprises the following three Independent Directors:-

Mr Ang Mong Seng (*Chairman*)
Mr Hoon Ching Sing (*Member*)
Mr Yeoh Seng Huat Geoffrey (*Member*)

The RC has adopted written terms of reference defining its membership, administration and duties. Duties and responsibilities of the RC include:

- (a) to review and recommend to the Board a framework of remuneration for the Board and key executives;
- (b) to review and determine specific remuneration packages for each Executive Director and the CEO which should cover all aspects of remuneration including but not limited to directors' fees, salaries, allowances, bonuses, share-based compensation and benefits in kind;
- (c) to review and recommend to the Board the terms of renewal of service contracts of Directors;
- (d) to retain such professional consultancy firm as the committee may deem necessary to enable it to discharge its duties satisfactorily;
- (e) to consider various disclosure requirements for Directors' remuneration, particularly those required by regulatory bodies such as the SGX-ST, and ensure that there is adequate disclosure in the financial statements to ensure and enhance transparency between the Company and relevant interested parties; and
- (f) to carry out such other duties as may be agreed by the RC and the Board. The RC's recommendations would be made in consultation with the Chairman of the Board and submitted for endorsement by the entire Board and no Director shall participate in decisions on his/her own remuneration.

CORPORATE GOVERNANCE REPORT

Level and Mix of Remuneration

Principle 8: The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

It is the Group's policy to set a level of remuneration that is appropriate to attract, retain and motivate the directors. The Independent Directors receive directors' fees in accordance with their level of contribution, taking into account factors such as effort and time spent and responsibilities of the directors. The Board may, if it considers necessary, consult experts on the remuneration of non-executive directors and would recommend the remuneration of the non-executive directors for approval at the AGM.

The RC had recommended to the Board an amount of S\$145,000 as Directors' fees to be paid to the Independent Directors for the financial year ending 31 December 2019 (the Directors' fees for the previous financial year was S\$145,000). These recommendations will be tabled for shareholders' approval at the Company's forthcoming AGM. Each of the RC members had abstained from deliberating and voting on his own remuneration.

The NEDs' fee structure is as follows:–

	Basic fee as a member of the Board	AC	NC	RC
	S\$	S\$	S\$	S\$
Chairman	N.A	30,000	10,000	10,000
Member	20,000	5,000	5,000	5,000
Lead ID	10,000			

The Company has entered into a service agreement with each of the Executive Directors, namely Mr Kuah Geok Lin, Mr Kuah Geok Khim and Mr Quah Yoke Hwee (collectively the "Appointees"). The service agreements contain non-competition and non-solicitation clauses, which are binding on the Appointees during their period of employment with the Company and for a period of 12 months after the cessation of their employment with the Company. The Executive Directors do not receive directors' fees. The remuneration of the Appointees comprises a fixed basic salary component which includes the 13-month supplement and a variable component which includes an incentive bonus ("Incentive Bonus") at the end of every financial year of the Company based on the audited consolidated profit before tax (before the Incentive Bonus) of our Group. The Appointees are also entitled to other benefits including dental, optical and medical benefits, personal accident, hospitalization and surgical insurance and travelling and entertainment expenses incurred for the purposes of our Group's business.

The service agreements of the Appointees shall be subject to termination:

- (i) by the Company or any of the Appointees giving to the other at least three months' written notice; or
- (ii) without prior notice, upon the occurrence of certain specified events, including willful neglect in the discharge of duties.

The Hoe Leong Performance Share Plan 2009 ("PSP 2009") for the Group employees, including the Group Executive Directors and the Hoe Leong Share Option Scheme 2009 ("ESOS 2009") were approved by the shareholders of the Company at an Extraordinary General Meeting held on 27 April 2009.

CORPORATE GOVERNANCE REPORT

The Group's employees including the Executive Directors are eligible to participate in the PSP 2009 and the ESOS 2009. More information on the PSP 2009 and ESOS 2009 are set out in the Directors' Report on page 30 to 32.

The PSP 2009 and ESOS 2009 are components in the Group's package of benefits and incentives to attract, retain and motivate the Directors and employees, and to achieve better performance.

Disclosure on Remuneration

Principle 9: Each company should provide clear disclosure of its remuneration policy, 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 executives, and performance.

For confidentiality reasons, the Board is of the view that the disclosure of the annual aggregate remuneration for its key management personnel and Directors of the Company for FY2018 would not be in the best interests of the Company and the Company has instead disclosed the remuneration for its key management personnel and Directors in percentage terms and in bands of S\$250,000.

A breakdown showing the level and mix of each individual Director's remuneration for the year ended 31 December 2018 is disclosed in the table below:

Name of Directors	Remuneration Band	Salary ⁽²⁾ (%)	Bonus (%)	Fees (%)	Other Benefits & Allowances (%)	Total (%)
Kuah Geok Lin ⁽¹⁾	S\$250,000 – S\$499,999	85	7	–	8	100
Kuah Geok Khim ⁽¹⁾		88	7	–	5	100
Quah Yoke Hwee ⁽¹⁾	S\$0–S\$249,999	86	7	–	7	100
Ang Mong Seng		–	–	100	–	100
Hoon Ching Sing		–	–	100	–	100
Yeoh Seng Huat Geoffrey		–	–	100	–	100

Notes:

(1) The Executive Directors, namely Mr Kuah Geok Lin, Mr Kuah Geok Khim and Mr Quah Yoke Hwee are siblings.

(2) Salary includes basic salary and employer's CPF.

The table below shows the level and mix of the remuneration of the Group's 5 key executives (who are not directors) for the financial year ended 31 December 2018:

Sn	Name	Remuneration Band	Salary ⁽⁵⁾	Bonus	Other Benefits & Allowances	Total
1	Alvin Kuah Han Zhou ⁽¹⁾	Below S\$250,000	89%	7%	4%	100%
2	Mdm Kuah Geok Khim ⁽²⁾		89%	7%	4%	100%
3	Raymond Quah Eng Kiat ⁽³⁾		89%	6%	5%	100%
4	Kelvin Kuah Zhichao ⁽⁴⁾		89%	6%	5%	100%
5	Yap Suat Kam		93%	7%	–	100%

For financial year ended 2018, the aggregate total remuneration paid to the top 5 key management personnel amounts to S\$753,000.

For financial year ended 2018, there was no termination and post-employment benefits granted to the Directors, the CEO and the top 5 key management personnel other than the standard contractual notice period termination payment in lieu of service in respect of management employees.

CORPORATE GOVERNANCE REPORT

Notes:

- (1) Mdm Kuah Geok Khim is the sister of the Executive Directors, namely Mr Kuah Geok Lin, Mr Kuah Geok Khim and Mr Quah Yoke Hwee.
- (2) Mr Raymond Kuah Eng Kiat is the son of Mr Quah Yoke Hwee.
- (3) Mr Alvin Kuah Han Zhou is the son of Mr Kuah Geok Lin.
- (4) Mr Kevin Kuah Zhichao is the son of Mr Kuah Geok Khim.
- (5) Salary includes basic salary and employer's CPF.

The table below shows the remuneration of the executives who are immediate family members of the Directors or the CEO, whose remuneration exceeds \$50,000 for the financial year ended 31 December 2018:–

Name	Relationship	Position	Remuneration Band
Mdm Kuah Geok Khim	Sister of Messrs Kuah Geok Lin, Kuah Geok Khim and Quah Yoke Hwee	Operations Manager	Below \$250,000
Raymond Quah Eng Kiat	Son of Mr Quah Yoke Hwee	Senior Manager (Sales & Marketing)	Below \$250,000
Alvin Kuah Han Zhou	Son of Mr Kuah Geok Lin	Senior Manager (Business Development)	Below \$250,000
Kelvin Kuah Zhichao	Son of Mr Kuah Geok Khim	Senior Manager (Business Development)	Below \$250,000

C. ACCOUNTABILITY AND AUDIT

Accountability

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

One of the Board's principal duties is to protect and enhance the long-term value and returns to the shareholders of the Company. The accountability of the Board to the shareholders is demonstrated through the presentation of the periodic financial statements as well as the timely announcements and news releases of significant corporate developments and activities so that the shareholders can have a detailed explanation and balanced assessment of the Group's financial position and prospects.

The Management presents to the Audit Committee the quarterly and full-year results for its review and recommendation to the Board for approval. The Board approves the results and authorizes the release of the results to the SGX-ST and the public via SGXNET as required by the SGX-ST Listing Manual.

Negative assurance statements supported by two Executive Directors were issued to the Audit Committee to accompany the Company's quarterly financial results announcements, giving shareholders confirmation that to the best of their knowledge, nothing had come to their attention that would render the Company's quarterly financial results false or misleading.

CORPORATE GOVERNANCE REPORT

Risk Management and Internal Controls

Principle 11: The Board is responsible for the governance of risk. The Board should ensure 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.

Risk Management

The Board had assessed and decided not to establish a separate Board Risk Committee to carry out its responsibility of helping the Board in the overseeing of the Group's risk management framework and policies. Instead, this responsibility is assumed by the Audit Committee.

The Company had set up the Enterprise Risk Management ("ERM") system and framework with the help of an external consultant in 2013. The ERM system and framework established was embedded in the internal control system of the Group.

The external consultant will assist the Management to review and update the risk management framework on an annual basis.

Internal Controls

The Board recognizes the importance of maintaining a sound system of internal controls to safeguard the shareholders' interest and investments and the Group's assets. The Board recognises that no cost effective internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Group has internal control systems and processes which it considers to be sufficient having regard to the size of the Group and the complexity of its operations. The Board has also received written assurance from the Chairman cum CEO and the Group Financial Controller ("GFC") that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances and the Company risk management and internal control systems in place are effective.

Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors, reviews performed by the Management, various Board Committees and the Board, and the written assurance from the CEO and the GFC, the Board with the concurrence of the AC, is of the opinion that the Group's internal controls, addressing key financial, operational, compliance and information technology controls, and risk management systems were adequate and effective as at 31 December 2018. The Group will review its internal control systems and processes on an on-going basis and make further improvements when necessary.

Audit Committee

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

The AC comprises the following three Independent Directors:-

Mr Hoon Ching Sing (*Chairman*)

Mr Ang Mong Seng (*Member*)

Mr Yeoh Seng Huat Geoffrey (*Member*)

CORPORATE GOVERNANCE REPORT

The Board is of the view that the members of the AC are appropriately qualified, having accounting or related financial management expertise or experience as the Board interprets such qualification, to discharge their responsibilities.

The AC assists the Board in discharging its responsibility to safeguard the Group's assets, maintain adequate accounting records, and develop and maintain effective systems of internal control, with the overall objective of ensuring that the Management creates and maintains an effective control environment in the Group. The AC will also review and supervise the internal audit functions of the Group.

The AC had met four times during the financial year and these meetings were attended by the GFC, and the External Auditors. The AC also met once during the financial year with the external auditors and internal auditors, without the presence of any Executive Director and Management personnel.

Our AC has adopted written terms of reference defining its membership, administration and duties. Duties and responsibilities of the AC include:

- (a) review with the external auditors the audit plan, their evaluation of the system of internal accounting controls, their letter to management and the management's response;
- (b) review the financial statements of the Company including quarterly and full-year results before submission to our Board for approval, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, compliance with accounting standards and compliance with the SGX-ST Listing Manual and any other relevant statutory or regulatory requirements;
- (c) review the scope and results of the audit and its cost effectiveness and the independence and objectivity of the external auditors. Where the external auditors also supply a substantial volume of non-audit services to the Company, the AC would keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money;
- (d) review the internal control procedures and ensure co-ordination between the external auditors and our management, and review the assistance given by our management to the external auditors, and discuss problems and concerns, if any, arising from the interim and final audits, and any matters which the external auditors may wish to discuss in the absence of our management at least annually;
- (e) review and discuss with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on our Group's operating results or financial position, and our management's response;
- (f) to review the independence and objectivity of the external auditors annually;
- (g) consider the appointment or re-appointment of the external auditors and matters relating to the resignation or dismissal of the external auditors;
- (h) review interested person transactions (if any) falling within the scope of Chapter 9 of the SGX-ST Listing Manual;
- (i) review potential conflicts of interest, if any;
- (j) undertake such other reviews and projects as may be requested by the Board, and will report to the Board its findings from time to time on matters arising and requiring the attention of the AC; and
- (k) generally undertake such other functions and duties as may be required by statute or the SGX-ST Listing Manual, or by such amendments as may be made thereto from time to time.

CORPORATE GOVERNANCE REPORT

In the event that any Director has a personal material interest in any contract or proposed contract or arrangement, he will abstain from reviewing that particular transaction or voting on the particular resolution.

The Company has put in place a whistle-blowing policy which is duly endorsed by the AC and approved by the Board.

Apart from the duties listed above, the AC shall commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has or is likely to have a material impact on our Company's operating results and/or financial position.

In performing its functions, the AC has explicit authority to investigate any matter within its terms of reference, having full access to and co-operation by management and full discretion to invite any director or executive officer to attend meetings, and reasonable resources to enable it to discharge its function properly.

The AC has reviewed the independence of Company's external auditors and is satisfied with the independence and objectivity of the external auditors.

During the financial year under review, the AC met with the external auditors once without the presence of any management personnel and Executive Directors.

The aggregate amount of fees paid/payable to KPMG LLP, the external auditors of the Company and Subsidiaries for annual audit services was S\$246,000 for the financial year ended 31 December 2018. There were no non-audit services provided by the external auditors of the Company for the financial year ended 31 December 2018.

The AC has determined that KPMG LLP is independent and recommended the re-appointment of KPMG LLP as external auditors at the forthcoming AGM.

The Company has complied with Rules 712 and Rule 715 or 716 in relation to its auditors.

The AC members are kept abreast of the changes to accounting standards and issues which have a direct impact on financial statements through periodic meetings with the external auditors.

AC's views on significant accounting matters

The significant areas of focus considered by the AC in relation to the 2018 Annual Report are outlined below. These issues were discussed with the external auditors during the year and, where appropriate, these have been addressed as key audit matters as outlined in the Independent Auditor's Report on pages 34 to 37:

Significant Issues	How the issue was addressed by the AC
Impairment of the Group's Non-Financial Assets	The AC has ascertained that independent professional appraisers were engaged to carry out valuations for the purpose of determining the level of impairment for the financial reporting period.
Valuation of Trade Receivables	The AC has ascertained that the management has an internal process to assess the level of impairment for trade receivables for the financial reporting period.
Litigation and Claims	The AC has reviewed the financial statements and considered the relevant disclosures.

CORPORATE GOVERNANCE REPORT

Internal Audit

Principle 13: The company should establish an internal audit function that is independent of the activities it audits.

The Company has engaged the services of an external consultant to perform its internal audit function.

The AC reviews annually the Internal Audit plan independent of the Management. The internal auditors report directly to the Chairman of the AC on any material non-compliance and internal control weaknesses identified in the course of audit.

The Board recognizes the importance of an internal audit function as an integral part of an effective system of good corporate governance and will from time to time review and strengthen the existing control system.

D. 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.

The Group's corporate governance culture and awareness promotes fair and equitable treatment of all shareholders. All shareholders enjoy specific rights under the Singapore's Companies Act, Chapter 50 and Constitution of the Company. All shareholders are treated fairly and equitably.

The Group respects the equal information rights of all shareholders and is committed to the practice of fair, transparent and timely disclosure.

Shareholders are given the opportunity to participate effectively and vote at general meetings of the Company, where relevant rules and procedures governing the meetings are clearly communicated.

Communication with Shareholders

Principle 15: Companies should engage in regular, effective and fair communication with shareholders.

The Company endeavours to communicate regularly, effectively and fairly with its shareholders. Timely, as well as, detailed disclosure is made to the public in compliance with SGX-ST guidelines. The Company does not practise selective disclosure. Price sensitive information is first publicly released before the Company meets with any group of investors or analysts.

Shareholders are kept informed of developments and performance of the Group through announcements published via SGXNET and the press when necessary as well as in the annual report. Other announcements are also made on an ad-hoc basis where applicable as soon as possible to ensure timely dissemination of the information to shareholders.

The Company does not have a fixed dividend policy as the Company is not able to declare dividend in view of its current financial position.

CORPORATE GOVERNANCE REPORT

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

All shareholders of the Company receive the annual report of the Company and notice of AGM within the prescribed period. Participation of shareholders is encouraged at the Company's general meetings. The Board of Directors (including the Chairman of the respective Board committees), the Management, as well as the external auditors will attend the Company's AGM to address any questions that shareholders may have.

The Company allows all individual and corporate shareholders to appoint up to two proxies to attend general meetings and vote on their behalf. For corporations which provide nominee and custodial services and the CPF Board, they are allowed to appoint more than two proxies to attend the general meetings.

Each item of special business included in the notice of the meeting will be accompanied by an explanation of the effects of a proposed resolution. Unless the resolution proposed at a meeting are interdependent and linked so as to form one significant proposal, separate resolutions shall be proposed for substantially separate issues at the meeting.

All the resolutions put to the vote at the forthcoming AGM will be voted on by poll and the detailed results of the poll will be announced via SGXNET. Polling may be conducted in manual or electronic form. In determining which polling mode to take, the Company will take into consideration the turnout at general meetings and the relevant costs involved for each polling mode.

The Company will also prepare minutes of the general meetings that include substantial comments or queries from shareholders and responses from the Board and Management, and will make such minutes or notes available to shareholders upon their request.

E. DEALINGS IN SECURITIES

The Company has adopted the requirements in SGX-ST Rule 1207(19) applicable to dealings in the Company's securities by its Directors, management and officers. Directors, management and officers of the Group who have access to price-sensitive, financial or confidential information are prohibited to deal in the Company's shares during the period commencing two (2) weeks before the announcement of the Company's financial statements for each of the first three quarters of its financial year and one (1) month before the announcement of the Company's full-year financial statements.

Directors, management and officers of the Group are also required to observe insider trading laws at all times even when dealing in securities within the permitted trading period. In addition, the Directors, management and officers of the Group are discouraged from dealing in the Company's securities on short-term considerations.

F. INTERESTED PERSON TRANSACTIONS

The Company has adopted an internal policy governing procedures for the identification, approval and monitoring of transactions with interested persons. All interested person transactions ("IPT") are subject to review by the AC every quarter to ensure that the relevant rules in Chapter 9 of the SGX-ST Listing Manual are complied with.

CORPORATE GOVERNANCE REPORT

There were no IPT (each with a value of \$100,000 or more) during the financial year ended 31 December 2018 except as follows:

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920 of the SGX-ST Listing Manual) \$'000	Aggregate value of all interested person transactions conducted during the financial year under review under shareholders' mandate pursuant to Rule 920 of the SGX-ST Listing Manual (excluding transactions less than \$100,000) \$'000
Hoe Leong Plastic Industry (China) Ltd		
– Rental expense	446	–
Hoe Leong (Co) Pte Ltd		
– Interest payable on shareholder's loan	317*	–

The Company has not obtained a general mandate from shareholders for Interested Person Transactions.

* The loan was converted to Scheme Shares on 08 May 2018 as part of the Scheme of Arrangement which was approved by the Court on 22 January 2018.

G. MATERIAL CONTRACTS

Pursuant to Rule 1207(8) of the SGX-ST Listing Manual, the Company confirms that there was no material contract entered into between the Company and its subsidiaries which involved the interests of any director or controlling shareholder, either still subsisting at the end of the financial year or if not then subsisting, which was entered into since the end of the previous financial year.

FINANCIAL CONTENTS

	Page
Directors' Statement	28-33
Independent Auditors' Report	34-39
Statements of Financial Position	40
Statement of Profit or Loss	41
Statement of Comprehensive Income	42
Statement of Changes in Equity	43
Statement of Cash Flows	44
Notes to the Financial Statements	45-114

DIRECTORS' STATEMENT

We are pleased to submit this annual report to the members of the Company together with the audited financial statements for the financial year ended 31 December 2018.

In our opinion:

- (i) the financial statements set out on pages 40 to 114 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 for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards (International); 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.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

Directors

The directors in office at the date of this report are as follows:

Kuah Geok Lin
Quah Yoke Hwee
Kuah Geok Khim
Ang Mong Seng
Hoon Ching Sing
Yeoh Seng Huat Geoffrey

Directors' interests

According to the register kept by the Company for the purposes of Section 164 of the Companies Act, Chapter 50 (the Act), particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares, debentures, warrants and share options in the Company, the ultimate holding company (Hoe Leong Co. (Pte.) Ltd.) and its other related corporations are as follows:

Name of director and corporation in which interests are held	Holdings at beginning of the year	Holdings at end of the year
Kuah Geok Lin		
The Company		
Ordinary shares		
- interests held	15,506,617	15,506,617
Options to subscribe for ordinary shares exercisable at:		
- \$0.39 between 27/04/2011 to 26/04/2020	50,000	—
- \$0.39 between 27/04/2012 to 26/04/2020	50,000	—
Ultimate Holding Company		
Ordinary shares		
- interests held	370,951	370,951

DIRECTORS' STATEMENT

Directors' interests (Continued)

Name of director and corporation in which interests are held	Holdings at beginning of the year	Holdings at end of the year
Subsidiary - PT Trackspare		
Ordinary shares of US\$1,000 each fully paid		
- interests held	5	5
Quah Yoke Hwee		
The Company		
Ordinary shares		
- interests held	15,314,117	15,314,117
Options to subscribe for ordinary shares exercisable at:		
- \$0.39 between 27/04/2011 to 26/04/2020	50,000	-
- \$0.39 between 27/04/2012 to 26/04/2020	50,000	-
Ultimate Holding Company		
Ordinary shares		
- interests held	370,951	370,951
Kuah Geok Khim		
The Company		
Ordinary shares		
- interests held	15,314,117	15,314,117
Options to subscribe for ordinary shares exercisable at:		
- \$0.39 between 27/04/2011 to 26/04/2020	50,000	-
- \$0.39 between 27/04/2012 to 26/04/2020	50,000	-
Ultimate Holding Company		
Ordinary shares		
- interests held	370,951	370,951
Ang Mong Seng		
The Company		
Ordinary shares		
- interests held	175,000	175,000

Kuah Geok Lin, Quah Yoke Hwee and Kuah Geok Khim have the following deemed interests in the Company:

	Holdings at beginning of the year	Holdings at end of the year	Holdings at 21 January 2019
The Company			
Ordinary shares			
- interests held	323,749,267	1,589,854,677	1,589,854,677

DIRECTORS' STATEMENT

Directors' interests (Continued)

Except as disclosed above, there were no changes in any of the above mentioned interests in the Company between the end of the financial year and 21 January 2019.

By virtue of Section 7 of the Act, Kuah Geok Lin, Quah Yoke Hwee and Kuah Geok Khim are deemed to have an interest in all the other wholly-owned subsidiaries of Hoe Leong Co. (Pte.) Ltd., at the beginning and at the end of the financial year.

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

Except as disclosed under the "Share options and awards" section of this report, neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Share options and awards

The Hoe Leong Share Option Scheme 2009 ("ESOS 2009") and the Hoe Leong Performance Share Plan 2009 ("PSP 2009") of the Company were approved and adopted by its members at an Extraordinary General Meeting held on 27 April 2009.

Share options

The ESOS 2009 is administered by the Remuneration Committee whose members are as follows:

Ang Mong Seng	(Chairman)
Hoon Ching Sing	(Member)
Yeoh Seng Huat Geoffrey	(Member)

Information regarding the ESOS 2009 is set out below:

- The exercise price of the options can be set at a discount to the market price not exceeding 20% of the market price in respect of options granted at the time of grant.
- For options granted to directors, 50% of the options can be exercised after one year from the date of grant and the remaining 50% of the options can be exercised after two years from the date of grant.
- For options granted to employees, 50% of the options can be exercised after two years from the date of grant and the remaining 50% of the options can be exercised after three years from the date of grant.
- The options granted to executive directors and employees will expire after 10 years from the date of grant.
- The options granted to non-executive directors will expire after five years from the date of grant.

DIRECTORS' STATEMENT

Share options (Continued)

Options granted, exercised/cancelled/expired, and outstanding are set out below:

Year of grant of options	Options outstanding at 1 January 2018	Options exercised/ cancelled/expired	Options outstanding at 31 December 2018
2010	600,000	(600,000)	-
2011	50,000	(50,000)	-
2012	231,000	(231,000)	-
	<u>881,000</u>	<u>(881,000)</u>	-

Outstanding options at the end of the financial year under the ESOS 2009, on the unissued ordinary shares of the Company, are as follows:

Date of grant of options	Exercise price per share \$	Options outstanding at 1 January 2018	Options expired/ cancelled	Options outstanding at 31 December 2018	Number of option holders at 31 December 2018	Exercise period
13 April 2010	0.34*	170,000	(170,000)	-	-	13 April 2012 to 12 April 2020
27 April 2010	0.39	300,000	(300,000)	-	-	27 April 2011 to 26 April 2020
27 April 2010	0.31*	130,000	(130,000)	-	-	27 April 2012 to 26 April 2020
5 May 2011	0.23*	50,000	(50,000)	-	-	5 May 2013 to 4 May 2021
31 May 2012	0.15*	231,000	(231,000)	-	-	31 May 2014 to 30 May 2022
		<u>881,000</u>	<u>(881,000)</u>	-	-	

* These options were granted to the employees of the Group at a 20% discount to the average closing market price of the Company's shares for the last five trading days immediately preceding the date of grant.

Details of the options to subscribe for ordinary shares of the Company granted to directors of the Company pursuant to the ESOS2009 are as follows:

Name of director	Options granted during the financial year	Aggregate options granted since commencement of plan to end of financial year	Aggregate options exercised since commencement of plan to end of financial year	Aggregate options outstanding as at end of financial year
Kuah Geok Lin	-	100,000	(100,000)	-
Quah Yoke Hwee	-	100,000	(100,000)	-
Kuah Geok Khim	-	100,000	(100,000)	-

DIRECTORS' STATEMENT

Share options (Continued)

There were no options granted to directors and associates of controlling shareholders of the Company during the financial year ended 31 December 2018 and all outstanding options were cancelled during the year.

Share awards

Participants under the PSP 2009 will receive fully paid shares free of charge, upon the participants satisfying the criteria set out in the PSP 2009. No shares were issued under the PSP 2009 since its inception.

There were no outstanding share awards as at 1 January 2018 and 31 December 2018, and no share awards granted, vested or cancelled during the financial year under the PSP 2009.

The aggregate number of shares available under the ESOS 2009 and the PSP 2009 (collectively, the "Schemes") must not exceed 15% of the total number of issued shares (excluding treasury shares) from time to time.

Since the commencement of the Schemes, no participant under the Schemes has been granted 5% or more of the total number of shares available under the Schemes.

Audit Committee

The members of the Audit Committee at the date of this report are:

- Hoon Ching Sing (Chairman), independent director
- Ang Mong Seng, independent director
- Yeoh Seng Huat Geoffrey, independent director

The Audit Committee performs the functions specified in Section 201B of the Act, the SGX-ST Listing Manual and the Code of Corporate Governance.

The Audit Committee has held four meetings since the last directors' report. In performing its functions, the Audit Committee met with the Company's external auditors to discuss the scope of their work, the results of their examination and evaluation of the Company's internal accounting control system. The Company's internal audit function has been outsourced and the Audit Committee has discussed the scope of the work with the appointed firm, the results of their examination and their evaluation of the Company's internal accounting system, where appropriate.

The Audit Committee also reviewed the following:

- assistance provided by the Company's officers to the internal and external auditors;
- quarterly financial information and annual financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption; and
- interested person transactions (as defined in Chapter 9 of the SGX-ST Listing Manual).

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

DIRECTORS' STATEMENT

Audit Committee (Continued)

The Audit Committee is satisfied with the independence and objectivity of the external auditors and has recommended to the Board of Directors that the auditors, KPMG LLP, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

In appointing the auditors for the Company, its subsidiaries and significant associates, the Company has complied with Rule 712 and 715 of the SGX-ST Listing Manual.

Auditors

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

Kuah Geok Lin
Director

Quah Yoke Hwee
Director

8 April 2019

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
HOE LEONG CORPORATION LTD.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Hoe Leong Corporation Ltd. ('the Company') and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2018, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages FS1 to FS75.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ('the Act') and 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 for the year ended on that date.

Basis for opinion

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

Key audit matters

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

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
HOE LEONG CORPORATION LTD.

Impairment of non-financial assets (Refer to Note 4 to the financial statements)	
<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group has significant property, plant and equipment amounting to \$26,992,000 as at 31 December 2018, consisting mainly of vessels, material handling equipment and freehold land and building. Arising from the continuing challenging industry conditions, the Group updated its impairment assessment of vessels in 2018 and recognised impairment losses of \$1,235,000 (2017: \$32,098,000) on the vessels during the year.</p> <p>For impairment purpose, each individual vessel is a separate cash generating unit (CGU). Management assessed the recoverable amounts of the CGUs based on their respective fair values less costs of disposal. The fair values were derived using external valuations performed by independent professional valuers.</p> <p>The estimation of the recoverable amounts of the vessels requires significant judgement.</p>	<p>We assessed the appropriateness of management's identification of the CGUs.</p> <p>We evaluated the competence and objectivity of the independent professional valuers taking into account their experience, professional qualifications and independence.</p> <p>We assessed the reasonableness of the valuation methods used by the external valuers, which are mainly the sales comparison approach considering the sales prices of similar or substitute vessels.</p> <p>We assessed the appropriateness of the comparables used by the independent professional valuers, including the specifications, age and conditions of vessels.</p> <p>Our findings</p> <p>We have no concern with the valuers' competence and objectivity.</p>

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
HOE LEONG CORPORATION LTD.

Impairment of trade receivables (Refer to Note 8 to the financial statements)	
<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>As at 31 December 2018, the Group has outstanding trade receivables of \$16,689,000, accounting for approximately 23% of the Group's total assets. Trade receivables are subject to expected credit loss (ECL) assessment under SFRS(I) 9.</p> <p>Management estimated the impairment loss allowance on specific receivables based on the age of the trade receivables, their future collectability, credit-worthiness of customers and the historical default rate. Management takes into consideration any known evidence of financial difficulty of the customer, breach of contract, or the probability of the customer entering into bankruptcy or other financial reorganisation.</p> <p>For the remaining trade receivables, the Group applied the simplified approach to provide for ECLs. Under this approach, the loss allowances are measured at amounts equal to the ECLs that result from all possible defaults over the expected life of the trade receivables. The Group estimated the loss allowances based on historical loss rates over a period of 4 years. These loss rates are adjusted to incorporate forward-looking information.</p> <p>This area is a key audit matter due to the amounts involved and the inherent subjectivity in making judgement about credit losses.</p>	<p>We evaluated the management's assessment of recoverability of trade receivables and the ECL assessment. Our procedures include:</p> <ul style="list-style-type: none"> - Assessing the recoverability of a sample of significant long outstanding balances, by making enquiry with management, reviewing the customers' historical payment track records and collections from these customers after the year end; and - Assessing management's ECL model, by reviewing management's analysis of historical credit losses of its receivables, testing the data inputs in the model, and evaluating the forward looking overlay applied. <p>We have also considered the adequacy of disclosures in the financial statements about the extent of estimation and judgement involved in determining the impairment loss allowances.</p> <p>Our findings</p> <p>We found the estimates used to derive the impairment loss allowance on trade receivables as at 31 December 2018 to be balanced. We found the Group's disclosures in the financial statements with regard to allowance for impairment loss allowances to be appropriate.</p>

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
HOE LEONG CORPORATION LTD.

Litigation and claims (Refer to Note 24 to the financial statements)	
<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>As at year end, the Group has an ongoing legal case arising from the lawsuit brought against the Company by a minority shareholder of a subsidiary, Ebony Ritz Sdn Bhd ("Ebony").</p> <p>While the court has issued an order in favour of the minority shareholder, the amount of damages has not been assessed. As the proceedings for the assessment of damages are still at an early stage and cannot be estimated reliably, no provision has been made in the financial statements.</p> <p>The eventual outcome of the damages assessment could have a significant financial impact to the Group.</p>	<p>We held discussions with management and the Board of Directors to discuss developments in the legal proceedings.</p> <p>We obtained independent confirmation from and made enquiries with the Group's external legal counsel regarding the case proceedings.</p> <p>We assessed the adequacy of the disclosures made by the Group in connection with this legal case.</p> <p>Our findings</p> <p>Management's assessment is supported by the legal counsel's advice. We found the disclosures to be appropriate.</p>

Other information

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon. We have obtained the Directors' statement, the Corporate Governance Report, Corporate profile, Chairman's Statement, Operations Review, and Shareholding Statistics ('the Reports') prior to the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not and will 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 identified above 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 on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

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 AUDITORS' REPORT

MEMBERS OF THE COMPANY
HOE LEONG CORPORATION LTD.

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.

Auditors' 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 auditors' 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 controls.
- Obtain an understanding of internal controls 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 controls.
- 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 auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
HOE LEONG CORPORATION LTD.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and 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 auditors' report unless the law or regulations preclude 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 auditors' report is Lucas Tran.

KPMG LLP
*Public Accountants and
Chartered Accountants*

Singapore
8 April 2019

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	31 Dec 2018 \$'000	Group 31 Dec 2017 \$'000	1 Jan 2017 \$'000	31 Dec 2018 \$'000	Company 31 Dec 2017 \$'000	1 Jan 2017 \$'000
Assets							
Property, plant and equipment	4	26,992	29,739	67,563	2,213	2,024	2,163
Investments in subsidiaries	5(a)	–	–	–	13,800	8,778	14,451
Loans to subsidiaries	5(b)	–	–	–	–	–	–
Deferred tax assets	6	814	539	578	–	–	–
Non-current assets		27,806	30,278	68,141	16,013	10,802	16,614
Inventories	7	22,581	23,509	25,106	–	–	–
Trade and other receivables	8	19,128	15,997	26,652	3,813	9,016	57,918
Cash and cash equivalents	9	3,264	2,478	3,287	41	114	757
Current assets		44,973	41,984	55,045	3,854	9,130	58,675
Total assets		72,779	72,262	123,186	19,867	19,932	75,289
Equity							
Share capital	10	114,461	69,490	69,490	114,461	69,490	69,490
Treasury shares		(55)	(55)	(55)	(55)	(55)	(55)
Currency translation reserve	11	(836)	330	–	–	–	–
Share-based compensation reserve	12	–	171	171	–	171	171
Accumulated losses		(89,503)	(97,640)	(49,771)	(98,816)	(101,626)	(50,176)
Equity/(Deficit) attributable to owners of the Company		24,067	(27,704)	19,835	15,590	(32,020)	19,430
Non-controlling interests		(1,187)	(1,183)	(1,127)	–	–	–
Total equity/(deficit)		22,880	(28,887)	18,708	15,590	(32,020)	19,430
Liabilities							
Loans and borrowings	13	19,351	794	1,488	184	–	22
Deferred tax liabilities	6	38	38	38	19	19	19
Non-current liabilities		19,389	832	1,526	203	19	41
Trade and other payables	15	15,553	28,548	20,104	4,031	35,065	31,683
Loans and borrowings	13	11,174	67,766	79,187	43	16,625	24,135
Loan from non-controlling shareholder of a subsidiary	14	3,573	3,565	3,489	–	–	–
Current tax payable		210	438	172	–	243	–
Current liabilities		30,510	100,317	102,952	4,074	51,933	55,818
Total liabilities		49,899	101,149	104,478	4,277	51,952	55,859
Total equity and liabilities		72,779	72,262	123,186	19,867	19,932	75,289

STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2018

	Note	Group	
		2018 \$'000	2017 \$'000
Revenue	16	72,386	62,547
Cost of sales		(58,105)	(52,729)
Gross profit		14,281	9,818
Other income		12,887	256
Distribution expenses		(4,100)	(4,344)
Administrative expenses		(7,631)	(7,701)
Other expenses		(4,156)	(40,794)
Results from operating activities		11,281	(42,765)
Finance income		1	2
Finance costs		(2,399)	(4,234)
Net finance costs	17	(2,398)	(4,232)
Profit/(loss) before income tax	18	8,883	(46,997)
Income tax expense	19	110	(872)
Profit/(loss) for the year		8,993	(47,869)
Profit/(loss) attributable to:			
Owners of the Company		8,993	(47,869)
Profit/(loss) for the year		8,993	(47,869)
Earnings/(loss) per share			
Basic earnings/(loss) per share (cents)	20	0.23	(7.69)
Diluted earnings/(loss) per share (cents)	20	0.23	(7.69)

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

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2018

	Group	
	2018	2017
	\$'000	\$'000
Profit/(loss) for the year	8,993	(47,869)
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences arising from foreign operations	(1,170)	274
Other comprehensive income, net of income tax	<u>(1,170)</u>	<u>274</u>
Total comprehensive income for the year	<u>7,823</u>	<u>(47,595)</u>
Total comprehensive income attributable to:		
Owners of the Company	7,827	(47,539)
Non-controlling interests	(4)	(56)
Total comprehensive income for the year	<u>7,823</u>	<u>(47,595)</u>

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

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2018

		←----- Attributable to owners of the Company ----->						
Note	Share capital \$'000	Treasury shares \$'000	Share-based compensation reserve \$'000	Currency translation reserve \$'000	Accumulated losses \$'000	Total \$'000	Non-controlling interests \$'000	Total equity \$'000
Group								
	69,490	(55)	171	(1,629)	(48,142)	19,835	(1,127)	18,708
26	69,490	(55)	171	1,629	(1,629)	—	—	—
					(49,771)	19,835	(1,127)	18,708
					(47,869)	(47,869)	—	(47,869)
						330	(56)	274
					(47,869)	(47,539)	(56)	(47,595)
	69,490	(55)	171	330	(97,640)	(27,704)	(1,183)	(28,887)
	69,490	(55)	171	330	(97,640)	(27,704)	(1,183)	(28,887)
26					(1,027)	(1,027)	—	(1,027)
	69,490	(55)	171	330	(98,667)	(28,731)	(1,183)	(29,914)
						8,993	—	8,993
					(1,166)	(1,166)	(4)	(1,170)
					(1,166)	7,827	(4)	7,823
10	44,971	—	—	—	—	44,971	—	44,971
	—	—	(171)	—	171	—	—	—
	44,971	—	(171)	—	171	44,971	—	44,971
	114,461	(55)	—	(836)	(89,503)	24,067	(1,187)	22,880

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

STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2018

	Note	Group	
		2018 \$'000	2017 \$'000
Cash flows from operating activities			
Profit/(loss) before income tax		8,883	(46,997)
Adjustments for:			
Depreciation of property, plant and equipment	4	3,104	5,086
Finance income	17	(1)	(2)
Finance costs	17	2,399	4,234
Gain on disposal of property, plant and equipment, net	18	(102)	(10)
(Write-back)/allowance of slow moving inventories	18	(538)	375
Impairment loss on property, plant and equipment	4	1,235	32,098
Impairment loss on/write-off of trade and other receivables	18	330	5,371
Gain on debt to equity swap	18	(12,492)	–
		<u>2,818</u>	<u>155</u>
Changes in working capital:			
Inventories		653	1,372
Trade and other receivables		(3,776)	5,484
Trade and other payables		<u>3,267</u>	<u>5,984</u>
Cash from operations		<u>2,962</u>	<u>12,995</u>
Income taxes paid		(424)	(1,069)
Net cash from operating activities		<u>2,538</u>	<u>11,926</u>
Cash flows from investing activities			
Finance income received		1	2
Purchase of property, plant and equipment		(1,072)	(1,517)
Proceeds from disposal of property, plant and equipment		<u>133</u>	<u>49</u>
Net cash used in investing activities		<u>(938)</u>	<u>(1,466)</u>
Cash flows from financing activities			
Finance costs paid		(1,034)	(1,727)
Proceeds from bills payable and trust receipts		11,579	6,352
Repayment of bills payable and trust receipts		(10,221)	(7,056)
Proceeds from finance lease liabilities		–	32
Payment of finance lease liabilities		(140)	(102)
Proceeds from interest-bearing borrowings		3,808	–
Repayment of interest-bearing borrowings		(3,656)	(8,855)
Net cash from/(used in) financing activities		<u>336</u>	<u>(11,356)</u>
Net increase/(decrease) in cash and cash equivalents		1,936	(896)
Cash and cash equivalents at beginning of the year		1,727	2,338
Effect of exchange rate fluctuations		(399)	285
Cash and cash equivalents at end of the year	9	<u>3,264</u>	<u>1,727</u>

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

NOTES TO THE FINANCIAL STATEMENTS

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 8 April 2019.

1 Domicile and activities

Hoe Leong Corporation Ltd. (the 'Company') is incorporated in the Republic of Singapore. The address of the Company's registered office is at 6 Clementi Loop, Singapore 129814.

The principal activities of the Group are those relating to designing, manufacturing, sale and distribution of machinery parts and vessel chartering business. The Company became primarily an investment holding company since 2016.

The immediate and ultimate holding company during the financial year is Hoe Leong Co. (Pte.) Ltd., a company incorporated in the Republic of Singapore.

The financial statements of the Group as at and for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities').

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)). These are the Group's first financial statements prepared in accordance with SFRS(I) and SFRS(I) 1 *First-time Adoption of Singapore Financial Reporting Standards (International)* has been applied.

In the previous financial years, the financial statements were prepared in accordance with Financial Reporting Standards in Singapore (FRS). An explanation of how the transition to SFRS(I) and application of SFRS(I) 9 and SFRS(I) 15 have affected the reported financial position, financial performance and cash flows is provided in note 26.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

The financial statements are presented in Singapore dollars, which is the Company's functional currency. All financial information presented in Singapore dollars have been rounded to the nearest thousand, unless otherwise stated.

2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with SFRS(I)s requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

NOTES TO THE FINANCIAL STATEMENTS

2.4 Use of estimates and judgements (Continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are included in the following notes:

- Note 4 – measurement of depreciation and impairment of property, plant and equipment. Assets are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these assets to be within 3 to 50 years. As changes in the expected level of usage could impact the economic useful lives and the residual values of these assets, future depreciation charges could be revised. In view of the recurring losses in difficult industry conditions, the Group performed an impairment assessment of its property, plant and equipment. The estimated recoverable amounts are mainly based on fair value less costs of disposal using external valuation reports obtained from independent professional valuers, with appropriate recognised professional qualifications and experience in the assets being valued. The recoverable amounts could change significantly as a result of changes in market conditions and the assumptions used in determining the fair value.
- Note 5 – impairment of investments in subsidiaries. Investments in subsidiaries are assessed to determine whether they are impaired by assessing the factors that affect the recoverable amount of an investment, and the financial health of and business outlook for the investee. These include factors such as industry and sector performance, changes in technology, and operating and financing cash flows. Any change in the business environment and estimates of the recoverable amounts of the subsidiaries can impact the carrying amounts of the investments in the subsidiaries.
- Note 7 – measurement of net realisable value of inventories. Inventories have been written down to lower of cost and estimated net realisable value to be consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use. These estimates take into consideration market demand, the age of the inventory, competition, selling price and events occurring after the end of the financial year to the extent that such events confirm conditions that existed at reporting date.
- Note 8 – measurement of impairment loss allowance on trade receivables. Management estimated the impairment loss allowance on specific receivables based on the age of the trade receivables, their future collectability, credit-worthiness of customers, the historical default rate, and various other factors. The Group estimated the 'expected credit loss' (ECL) for trade receivables using the allowance matrix to measure the ECLs of trade receivables from individual customers. The historical credit loss rates were determined based on historical credit losses in relation to aggregated balances over a period of 4 years. Loss rates are calculated separately for exposures in the difference segments based on geographic region and adjusted to take into account current conditions with reference to the forward looking GDP. If the financial conditions of the customers or counterparties were to deteriorate, actual write-offs or impairment losses could be higher than estimated.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening SFRS(I) statements of financial position as at 1 January 2017 for the purposes of the transition to SFRS(I), unless otherwise indicated.

The accounting policies have been applied consistently by Group entities.

3.1 Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method when control is transferred to the Group.

Acquisitions from 1 January 2017

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree,

over the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. Any goodwill that arises is tested annually for impairment. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the date of acquisition and included in the consideration transferred. If the contingent consideration that meets the definition of a financial instrument is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets, at the date of acquisition. The measurement basis taken is elected on a transaction-by-transaction basis. All other non-controlling interests are measured at acquisition-date fair value, unless another measurement basis is required by SFRS(I)s.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS

3.1 Basis of consolidation (Continued)

(i) *Business combinations* (Continued)

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners and therefore no adjustments are made to goodwill and no gain or loss is recognised in profit or loss. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Acquisitions before 1 January 2017

As part of transition to SFRS(I), the Group elected not to restate those business combinations that occurred before the date of transition to SFRS(I), i.e. 1 January 2017. Goodwill arising from acquisitions before 1 January 2017 has been carried forward from the previous FRS framework as at the date of the transition.

(ii) *Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) *Loss of control*

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Subsidiaries in the separate financial statements

Investments in subsidiaries and associates are stated in the Company's statement of financial position at cost less accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

3.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated to Singapore dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Singapore dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the currency translation reserve in equity. Since 1 January 2017, the Group's date of transition to SFRS(I), such differences have been recognised in the foreign currency translation reserve (translation reserve) in equity. However, if the foreign operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control or significant influence is lost, the cumulative amount in the currency translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate that includes a foreign operation while retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the currency translation reserve in equity.

NOTES TO THE FINANCIAL STATEMENTS

3.3 Financial instruments

(i) Recognition and initial measurement

Non-derivative financial assets and financial liabilities

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Non-derivative financial assets – Policy under SFRS(I) 9 (applicable from 1 January 2018)

On initial recognition, a financial asset is classified as measured at amortised cost.

Non-derivative financial assets are categorised as follows:

Financial assets	Initial measurement	Subsequent measurement
Amortised cost	<ul style="list-style-type: none"> • Business model to hold assets to collect contractual cash flows; and • its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. 	<ul style="list-style-type: none"> • Measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. • Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. • Any gain or loss on derecognition is recognised in profit or loss.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Non-derivative financial assets: Assessment whether contractual cash flows are solely payments of principal and interest – Policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

NOTES TO THE FINANCIAL STATEMENTS

3.3 Financial instruments (Continued)

(ii) *Classification and subsequent measurement (Continued)*

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a significant discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Directly attributable transaction costs are recognised in profit or loss as incurred.

Other financial liabilities are initially measured at fair value less directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. These financial liabilities comprised loans and borrowings, bank overdrafts, and trade and other payables.

Policy applicable before 1 January 2018

Non-derivative financial assets and liabilities are categorised as follows:

Category	Subsequent measurement
Loans and receivables	
- With fixed or determinable payments, that are not quoted in an active market	Amortised cost, computed using effective interest method, less impairment losses.
- Comprise cash and cash equivalents, and trade and other receivables.	
Liabilities at amortised cost	
- Comprise bank overdrafts, trade and other payables (including lease obligations and amounts due to related parties) and borrowings	Amortised cost, computed using effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

3.3 Financial instruments (Continued)

(iii) **Derecognition**

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) **Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(v) **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and short-term deposits with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. For the purpose of the statement of cash flows, bank overdrafts that are repayable on demand and that form an integral part of the Group's cash management are included in cash and cash equivalents.

(vi) **Share capital**

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

NOTES TO THE FINANCIAL STATEMENTS

3.3 Financial instruments (Continued)

(vi) *Share capital (Continued)*

Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own share account. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the remitting surplus or deficit on the transaction is presented in non-distributable capital reserve.

(vii) *Intra-group financial guarantees*

Financial guarantees are financial instruments issued by the Company that require the issuer to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to meet payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees issued are initially measured at fair value and the initial fair value is amortised over the life of the guarantees. Subsequent to initial measurement, the financial guarantees are measured at the higher of the amortised amount and the amount of loss allowance.

Expected credit losses (ECLs) are a probability-weighted estimate of credit losses. ECLs are measured for financial guarantees issued as the expected payments to reimburse the holder less any amounts that the Company expects to recover.

Loss allowances for ECLs for financial guarantees issued are presented in the Company's statement of financial position as 'loans and borrowings'.

Intra-group financial guarantees in the separate financial statements – Policy applicable before 1 January 2018

The policy applied in the comparative information presented for 2017 is similar to that applied for 2018. However, for subsequent measurement, the financial guarantees were measured at the higher of the amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

3.4 Property, plant and equipment

(i) *Recognition and measurement*

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and accumulated impairment losses. The cost of certain items of property, plant and equipment at 1 January 2017, the Group's date of transition to SFRS(I), was determined with reference to its fair value at that date.

NOTES TO THE FINANCIAL STATEMENTS

3.4 Property, plant and equipment (Continued)

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) **Subsequent costs**

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) **Depreciation**

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised as an expense in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, unless it is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated.

Depreciation is recognised from the date that the property, plant and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives for the current and comparative years are as follows:

Freehold building	- 50 years
Furniture, fittings and office equipment	- 5 to 10 years
Material handling equipment	- 5 to 10 years
Computers	- 3 years
Motor vehicles	- 5 years
Barge and vessel	- 20 to 25 years

NOTES TO THE FINANCIAL STATEMENTS

3.4 Property, plant and equipment (Continued)

(iii) Depreciation (Continued)

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

3.5 Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Group's statement of financial position.

3.6 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is calculated using the weighted average cost method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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

3.7 Impairment

(i) Non-derivative financial assets and contract assets

Policy applicable from 1 January 2018

The Group recognises loss allowances for expected credit losses (ECLs) on:

- financial assets measured at amortised costs; and
- intra-group financial guarantee contracts (FGC).

Loss allowances of the Group are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument or contract asset

Simplified approach

The Group applies the simplified approach to provide for ECLs for all trade receivables and contract assets. The simplified approach requires the loss allowance to be measured at an amount equal to lifetime ECLs.

NOTES TO THE FINANCIAL STATEMENTS

3.7 Impairment (Continued)

General approach

The Group applies the general approach to provide for ECLs on all other financial instruments and FGCs. Under the general approach, the loss allowance is measured at an amount equal to 12-month ECLs at initial recognition.

At each reporting date, the Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and includes forward-looking information.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs.

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held)

The Group considers a contract asset to be in default when the customer is unlikely to pay its contractual obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held).

The Company considers a FGC to be in default when the debtor of the loan is unlikely to pay its credit obligations to the creditor and the Company in full, without recourse by the Company to actions such as realising security (if any is held). The Company only applies a discount rate if, and to the extent that, the risks are not taken into account by adjusting the expected cash shortfalls.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of expected credit losses (ECLs)

ECLs are probability-weighted estimates of credit losses. Credit losses are measured at the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; or
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

NOTES TO THE FINANCIAL STATEMENTS

3.7 Impairment (Continued)

Presentation of allowance for ECLs in the statement of financial position

Loss allowances for financial assets measured at amortised cost and contract assets are deducted from the gross carrying amount of these assets.

Loss allowances for FGC are recognised on financial liability to the extent they exceed the initial carrying amount of the FGC less accumulated income recognised.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Policy under FRS 39 (applicable before 1 January 2018)

A financial asset not carried at fair value through profit or loss, including an interest in associate, is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event(s) has occurred after the initial recognition of the asset, and that the loss event(s) has an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Loans and receivables

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss was calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

3.7 Impairment (Continued)

(ii) *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds the estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and are tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.8 Employee benefits

(i) *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

NOTES TO THE FINANCIAL STATEMENTS

3.8 Employee benefits (Continued)

(ii) *Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(iii) *Share-based compensation transactions*

The grant date fair value of equity-settled share-based compensation awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based compensation awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

3.9 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) *Restructuring*

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

3.10 Revenue

(i) *Goods and services sold*

Revenue from sale of goods and services in the ordinary course of business is recognised when the Group satisfies a performance obligation (PO) by transferring control of a promised good or service to the customer. The amount of revenue recognised is the amount of the transaction price allocated to the satisfied PO.

The transaction price is allocated to each PO in the contract on the basis of the relative stand-alone selling prices of the promised goods or services. The individual stand-alone selling price of a good or service that has not previously been sold on a stand-alone basis, or has a highly variable selling price, is determined based on the residual portion of the transaction price after allocating the transaction price to goods and/or services with observable stand-alone selling prices. A discount or variable consideration is allocated to one or more, but not all, of the performance obligations if it relates specifically to those performance obligations.

NOTES TO THE FINANCIAL STATEMENTS

3.10 Revenue (Continued)

The transaction price is the amount of consideration in the contract to which the Group expects to be entitled in exchange for transferring the promised goods or services. The transaction price may be fixed or variable and is adjusted for time value of money if the contract includes a significant financing component. Consideration payable to a customer is deducted from the transaction price if the Group does not receive a separate identifiable benefit from the customer. When consideration is variable, the estimated amount is included in the transaction price to the extent that it is highly probable that a significant reversal of the cumulative revenue will not occur when the uncertainty associated with the variable consideration is resolved.

Revenue may be recognised at a point in time or over time following the timing of satisfaction of the PO. If a PO is satisfied over time, revenue is recognised based on the percentage of completion reflecting the progress towards complete satisfaction of that PO.

(ii) Revenue from vessel chartering

Revenue from vessel chartering under an operating lease is recognised in profit or loss on a straight-line basis over the term of the lease.

(iii) Rental income receivable under operating lease

Rental income receivable under operating lease is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rentals are recognised as income in the accounting period in which they are earned.

3.11 Leased payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

3.12 Finance income and finance costs

The Group's finance income and finance costs include:

- interest income;
- interest expense;

Interest income or expense is recognised using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

NOTES TO THE FINANCIAL STATEMENTS

3.12 Finance income and finance costs (Continued)

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

3.13 Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under SFRS(I) 1-37 *Provisions, Contingent Liabilities and Contingent Assets*.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- temporary differences related to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be recognized simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

NOTES TO THE FINANCIAL STATEMENTS

3.13 Tax (Continued)

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax provisions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.14 Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted-average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options and share awards granted to employees.

3.15 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO (the chief operating decision maker) to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

3.16 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective and have not been applied in preparing these financial statements. An explanation of the impact, if any, on adoption of these new requirements is provided in note 27.

NOTES TO THE FINANCIAL STATEMENTS

4 Property, plant and equipment

Group	Freehold land \$'000	Freehold buildings \$'000	Furniture, fittings and office equipment \$'000	Material handling equipment \$'000	Computers \$'000	Motor vehicles \$'000	Barge and vessels \$'000	Total \$'000
Cost								
At 1 January 2017	3,000	6,191	2,532	10,932	1,046	1,795	85,013	110,509
Additions	–	–	97	549	21	32	818	1,517
Disposals	–	–	–	(320)	(1)	–	–	(321)
Written off	–	–	(958)	(171)	(251)	(149)	–	(1,529)
Translation differences on consolidation	74	155	1	211	(8)	2	(4,785)	(4,350)
At 31 December 2017	3,074	6,346	1,672	11,201	807	1,680	81,046	105,826
Additions	–	55	59	910	11	533	–	1,568
Disposals	–	–	(26)	–	–	(514)	–	(540)
Written off	–	–	(22)	–	(40)	(27)	–	(89)
Translation differences on consolidation	(35)	(66)	(40)	(342)	(9)	(48)	1,287	747
At 31 December 2018	3,039	6,335	1,643	11,769	769	1,624	82,333	107,512

NOTES TO THE FINANCIAL STATEMENTS

4 Property, plant and equipment (Continued)

Group	Freehold land \$'000	Freehold buildings \$'000	Furniture, fittings and office equipment \$'000	Material handling equipment \$'000	Computers \$'000	Motor vehicles \$'000	Barge and vessels \$'000	Total \$'000
Accumulated depreciation and accumulated impairment losses								
At 1 January 2017	350	1,552	2,360	6,721	1,028	1,425	29,510	42,946
Depreciation charge for the year	-	125	79	1,039	22	111	3,710	5,086
Impairment loss	-	-	-	-	-	-	32,098	32,098
Disposals	-	-	-	(292)	(1)	-	-	(293)
Written off	-	-	(956)	(171)	(251)	(140)	-	(1,518)
Translation differences on consolidation	-	24	1	105	(7)	1	(2,356)	(2,232)
At 31 December 2017	350	1,701	1,484	7,402	791	1,397	62,962	76,087
Depreciation charge for the year	-	127	68	1,031	20	175	-	3,104
Impairment loss	-	-	-	-	-	-	1,235	1,235
Disposals	-	-	(25)	-	-	(485)	-	(510)
Written off	-	-	(21)	-	(40)	(27)	-	(88)
Translation differences on consolidation	-	(8)	(24)	(239)	(8)	(30)	-	692
At 31 December 2018	350	1,820	1,482	8,194	763	1,030	66,881	80,520
Carrying amounts								
At 1 January 2017	2,650	4,639	172	4,211	18	370	55,503	67,563
At 31 December 2017	2,724	4,645	188	3,799	16	283	18,084	29,739
At 31 December 2018	2,689	4,515	161	3,575	6	594	15,452	26,992

NOTES TO THE FINANCIAL STATEMENTS

4 Property, plant and equipment (Continued)

Company	Freehold land \$'000	Freehold building \$'000	Furniture, fittings and office equipment \$'000	Material handling equipment \$'000	Computers \$'000	Motor vehicles \$'000	Total \$'000
Cost							
At 1 January 2017	1,136	2,013	1,583	1,059	554	463	6,808
Additions	-	-	-	-	2	-	2
Disposals	-	-	(710)	(682)	(439)	-	(1,831)
Written off	-	-	(873)	(171)	(115)	-	(1,159)
At 31 December 2017	1,136	2,013	-	206	2	463	3,820
Additions	-	-	-	-	-	331	331
Disposals	-	-	-	-	-	(463)	(463)
At 31 December 2018	1,136	2,013	-	206	2	331	3,688
Accumulated depreciation and accumulated impairment losses							
At 1 January 2017	350	787	1,579	961	553	415	4,645
Depreciation charge for the year	-	40	3	55	2	16	116
Disposals	-	-	(709)	(658)	(439)	-	(1,806)
Written off	-	-	(873)	(171)	(115)	-	(1,159)
At 31 December 2017	350	827	-	187	1	431	1,796
Depreciation charge for the year	-	41	-	19	-	53	113
Disposals	-	-	-	-	-	(434)	(434)
At 31 December 2018	350	868	-	206	1	50	1,475
Carrying amounts							
At 1 January 2017	786	1,226	4	98	1	48	2,163
At 31 December 2017	786	1,186	-	19	1	32	2,024
At 31 December 2018	786	1,145	-	-	1	281	2,213

NOTES TO THE FINANCIAL STATEMENTS

4 Property, plant and equipment (Continued)

The carrying amount of the property, plant and equipment of the Group includes amounts totalling \$528,000 (31 Dec 2017: \$99,000; 1 Jan 2017: \$108,000) in respect of motor vehicles and material handling equipment held under finance lease agreements. During the year, the Company acquired motor vehicle of carrying value of \$ 282,000 under a finance lease.

The following property, plant and equipment are pledged as security to secure credit facilities:

	31 Dec 2018 \$'000	Group 31 Dec 2017 \$'000	1 Jan 2017 \$'000
Carrying amount of:			
- freehold land and buildings	7,204	7,369	7,289
- material handling equipment	2,877	2,871	3,045
- motor vehicles	392	99	108
- barge and vessels	15,452	18,084	55,503
	<u>25,925</u>	<u>28,423</u>	<u>65,945</u>

Impairment loss in relation to property, plant and equipment

Impairment indicators have been identified for the vessel chartering business because of the continuing challenging market conditions and recurring losses of this business. For impairment purpose, each vessel is a separate cash-generating unit (CGU). Management assessed the recoverable amounts of the Group's CGU based on their respective fair values less costs of disposal. The fair values were estimated using external valuations performed by independent professional valuers with appropriate recognised professional qualifications and experience in the assets being valued. An impairment loss of \$1,235,000 (2017: \$32,098,000) was recognised in the Group's profit or loss, included in other expenses.

		Group Impairment charge	
	Valuation technique	2018 \$'000	2017 \$'000
Level 3			
- barge and vessels	Direct sales comparison	1,235	32,098
		<u>1,235</u>	<u>32,098</u>

In preparing their valuation report, some of the factors the valuers considered include market comparable transactions, the current charter market and current market sentiment which takes into account other similar vessels currently on the market, offers and negotiations that have been tabled and/or are under way, vessel specification, builder's yard, quality of equipment and other market factors.

NOTES TO THE FINANCIAL STATEMENTS

5

Subsidiaries

	31 Dec	Company	1 Jan
	2018	31 Dec	2017
	\$'000	2017	\$'000
		\$'000	\$'000
(a) Investments in Subsidiaries			
Unquoted equity shares, at cost	37,291	32,269	32,269
Accumulated impairment losses	(23,491)	(23,491)	(17,818)
Carrying amount	<u>13,800</u>	<u>8,778</u>	<u>14,451</u>

The movements in accumulated impairment losses on investment in subsidiaries during the year were as follows:

	2018	2017
	\$'000	\$'000
At 1 January	23,491	17,818
Impairment loss charged to profit or loss	–	5,673
At 31 December	<u>23,491</u>	<u>23,491</u>

The management of the Company has performed a review of the recoverable amounts of its investments in its subsidiaries in accordance with the accounting policy stated in note 3.7. Certain subsidiaries are inactive with no revenue generating activities. The recoverable amounts of investments in inactive subsidiaries were determined based on the carrying amounts of their net assets, which comprise mainly monetary items.

For the impairment losses made in 2017, the recoverable amounts of investments in active subsidiaries were determined based on the value in use of their assets, which was determined by discounting future cash flows generated from continuing use. Cash flows were projected over a period of 5 years at constant profit margins or fixed growth rates based on secured contracts. A terminal value, which is the present value of all future cash flows to perpetuity, assuming a constant growth rate is applied in the fifth year. The cash flow projection was discounted at pre-tax rate of 10.48%.

Details of significant subsidiaries are as follows:

Name of subsidiaries	Country of incorporation	Effective equity held by the Group		
		31 Dec	31 Dec	1 Jan
		2018	2017	2017
		%	%	%
Arkstar Voyager Pte. Ltd. ⁽¹⁾	Singapore	100	100	100
Arkstar Eagle 3 Pte. Ltd. ⁽¹⁾	Singapore	100	100	100
Arkstar Unicorn Pte. Ltd. ⁽¹⁾	Singapore	100	100	100
Hoe Leong Crawler Parts Pte. Ltd. ⁽¹⁾	Singapore	100	100	100
Ho Leong Tractors Sdn. Bhd. ⁽²⁾	Malaysia	100	100	100
Trackspares (Aust) Pty. Ltd. ⁽³⁾	Australia	100	100	100
Korea Crawler Track Ltd. ⁽⁴⁾	Korea	100	100	100

⁽¹⁾ In compliance with Rule 715(1) of the SGX-ST Listing Manual, all Singapore-incorporated subsidiaries are audited by the Company's auditors, KPMG LLP.

⁽²⁾ Audited by Moore Stephens Associates PLT.

⁽³⁾ Audited by Crowe Horwath Audit Queensland.

⁽⁴⁾ Audited by Lian Accounting Corporation.

NOTES TO THE FINANCIAL STATEMENTS

5 Subsidiaries (Continued)

Company

	31 Dec 2018 \$'000	31 Dec 2017 \$'000	1 Jan 2017 \$'000
(b) Loans to subsidiaries			
Loans to subsidiaries	15,022	15,022	15,022
Accumulated impairment losses	(15,022)	(15,022)	(15,022)
	<u>–</u>	<u>–</u>	<u>–</u>

Loans to subsidiaries are unsecured and non-interest bearing. Repayment of these loans is neither planned nor likely to occur in the foreseeable future and are classified as non-current. There is no movement in the accumulated impairment loss allowance in 2018 and 2017.

6 Deferred tax assets and liabilities

Movements in deferred tax assets and liabilities of the Group (prior to offsetting of balances) during the year are as follows:

	At 1 January 2017 \$'000	Recognised in profit or loss (note 19) \$'000	Exchange differences \$'000	At 31 December 2017 \$'000	Recognised in profit or loss (note 19) \$'000	Exchange differences \$'000	At 31 December 2018 \$'000
Group							
Deferred tax assets							
Provisions	460	21	(2)	479	289	(48)	720
Others	118	(55)	(3)	60	40	(6)	94
	<u>578</u>	<u>(34)</u>	<u>(5)</u>	<u>539</u>	<u>329</u>	<u>(54)</u>	<u>814</u>
Deferred tax liabilities							
Property, plant and equipment	(38)	–	–	(38)	–	–	(38)

Deferred tax assets and liabilities of the Company (prior to offsetting of balances) are attributable to the following:

	31 Dec 2018 \$'000	Company 31 Dec 2017 \$'000	1 Jan 2017 \$'000
Deferred tax assets			
Provisions	19	19	19
Deferred tax liabilities			
Property, plant and equipment	(38)	(38)	(38)

NOTES TO THE FINANCIAL STATEMENTS

6 Deferred tax assets and liabilities (Continued)

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxation authority. The following amounts, determined after appropriate offsetting, are included in the statements of financial position as follows:

	Group			Company		
	31 Dec 2018 \$'000	31 Dec 2017 \$'000	1 Jan 2017 \$'000	31 Dec 2018 \$'000	31 Dec 2017 \$'000	1 Jan 2017 \$'000
Deferred tax assets	814	539	578	–	–	–
Deferred tax liabilities	(38)	(38)	(38)	(19)	(19)	(19)

Deferred tax assets have been recognised in respect of provisions to the extent that these balances will reverse in the foreseeable future and to the extent that their realisation through future taxable profits is probable.

7 Inventories

	Group		
	31 Dec 2018 \$'000	31 Dec 2017 \$'000	1 Jan 2017 \$'000
Raw materials	1,280	1,915	1,803
Work-in-progress	7,077	6,899	6,077
Finished goods	13,443	14,425	16,842
Goods-in-transit	781	270	384
	<u>22,581</u>	<u>23,509</u>	<u>25,106</u>

In 2018, the amount of inventories recognised in cost of sales was \$43,275,000 (2017: \$34,395,000).

Work-in-progress consists primarily raw material and overhead costs. Direct labour costs are insignificant.

The Group recognises allowance on obsolete inventories when inventory items are identified as obsolete. Obsolescence is based on the physical and functional condition of inventory items and is established when these inventory items are no longer marketable. Obsolete inventory items when identified are written off to profit or loss. In addition to an allowance for specifically identified obsolete inventory, allowances are also estimated based on the age of the inventory items. The Group believes such estimates represent a fair charge of the level of inventory obsolescence in a given year.

Finished goods are stated after deducting an allowance for slow-moving inventories of \$19,667,000 (2017: \$20,262,000).

NOTES TO THE FINANCIAL STATEMENTS

8 Trade and other receivables

	Group			Company		
	31 Dec 2018 \$'000	31 Dec 2017 \$'000	1 Jan 2017 \$'000	31 Dec 2018 \$'000	31 Dec 2017 \$'000	1 Jan 2017 \$'000
Trade receivables due from:						
- third parties	18,366	14,986	27,130	108	668	9,676
- subsidiaries	–	–	–	10,609	14,924	12,538
	<u>18,366</u>	<u>14,986</u>	<u>27,130</u>	<u>10,717</u>	<u>15,592</u>	<u>22,214</u>
Less: allowance for impairment losses						
- third parties	(1,677)	(217)	(2,001)	(113)	(113)	(929)
- subsidiaries	–	–	–	(7,106)	(6,623)	(6,623)
	<u>(1,677)</u>	<u>(217)</u>	<u>(2,001)</u>	<u>(7,219)</u>	<u>(6,736)</u>	<u>(7,552)</u>
Net trade receivables	<u>16,689</u>	<u>14,769</u>	<u>25,129</u>	<u>3,498</u>	<u>8,856</u>	<u>14,662</u>
Non-trade receivables due from subsidiaries	–	–	–	48,545	41,181	45,185
Less: allowance for impairment losses	–	–	–	(48,391)	(41,181)	(2,185)
Net non-trade receivables	<u>–</u>	<u>–</u>	<u>–</u>	<u>154</u>	<u>–</u>	<u>43,000</u>
Loans to investees:						
- interest-bearing	–	26,886	26,886	–	26,886	26,886
- interest-free	–	4,385	4,385	–	1,072	1,072
	<u>–</u>	<u>31,271</u>	<u>31,271</u>	<u>–</u>	<u>27,958</u>	<u>27,958</u>
Less: allowance for impairment losses	–	(31,271)	(31,271)	–	(27,958)	(27,958)
Net loans to investees	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Advances to suppliers	964	589	56	–	–	–
Deposits	768	198	102	83	9	10
Tax recoverable	26	46	103	–	–	–
Sundry receivables	156	113	164	–	44	92
	<u>18,603</u>	<u>15,715</u>	<u>25,554</u>	<u>3,735</u>	<u>8,909</u>	<u>57,764</u>
Prepayments	525	282	1,098	78	107	154
	<u>19,128</u>	<u>15,997</u>	<u>26,652</u>	<u>3,813</u>	<u>9,016</u>	<u>57,918</u>

Non-trade receivables due from subsidiaries are unsecured, interest-free and repayable on demand.

The Group does not require collateral in respect of trade receivables. The Group does not have trade receivables for which no loss allowance is recognised because of collateral.

Impairment losses on financial assets recognised in profit or loss were as follows:

	Group	
	2018 \$'000	2017 \$'000
Impairment loss on trade receivables	437	–
	<u>437</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

8 Trade and other receivables (Continued)

The exposure to credit risk for trade receivables at the reporting date (by geographical distribution) was as follows:

	Group			Company		
	31 Dec 2018 \$'000	31 Dec 2017 \$'000	1 Jan 2017 \$'000	31 Dec 2018 \$'000	31 Dec 2017 \$'000	1 Jan 2017 \$'000
Singapore	385	190	672	334	1,957	3,912
Middle East	4,965	4,540	8,087	–	–	–
Australia	2,031	2,616	2,180	–	–	64
Other ASEAN countries	1,478	1,921	5,773	(17)	897	1,708
Other Asian countries	5,340	778	4,735	3,153	5,476	5,923
Others	2,490	4,724	3,682	28	526	3,055
	16,689	14,769	25,129	3,498	8,856	14,662

A summary of the Group and Company's exposures to credit risk for trade receivables is as follows:

	31 Dec 2018		Group	31 Dec 2017	1 Jan 2017
	Not credit- impaired \$'000	Credit- impaired \$'000	Gross carrying amount \$'000	\$'000	\$'000
<i>Receivables measured at lifetime ECL</i>					
Trade receivables	18,366	–	18,366	14,986	27,130
Total gross carrying amount	18,366	–	18,366	14,986	27,130
Allowance for impairment losses on trade receivables	(1,677)	–	(1,677)	(217)	(2,001)
Total	16,689	–	16,689	14,769	25,129

	31 Dec 2018		Company	31 Dec 2017	1 Jan 2017
	Non-credit- impaired \$'000	Credit- impaired \$'000	Gross carrying amount \$'000	\$'000	\$'000
<i>Receivables measured at lifetime ECL</i>					
Trade and other receivables	4,709	6,008	10,717	15,592	22,214
Total gross carrying amount	4,709	6,008	10,717	15,592	22,214
Allowance for impairment losses on trade receivables	(1,213)	(6,006)	(7,219)	(6,736)	(7,552)
Total	3,496	2	3,498	8,856	14,662

NOTES TO THE FINANCIAL STATEMENTS

8 Trade and other receivables (Continued)

Comparative information under FRS 39

An analysis of the credit quality of trade and other receivables (excluding loans to investees) that were neither past due nor impaired and the ageing of trade and other receivables (excluding loans to investees) that were past due but not impaired is as follows:

	Gross	Impairment	Gross	Impairment
	2017	2017	1 Jan	1 Jan
	\$'000	\$'000	2017	2017
			\$'000	\$'000
Group				
Not past due	7,355	–	8,238	–
Past due 0 - 30 days	2,775	–	3,912	–
Past due 31 - 120 days	2,987	–	5,319	–
Past due more than 120 days	2,815	(217)	10,086	(2,001)
	<u>15,932</u>	<u>(217)</u>	<u>27,555</u>	<u>(2,001)</u>
Company				
Not past due	56,159	(47,804)	57,816	(8,809)
Past due 0 - 30 days	–	–	115	–
Past due 31 - 120 days	–	–	1,476	–
Past due more than 120 days	667	(113)	8,094	(928)
	<u>56,826</u>	<u>(47,917)</u>	<u>67,501</u>	<u>(9,737)</u>

The Group's and the Company's impaired trade receivables at 31 December 2017 had a gross carrying amount of \$217,000 and \$47,917,000 respectively (1 January 2017: \$2,001,000 and \$9,737,000 respectively). The impairment losses of the Group and the Company as at 31 December 2017 were related to several customers that had indicated that they were not expecting to be able to pay their outstanding balances, mainly due to economic circumstances.

Movements in allowance for impairment losses in respect of trade and other receivables

The movement in the allowance for impairment in respect of trade and non-trade receivables (excluding loans to investees) during the year was as follows:

	Group	Company
	2017	2017
	\$'000	\$'000
At 1 January 2017 per FRS 39	2,001	9,737
Impairment loss recognised	–	38,996
Utilisation	(1,758)	(816)
Translation differences on consolidation	(26)	–
At 31 December 2017 per FRS 39	<u>217</u>	<u>47,917</u>

NOTES TO THE FINANCIAL STATEMENTS

8 Trade and other receivables (Continued)

Movements in allowance for impairment losses in respect of trade and other receivables (Continued)

	Group Lifetime ECL \$'000	Company Lifetime ECL \$'000
At 1 January 2018 per FRS 39	217	47,917
Adjustment on initial application of SFRS(I) 9	1,027	1,100
At 1 January 2018 per SFRS(I) 9	1,244	49,017
Impairment loss recognised	437	6,593
Translation differences	(4)	–
At 31 December 2018 per SFRS(I) 9	<u>1,677</u>	<u>55,610</u>

The movement in allowance for impairment losses in respect of loans receivables during the year were as follow:

	Group 2017 \$'000	Company 2017 \$'000
At 1 January 2017 and 31 December 2018 per FRS39	<u>31,271</u>	<u>27,958</u>
	Group Lifetime ECL \$'000	Company Lifetime ECL \$'000
At 1 January 2018 per FRS39	31,271	27,958
Adjustment on initial application of SFRS(I)9	–	–
At 1 January 2018 per SFRS(I)9	31,271	27,958
Utilisation	(31,201)	(27,888)
Allowance for impairment losses written back	(70)	(70)
At 31 December 2018	<u>–</u>	<u>–</u>

Management estimated the impairment loss allowance on specific receivables based on the aging of the loans and receivables, credit-worthiness of customers or counter-parties, future collectability of loans and receivables and historical write-off experience of loans and receivables. If the financial condition of the customers or counter-parties were to deteriorate, actual write-offs could be higher than estimated.

Expected credit loss assessment

The Group uses an allowance matrix to measure the ECLs of trade receivables from customers, which comprise a large number of small balances. The allowance matrix is based on actual credit loss experience over the past three years. The ECL computed is derived from historical data which management is of the view that the historical conditions are representative of the conditions prevailing at the reporting date, taking into consideration of the GDP growth of the construction industry in Singapore.

NOTES TO THE FINANCIAL STATEMENTS

8 Trade and other receivables (Continued)

Expected credit loss assessment (Continued)

The following table provides information about the exposure to credit risk and ECLs for trade receivables for individual customers as at 31 December 2018:

	Weighted average loss rate	Gross carrying amount \$'000	Allowance for impairment losses \$'000	Credit impaired
Group				
Not past due	3.6%	9,382	334	No
Past due 0 – 30 days	8.5%	3,426	292	No
Past due 31 – 60 days	11.2%	1,485	167	No
Past due 61 – 90 days	11.8%	1,004	118	No
Past due more than 90 days	25.0%	3,069	766	No
		<u>18,366</u>	<u>1,677</u>	
Company				
Not past due		33	–	No
Past due 0 – 30 days		–	–	No
Past due 31 – 120 days		–	–	No
Past due more than 120 days	67.6%	10,684	7,219	No
		<u>10,717</u>	<u>7,219</u>	

Loss rates are based on actual credit loss experience over the past four years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Scalar factors are based on actual and forecast gross domestic product and are as follows: 0.70 for Singapore, 1.53 for Malaysia and 1.08 for Australia.

A summary of the Group and Company's exposures to credit risk for loans to investees is as follows:

	31 Dec 2018	31 Dec 2017 \$'000	1 Jan 2017 \$'000
Group			
<i>Receivables measured at lifetime ECL</i>			
Loans to investees	–	31,271	31,271
Loss allowance	–	(31,271)	(31,271)
Total	<u>–</u>	<u>–</u>	<u>–</u>
Company			
<i>Receivables measured at lifetime ECL</i>			
Loans to investees	–	27,958	27,958
Loss allowance	–	(27,958)	(27,958)
Total	<u>–</u>	<u>–</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

8 Trade and other receivables (Continued)

At 31 December 2017, the allowance for impairment losses of the Group of \$27,838,000 was related to the loan to an investee that was in liquidation since 2017.

9 Cash and cash equivalents

	Group			Company		
	31 Dec 2018 \$'000	31 Dec 2017 \$'000	1 Jan 2017 \$'000	31 Dec 2018 \$'000	31 Dec 2017 \$'000	1 Jan 2017 \$'000
Cash and cash equivalents in the statements of financial position	3,264	2,478	3,287	41	114	757
Bank overdrafts used for cash management purposes (note 13)	–	(751)	(949)			
Cash and cash equivalents in the statement of cash flows	3,264	1,727	2,338			

Cash at banks of approximately \$865,000 (31 Dec 2017: \$1,025,000; 1 Jan 2017: \$1,260,000) are held in countries with foreign exchange controls.

Impairment on cash and cash equivalents has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The Group uses a similar approach for assessment of ECLs for cash and cash equivalents to those used for debt investments. The amount of the allowance on cash and cash equivalents is negligible.

10 Share capital

	Group and Company			
	2018 No. of shares (‘000)	2018 \$'000	2017 No. of shares (‘000)	2017 \$'000
Issued and fully paid ordinary shares, with no par value				
At 1 January	622,791	69,490	622,791	69,490
Issue of ordinary shares	4,996,752	44,971	–	–
At 31 December	5,619,543	114,461	622,791	69,490

The holders of ordinary shares (excluding treasury shares) are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. All shares (excluding treasury shares) rank equally with regard to the Company's residual assets.

NOTES TO THE FINANCIAL STATEMENTS

10 Share capital (Continued)

On 8 May 2018, the Company has allotted and issued 4,996,751,855 shares at an issue price of S\$0.0115 per share to Scheme Creditors (financial institutions and the immediate holding company) under the Scheme of Arrangement. The share capital of the Group and Company was increased by \$44,970,766, determined based on the fair value of the Company's shares issued on 8 May 2018 at S\$0.009 per share. The shares were issued pari passu with the existing shares and are, inter alia, entitled to receive dividends as declared from time to time, and to vote at general meetings of the Company. All shares rank equally with regards to the Company's residual assets.

As a result of the Scheme of Arrangement, an aggregate amount of \$57,462,646 of loans and borrowings, non-trade payables due to immediate holding company and accrued interest on these balances were converted to equity. Refer to Note 13 to the financial statements for disclosures relating to the Scheme of Arrangement.

Capital management

The Board's policy is to maintain an adequate capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital, which the Group defines as profit for the year divided by total shareholders' equity. The Board also monitors the level of dividends to ordinary shareholders. The Group funds its operations and growth through a mix of equity and debts. This includes the maintenance of adequate lines of credit and assessing the need to raise additional equity, when required.

There were no changes in the Group's approach to capital management during the year.

Certain of the Group's banking facilities are subject to the fulfilment of covenants relating to certain balance sheet ratios and minimum level of net worth.

11 Currency translation reserve

The currency translation reserve of the Group comprises foreign currency differences arising from the translation of the financial statements of foreign operations whose functional currency is in a foreign currency, as well as from the translation of receivables denominated in foreign currencies, which form part of the Company's net investment in the foreign operations.

12 Share-based compensation reserve

This relates to the fair value of the share options and awards granted under the Company's Share Option Scheme 2009 ("ESOS 2009") and Performance Share Plan 2009 ("PSP 2009"), which were approved and adopted by its shareholders at an extraordinary general meeting held on 27 April 2009.

There were no options granted or exercised during the financial year. Outstanding options at the end of the financial year under the ESOS 2009, on the unissued ordinary shares of the Company, are as follows:

NOTES TO THE FINANCIAL STATEMENTS

12 Share-based compensation reserve (Continued)

Date of grant of options	Exercise price per share \$	Options outstanding at		Options outstanding at 31 December 2018	Number of option holders at 31 December 2018	Exercise period
		1 January 2018	Options cancelled			
13 April 2010	0.34*	170,000	(170,000)	-	-	13 April 2012 to 12 April 2020
27 April 2010	0.39	300,000	(300,000)	-	-	27 April 2011 to 26 April 2020
27 April 2010	0.31*	130,000	(130,000)	-	-	27 April 2012 to 26 April 2020
5 May 2011	0.23*	50,000	(50,000)	-	-	5 May 2013 to 4 May 2021
31 May 2012	0.15*	231,000	(231,000)	-	-	31 May 2014 to 30 May 2022
		<u>881,000</u>	<u>(881,000)</u>	-	-	

* These options were granted to the employees of the Group at a 20% discount to the average closing market price of the Company's shares for the last five trading days immediately preceding the date of grant.

Terms and conditions of the ESOS 2009

The terms and conditions relating to the grants under the ESOS 2009 are given below:

Grant date/ Personnel entitled	Exercise price	No of options			Vesting conditions	Contractual life of options
		31 Dec 2018 ('000)	31 Dec 2017 ('000)	1 Jan 2017 ('000)		
Options granted to employees on 13 April 2010	0.34	-	170	250	50% of the options will vest after two years from the grant date and the remaining 50% of the options will vest after three years from the grant date.	10 years from the grant date
Options granted to executive directors on 27 April 2010	0.39	-	300	300	50% of the options will vest after one year from the grant date and the remaining 50% of the options will vest after two years from the grant date.	10 years from the grant date
Options granted to employees who are associates of the controlling shareholders of the Company on 27 April 2010	0.39	-	-	50	50% of the options will vest after one year from the grant date and the remaining 50% of the options will vest after two years from the grant date.	10 years from the grant date
Options granted to employees who are associates of the controlling shareholders of the Company on:					50% of the options will vest after two years from the grant date and the remaining 50% of the options will vest after three years from the grant date.	10 years from the grant date
- 27 April 2010	0.31	-	130	130		
- 5 May 2011	0.23	-	50	50		
- 31 May 2012	0.15	-	231	231		
Total number of options		<u>-</u>	<u>881</u>	<u>1,011</u>		

NOTES TO THE FINANCIAL STATEMENTS

12 Share-based compensation reserve (Continued)

Disclosures of the ESOS 2009

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2018 \$	Number of options 2018 (‘000)	Weighted average exercise price 2017 \$	Number of options 2017 (‘000)
Outstanding at 1 January and 31 December	-	-	0.30	881

There had been no options outstanding at 31 December 2018 as they were cancelled during the year. The exercise prices for options outstanding at 31 December 2017 ranged from \$0.15 to \$0.39 (1 Jan 2017: \$0.15 to \$0.39) and had a weighted average contractual life of 3 years (1 Jan 2017: 4 years).

Inputs for measurement for fair values at grant date

The fair value at grant date of the share options granted was measured based on the Black-Scholes formula. The expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair value at grant date of the share options are as follows:

Fair value of share options and assumptions	< ----- ESOS 2009 ----- >				
	Employees who are associates of the controlling shareholders of the Company			Executive directors who are controlling of the Company	Employees
	2012	2011	2010	2010	2010
Number of share options granted	231,000	50,000	130,000	300,000	170,000
Fair value at grant date	\$0.11	\$0.20	\$0.19	\$0.17	\$0.19
Share price at grant date	\$0.18	\$0.28	\$0.39	\$0.39	\$0.42
Exercise price	\$0.15	\$0.23	\$0.31	\$0.39	\$0.34
Expected volatility (weighted average)	87.35%	101.1%	42.07%	42.07%	42.07%
Option life (expected weighted average)	10 years	10 years	10 years	10 years	10 years
Expected dividends	2.86%	1.89%	1.34%	1.34%	1.34%
Risk-free interest rate	0.23%	0.47%	1.19%	1.19%	1.19%

Share awards

There were no outstanding share awards as at 1 January 2018 and 31 December 2018, and no share awards granted, vested or cancelled during the financial year under the PSP 2009.

NOTES TO THE FINANCIAL STATEMENTS

12 Share-based compensation reserve (Continued)

Employee expenses

No expense was recognised in 2018 (2017: \$Nil) as employee costs for the share options granted.

13 Loans and borrowings

	Group			Company		
	2018 \$'000	2017 \$'000	1 Jan 2017 \$'000	2018 \$'000	2017 \$'000	1 Jan 2017 \$'000
Non-current liabilities						
Secured bank loan A	1,171	–	–	–	–	–
Secured bank loan B	4,990	–	–	–	–	–
Secured bank loan C	404	747	1,404	–	–	–
Secured bank loan D	2,344	–	–	–	–	–
Secured bank loan E	2,344	–	–	–	–	–
Secured bank loan H	2,176	–	–	–	–	–
Unsecured bank loans	5,570	–	–	–	–	–
Finance lease liabilities	352	47	84	184	–	22
	<u>19,351</u>	<u>794</u>	<u>1,488</u>	<u>184</u>	<u>–</u>	<u>22</u>
Current liabilities						
Bank overdrafts	–	751	949	–	232	453
Secured bank loan A	480	10,255	11,187	–	6,221	6,486
Secured bank loan B	960	18,701	21,825	–	–	–
Secured bank loan C	3,334	999	272	–	–	–
Secured bank loan D	360	4,300	3,895	–	–	–
Secured bank loan E	360	5,740	5,902	–	–	–
Secured bank loan F	1,066	1,302	1,451	–	–	–
Secured bank loan G	–	–	4,998	–	–	4,998
Secured bank loan H	137	2,438	2,516	–	–	–
Finance lease liabilities	116	65	98	43	22	44
Secured invoice financing	3,741	2,317	3,009	–	–	–
Secured trust receipts	–	1,712	2,788	–	1,712	2,788
Unsecured bank loans	620	14,099	12,620	–	6,525	7,425
Unsecured trust receipts	–	5,087	7,677	–	1,913	1,941
	<u>11,174</u>	<u>67,766</u>	<u>79,187</u>	<u>43</u>	<u>16,625</u>	<u>24,135</u>
	<u>30,525</u>	<u>68,560</u>	<u>80,675</u>	<u>227</u>	<u>16,625</u>	<u>24,157</u>

- (i) The secured bank loans A, B, D and E are granted to the subsidiaries and are secured by legal mortgages over the barge and vessels of the subsidiaries and corporate guarantees provided by the Company.
- (ii) The secured bank loans C, F and H are granted to the Company and subsidiaries and are secured by legal mortgages over the freehold land and building, certain plant and equipment of the subsidiaries.
- (iii) Corporate guarantees provided by the Company for bank loans F and H.
- (iv) Personal guarantees are provided by executive directors for bank loans G and H.

NOTES TO THE FINANCIAL STATEMENTS

13

Loans and borrowings (Continued)

Finance lease liabilities

At 31 December 2018, the Group and the Company had obligations under finance leases that are repayable as follows:

	31 Dec 2018		31 Dec 2017		1 Jan 2017	
	Payments \$'000	Interest \$'000	Principal Payments \$'000	Interest \$'000	Principal Payments \$'000	Interest \$'000
Group						
Payable:						
Within 1 year	133	17	116	74	65	13
After 1 year but within 5 years	392	40	352	48	47	8
	525	57	468	122	112	21
Company						
Payable:						
Within 1 year	50	7	43	26	22	8
After 1 year but within 5 years	211	27	184	—	—	4
	261	34	227	26	22	12
				78	78	66

NOTES TO THE FINANCIAL STATEMENTS

13 Loans and borrowings (Continued)

Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings are as follows:

Group	Year of maturity	31 Dec 2018		31 Dec 2017		1 Jan 2017	
		Face value \$'000	Carrying amount \$'000	Face value \$'000	Carrying amount \$'000	Face value \$'000	Carrying amount \$'000
Bank overdraft#	2018	—	—	751	751	949	949
S\$ floating rate loans:							
- secured loans A, B, D, E	2018 – 2025	13,009	13,009	—	—	—	—
- secured loans A, E, G#	2018 – 2027	—	—	9,188	9,188	14,367	14,367
- unsecured loans#	2018 – 2024	6,190	6,190	11,454	11,454	10,734	10,734
S\$ fixed rate loans:							
- secured loans D#	2018 – 2020	—	—	4,300	4,300	3,895	3,895
US\$ floating rate loans:							
- secured loan A, B#	2018 – 2027	—	—	25,508	25,508	29,545	29,545
- unsecured loan#	2018 – 2019	—	—	2,645	2,645	1,886	1,886
KRW floating rate loan:							
- secured loan C	2018 – 2020	3,738	3,738	1,746	1,746	1,676	1,676
AUD floating rate loan:							
- secured loan F	2018 – 2019	1,066	1,066	1,302	1,302	1,451	1,451
RM floating rate loan:							
- secured loan H	2018 – 2031	2,313	2,313	2,438	2,438	2,516	2,516
Finance lease liabilities	2018 – 2023	468	468	112	112	182	182
Secured invoice financing	2018 – 2019	3,741	3,741	2,317	2,317	3,009	3,009
Secured trust receipts#	2018	—	—	1,712	1,712	2,788	2,788
Unsecured trust receipts#	2018	—	—	5,087	5,087	7,677	7,677
		30,525	30,525	68,560	68,560	80,675	80,675

NOTES TO THE FINANCIAL STATEMENTS

13 Loans and borrowings (Continued)

Year of maturity	31 Dec 2018		31 Dec 2017		1 Jan 2017	
	Face value \$'000	Carrying amount \$'000	Face value \$'000	Carrying amount \$'000	Face value \$'000	Carrying amount \$'000
Company						
Bank overdraft#	-	-	232	232	453	453
S\$ floating rate loans:						
- secured loans A, G#	-	-	3,448	3,448	8,466	8,466
- unsecured loans#	-	-	6,525	6,525	7,425	7,425
US\$ floating rate loans:						
- secured loan A#	-	-	2,773	2,773	3,018	3,018
Finance lease liabilities	227	227	22	22	66	66
Secured trust receipts#	-	-	1,712	1,712	2,788	2,788
Unsecured trust receipts#	-	-	1,913	1,913	1,941	1,941
	227	227	16,625	16,625	24,157	24,157

Loans were restructured under the Scheme of arrangement

NOTES TO THE FINANCIAL STATEMENTS

13 Loans and borrowings (Continued)

The restructured S\$ floating rate loans bear interest of 3% per annum. From January to April 2018, the S\$ floating rate loans bore interest ranging from 2.5% to 10.7% (2017:2.5% to 10.7%; 1 Jan 2017: 1.93% to 4.84%) per annum, repriced on a monthly basis.

The US\$ floating rate loans were restructured to S\$ floating rate loans after the Scheme. From January to April 2018, the US\$ floating rate loans bore interest ranging from 2.88% to 7.73% (2017:2.88 % to 7.73% ;1 Jan 2017: 2.17% to 4.15%) per annum, repriced on a monthly basis.

The KRW floating rate loan bears interest ranging from 2.97% to 4.68% (2017: 1.64 % to 3.87%; 1 Jan 2017: 1.64% to 2.57%) per annum and is repriced on a quarterly basis.

The AUD floating rate loans bear interest ranging from 5.52 % to 5.86% (2017: 5.35% to 5.52%; 1 Jan 2017: 5.25% to 5.69%) per annum and are repriced on a monthly basis.

The RM floating rate loans bear interest ranging from 4.75% to 5.1% (2017: 4.45% to 4.71%; 1 Jan 2017: 4.45% to 4.71%) per annum and are repriced on a monthly basis.

The unsecured loans and trust receipts were restructured as part of the Scheme. The weighted average effective interest rate of unsecured loans and trust receipts for 2017 was 2.64% (1 Jan 2017:2.85%) and 7.43% (1 Jan 2017: 2.79%) per annum respectively.

Upon implementation of the Scheme in May 2018, an aggregate amount of \$57,462,466 of loans and borrowings, non-trade payables to immediate holding company and accrued interest on these balances were converted from debt to equity by issuance of new ordinary shares to the Scheme Creditors and an aggregate carrying amount of \$20,678,432 of secured bank loans as at May 2018 was restructured and are repayable over revised repayment periods.

Details as follows:

	Debts converted to shares	Restructured Debts	Total
Loans and borrowings	40,887,003	20,678,432	61,565,435
Accrued interest on loans and borrowings	2,331,681	–	2,331,681
Non-trade payables due to immediate holding company (IHC)	13,374,146	–	13,374,146
Accrued interest on non- trade payables to IHC	869,816	–	869,816
	<u>57,462,646</u>	<u>20,678,432</u>	<u>78,141,078</u>

The excess of the debts converted of \$57,462,646 over the share capital consideration of \$44,970,766, amounting to \$12,491,880 (Note 18), was recognised in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

13 Loans and borrowings (Continued)

Contractual cash flows

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

Group	Carrying amount \$'000	Cash flows		
		Contractual cash flows \$'000	Within 1 year \$'000	Within 1 to 5 years \$'000
31 December 2018				
Non-derivative financial liabilities				
Variable interest rate loans	26,316	(29,134)	(8,107)	(21,027)
Finance lease liabilities	468	(525)	(133)	(392)
Invoice financing	3,741	(3,741)	(3,741)	–
Trade and other payables	15,553	(15,553)	(15,553)	–
	<u>46,078</u>	<u>(48,953)</u>	<u>(27,534)</u>	<u>(21,419)</u>
31 December 2017				
Non-derivative financial liabilities				
Bank overdraft	751	(751)	(751)	–
Variable interest rate loans	54,281	(57,501)	(56,093)	(1,408)
Fixed interest rate loans	4,300	(4,719)	(4,719)	–
Finance lease liabilities	112	(122)	(74)	(48)
Invoice financing	2,317	(2,317)	(2,317)	–
Trust receipts	6,799	(6,799)	(6,799)	–
Trade and other payables	28,548	(28,548)	(28,548)	–
	<u>97,108</u>	<u>(100,757)</u>	<u>(99,301)</u>	<u>(1,456)</u>
1 January 2017				
Non-derivative financial liabilities				
Bank overdraft	949	(949)	(949)	–
Variable interest rate loans	62,175	(64,304)	(62,895)	(1,409)
Fixed interest rate loans	3,895	(4,600)	(4,600)	–
Finance lease liabilities	182	(203)	(111)	(92)
Invoice financing	3,009	(3,009)	(3,009)	–
Trust receipts	10,465	(10,465)	(10,465)	–
Trade and other payables	20,104	(20,104)	(20,104)	–
	<u>100,779</u>	<u>(103,634)</u>	<u>(102,133)</u>	<u>(1,501)</u>
Company				
31 December 2018				
Non-derivative financial liabilities				
Finance lease liabilities	227	(261)	(50)	(211)
Trade and other payables	4,031	(4,031)	(4,031)	–
	<u>4,258</u>	<u>(4,292)</u>	<u>(4,081)</u>	<u>(211)</u>

NOTES TO THE FINANCIAL STATEMENTS

13 Loans and borrowings (Continued)

	Carrying amount \$'000	Contractual cash flows \$'000	Cash flows Within 1 year \$'000	Within 1 to 5 years \$'000
Company				
31 December 2017				
Non-derivative financial liabilities				
Bank overdraft	232	(232)	(232)	–
Variable interest rate loans	12,746	(13,379)	(13,379)	–
Finance lease liabilities	22	(26)	(26)	–
Trust receipts	3,625	(3,625)	(3,625)	–
Trade and other payables	35,065	(35,065)	(35,065)	–
	<u>51,690</u>	<u>(52,327)</u>	<u>(52,327)</u>	<u>–</u>
1 January 2017				
Non-derivative financial liabilities				
Bank overdraft	453	(453)	(453)	–
Variable interest rate loans	18,909	(19,420)	(19,420)	–
Finance lease liabilities	66	(78)	(52)	(26)
Trust receipts	4,729	(4,729)	(4,729)	–
Trade and other payables	31,683	(31,682)	(31,682)	–
	<u>55,840</u>	<u>(56,362)</u>	<u>(56,336)</u>	<u>(26)</u>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities			Total \$'000
	Bank overdrafts \$'000	Other loans and borrowings \$'000	Finance lease liabilities \$'000	
Balance at 1 January 2017	949	79,544	182	80,675
Changes from financing cash flows				
Proceeds from finance lease	–	–	32	32
Repayment of bills payables, trust receipts and interest-bearing borrowings	–	(15,911)	–	(15,911)
Proceeds from bills payables and trust receipts	–	6,352	–	6,352
Payment of finance lease liabilities	–	–	(102)	(102)
Finance costs paid	(51)	(1,662)	(14)	(1,727)
Total changes from financing cash flows	(51)	(11,221)	(84)	(11,356)
The effect of changes in foreign exchange rates	–	(2,288)	–	(2,288)
Other changes				
Liability-related				
Change in bank overdraft	(198)	–	–	(198)
Interest payable	–	(2,507)	–	(2,507)
Interest expense	51	4,169	14	4,234
Total liability-related other changes	(147)	1,662	14	1,529
Balance at 31 December 2017	751	67,697	112	68,560

NOTES TO THE FINANCIAL STATEMENTS

13 Loans and borrowings (Continued)

	Liabilities			Total \$'000
	Bank overdraft \$'000	Other loan: and borrowing: \$'000	Finance lease liabilities \$'000	
Balance at 1 January 2018	751	67,697	112	68,560
Changes from financing cash flows				
Proceeds from bills payables, trust receipts and interest-bearing borrowings	–	15,387	–	15,387
Repayment of bills payables, trust receipts and interest-bearing borrowings	–	(13,877)	–	(13,877)
Payment of finance lease liabilities	–	–	(140)	(140)
Finance costs paid	(14)	(1,001)	(19)	(1,034)
Total changes from financing cash flows	(14)	509	(159)	336
The effect of changes in foreign exchange rates				
		(66)	–	(66)
Other changes				
Liability-related				
New Finance lease	–	–	496	496
Debt to equity swap	(751)	(40,136)	–	(40,887)
Interest expense	14	2,053	19	2,086
Total liability-related other changes	(737)	(38,083)	515	(38,305)
Balance at 31 December 2018	–	30,057	468	30,525

14 Loan from non-controlling shareholder of a subsidiary

Loan from non-controlling shareholder of a subsidiary is unsecured, interest-free and repayable on demand.

15 Trade and other payables

	Group			Company		
	2018 \$'000	2017 \$'000	1 Jan 2017 \$'000	2018 \$'000	2017 \$'000	1 Jan 2017 \$'000
Trade payables due to:						
- third parties	7,235	6,036	4,554	–	–	428
- subsidiaries	–	–	–	1,763	3,138	3,886
Non-trade payables due to:						
- third parties	–	–	287	–	–	–
- immediate holding company	–	13,931	8,943	–	12,714	7,707
- subsidiaries	–	–	–	931	17,467	18,762
- related parties	807	529	235	–	–	–
- non-controlling shareholders of subsidiaries	–	–	6	–	–	–
Accrued expenses	7,487	5,718	6,000	1,337	978	851
Accrued interests	21	2,332	78	–	768	49
Deposits received	3	2	1	–	–	–
	15,553	28,548	20,104	4,031	35,065	31,683

NOTES TO THE FINANCIAL STATEMENTS

15 Trade and other payables(Continued)

Outstanding balances with related parties are unsecured and repayable on demand.

Following the implementation of the Scheme of Arrangement in 2018, accrued interest of \$869,816 and non-trade payables due to immediate holding Company of \$13,374,146 as at May 2018 were extinguished via equity swaps for shares of the Company (Note 13).

16 Revenue

Revenue represents sales of goods less discounts and returns, and income from chartering of vessels.

	Group	
	2018 \$'000	2017 \$'000
Sales of goods	60,592	51,698
Vessels chartering	11,794	10,849
	72,386	62,547

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

Sale of goods

Nature of goods or services	Sales and distribution of machinery parts
When revenue is recognised	For sales of machinery parts, revenue is recognised when the goods are received at the customers' warehouse or when goods are delivered onto the carrier at the port depending on the shipping terms.
Significant payment terms	Sales of machinery parts: varies between 30 to 90 days after invoice date
Obligations for returns and refunds, if any	Generally, customers do not have the right of return except for faulty parts.
Obligations for warranties	Faulty parts are exchanged one for one.

Vessel chartering

Nature of goods or services	Revenue from vessel chartering
When revenue is recognised	Revenue from vessel chartering under operating lease is recognised on a straight line basis over the term of the lease.
Significant payment terms	Varies from 30 to 45 days after invoice date

NOTES TO THE FINANCIAL STATEMENTS

16 Revenue (Continued)

Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market and major products/service lines.

Primary geographical markets	2018	2017	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	Machinery parts		Vessel chartering		Total	
Singapore	800	1,253	–	–	800	1,253
Australia	20,140	19,069	–	–	20,140	19,069
United States of America	10,677	5,175	–	–	10,677	5,175
Indonesia	7,234	6,920	–	–	7,234	6,920
Malaysia	4,042	4,004	–	–	4,042	4,004
Middle East	–	–	11,794	10,849	11,794	10,849
Other Northern America countries	2,326	2,360	–	–	2,326	2,360
Other ASEAN countries	1,731	1,651	–	–	1,731	1,651
Other Asian countries	4,855	3,903	–	–	4,855	3,903
Others	8,787	7,363	–	–	8,787	7,363
Total	60,592	51,698	11,794	10,849	72,386	62,547

17 Finance income and costs

	Group	
	2018 \$'000	2017 \$'000
Finance income:		
- bank deposits	1	2
	<u>1</u>	<u>2</u>
Finance costs:		
- interest-bearing borrowings	(2,380)	(4,220)
- finance lease liabilities	(19)	(14)
	<u>(2,399)</u>	<u>(4,234)</u>
Net finance costs recognised in profit or loss	<u>(2,398)</u>	<u>(4,232)</u>

NOTES TO THE FINANCIAL STATEMENTS

18 Profit/(loss) before income tax

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

	Note	Group 2018 \$'000	2017 \$'000
Audit fees paid and payable to:			
- auditors of the Company		246	216
- other auditors		52	36
(Allowance written back)/allowance for slow-moving inventories, included in other expenses		(538)	375
Impairment loss on trade receivables, included in other expenses		437	–
Bad debts (written back)/written off		(107)	5,371
Gain on disposal of property, plant and equipment, net		(102)	(10)
Foreign exchange (gain)/loss, included in other expenses		(780)	524
Impairment loss on property, plant and equipment, included in other expenses	4	1,235	32,098
Operating lease expenses, included in other expenses		1,630	1,371
Staff costs		6,622	6,507
Contributions to defined contribution plans, included in staff costs		522	496
Rental income		(64)	(63)
Gain on debt-to-equity swap	13	(12,492)	–

19 Income tax expense

	2018 \$'000	Group 2017 \$'000
Current tax expense		
Current year	219	327
Changes in estimates related to prior years	–	511
	<u>219</u>	<u>838</u>
Deferred tax expense		
Origination and reversal of temporary differences	(329)	34
Total income tax expense	<u>(110)</u>	<u>872</u>

Reconciliation of effective tax rate

Profit/(loss) before income tax	<u>8,883</u>	<u>(46,997)</u>
Tax using the Singapore tax rate of 17% (2017: 17%)	1,510	(7,990)
Effect of tax rates in foreign jurisdictions	(32)	10
Non-deductible expenses	493	8,147
Tax exempt income	(2,138)	(77)
Tax incentives	(2)	(1)
Benefits of deferred tax assets not recognised	154	250
(Over)/Under provided in prior years	(17)	511
Others	(78)	22
	<u>(110)</u>	<u>872</u>

NOTES TO THE FINANCIAL STATEMENTS

19 Income tax expense (Continued)

Deferred tax assets have not been recognised in respect of the following items:

	31 Dec 2018 \$'000	Group 31 Dec 2017 \$'000	1 Jan 2017 \$'000
Deductible temporary differences	(18)	1,217	1,723
Capital allowances	42	66	49
Tax losses	22,033	19,865	17,906
	<u>22,057</u>	<u>21,148</u>	<u>19,678</u>

The tax losses are subject to agreement by the tax authorities and compliance with tax regulations in the respective countries in which certain subsidiaries operate. The tax losses, capital allowances and deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is uncertain as to whether that future taxable profit will be available against which the Group can utilise the benefits.

20 Earnings/(loss) per share

	2018	Group 2017
Basic earnings/(loss) per share (cents)	0.23	(7.69)
Diluted earnings/(loss) per share (cents)	0.23	(7.69)

The basic earnings/(loss) per share is calculated based on:

	2018 \$'000	Group 2017 \$'000
Profit/(loss) attributable to owners of the Company	8,993	(47,869)
	No. of Shares ('000)	No. of shares ('000)
Issued ordinary shares at 1 January	623,151	623,151
Effect of ordinary shares issued in May 2018	3,244,466	-
Effect of own shares held	(470)	(470)
Weighted average number of ordinary shares used in the calculation of basic earnings per share for the financial year	<u>3,867,147</u>	<u>622,681</u>

NOTES TO THE FINANCIAL STATEMENTS

20 Earnings/(loss) per share (Continued)

The diluted earnings per share is calculated based on:

	Group	
	2018 \$'000	2017 \$'000
Profit/(loss) attributable to owners of the Company	8,993	(47,869)
	No. of Shares ('000)	No. of shares ('000)
Weighted average number of ordinary shares used in the calculation of diluted earnings per share for the financial year	3,867,147	622,681

The share options outstanding as at 31 December 2017 were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive, i.e. decreasing the loss per share. There are no outstanding share options as at 31 December 2018.

21 Operating segments

The Group has three operating and reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different marketing strategies. For each of the strategic business units, the Group's CEO reviews internal management reports at least on a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

Design and manufacture

Design, manufacture and sale of equipment parts for both heavy equipment and industrial machinery under in-house brand names, "KBJ", "OEM", "ROSSI" and "TMI".

Trading and distribution

Trading and distribution of an extensive range of equipment parts for both heavy equipment and industrial machinery sourced from third parties.

Vessel chartering

Chartering of vessels to oil and gas industry.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's CEO.

NOTES TO THE FINANCIAL STATEMENTS

Business segments

Information about reportable segments

	Design and manufacture Trading and distribution				Vessel chartering		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
External revenue	43,527	36,878	17,065	14,820	11,794	10,849	72,386	62,547
Finance income	1	1	-	2	-	-	1	2
Finance costs	(1,220)	(1,477)	(290)	(405)	(889)	(2,352)	(2,399)	(4,234)
Depreciation	(1,141)	(1,125)	(272)	(244)	(1,691)	(3,717)	(3,104)	(5,086)
Reportable segment loss before income tax	(2,390)	(3,000)	109	(6,578)	(1)	(36,342)	(2,282)	(45,920)
Unallocated income							12,492	-
Unallocated expenses							(1,327)	(1,077)
Profit/(loss) before income tax							8,883	(46,997)
Other material non-cash items:								
Allowance written back/(allowance) for slow-moving inventories	449	(192)	89	(183)	-	-	538	(375)
Impairment loss on trade receivables	(340)	-	(97)	-	-	-	(437)	-
Bad debts written (back)/written off	90	-	17	(5,276)	-	(95)	107	(5,371)
Impairment on property, plant and equipment	-	-	-	-	(1,235)	(32,098)	(1,235)	(32,098)
Capital expenditure:								
Purchase of property, plant and equipment	(1,217)	(442)	(351)	(243)	-	(832)	(1,568)	(1,517)

NOTES TO THE FINANCIAL STATEMENTS

	Design and manufacture		Trading and distribution		Vessel chartering		Total	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Reportable segment assets	33,822	33,288	9,417	12,110	22,796	23,532	66,035	68,930
Unallocated assets							6,744	3,332
Total assets							72,779	72,262
Reportable segment liabilities	19,866	21,544	3,685	4,679	19,626	44,091	43,177	70,314
Unallocated liabilities								
- interest-bearing borrowings							90	10,525
- others							6,632	20,310
Total liabilities							49,899	101,149
								118,520
								4,666
								123,186
								73,381
								16,922
								14,175
								104,478

NOTES TO THE FINANCIAL STATEMENTS

Geographical segments

The design and manufacture, trading and distribution, and vessel chartering segments are presented below in the major regions as stated below.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	Revenue		Non-current assets (excluding deferred tax assets)		
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	1 Jan 2017 \$'000
Singapore	800	1,253	12,756	14,177	42,404
Australia	20,140	19,069	2,797	2,736	2,752
United States of America	10,677	5,175	–	–	–
Indonesia	7,234	6,920	–	–	–
Malaysia	4,042	4,004	3,643	4,668	13,967
Middle East	11,794	10,849	–	–	–
Other Northern America countries	2,326	2,360	–	–	–
Other ASEAN countries	1,731	1,651	–	–	–
Other Asian countries	4,855	3,903	7,796	8,158	8,440
Others	8,787	7,363	–	–	–
	<u>72,386</u>	<u>62,547</u>	<u>26,992</u>	<u>29,739</u>	<u>67,563</u>

22 Financial instruments

General

The Group has a system of controls in place to create an acceptable balance between the potential loss from risks occurring and the cost of managing the risks. The management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by an outsourced Internal Audit function. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

NOTES TO THE FINANCIAL STATEMENTS

22 Financial instruments (Continued)

The financial risk management is described below:

Credit risk

The Group has a credit policy in place which establishes credit limits for customers and monitors their balances on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The credit limit of each customer is established after taking into account the financial position of, and past experience with, the customer.

Refer to notes 8 and 9 to the financial statements for disclosures relating to the Group's credit risk exposures and ECL.

Liquidity risk

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group's exposure to risk of change in cash flows due to changes in interest rates relates primarily to the Group's variable-rate borrowings with financial institutions. Short-term receivables and payables are not exposed to interest rate risk.

Exposure to interest rate risk

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Group			Company		
	31 Dec 2018	31 Dec 2017	1 Jan 2017	31 Dec 2018	31 Dec 2017	1 Jan 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Variable rate instruments						
Financial liabilities	26,316	54,281	62,175	–	12,746	18,909

NOTES TO THE FINANCIAL STATEMENTS

22 Financial instruments (Continued)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bp) in interest rates at the reporting date would have increased/(decreased) profit before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2017.

	Profit before tax 100 bp increase \$'000	100 bp decrease \$'000
Group		
31 December 2018		
Variable rate instruments	(263)	263
31 December 2017		
Variable rate instruments	(543)	543
Company		
31 December 2018		
Variable rate instruments	-	-
31 December 2017		
Variable rate instruments	(127)	127

Foreign currency risk

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings, including inter-company sales, purchases and inter-company balances, that are denominated in a currency other than the respective functional currencies of Group entities. The functional currencies of Group entities are primarily the Singapore dollar, US dollar, Australian dollar, Korean Won and Malaysian Ringgit. The currencies in which these transactions are primarily denominated are the US dollar (USD) and Euro (EUR).

In respect of monetary assets and liabilities held in currencies other than Singapore dollar, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates, where necessary, to address short-term imbalances. The Group uses forward exchange contracts to hedge its foreign currency risk. At 31 December 2018, the Group has no outstanding forward exchange contracts.

NOTES TO THE FINANCIAL STATEMENTS

22 Financial instruments (Continued)

The Group's and Company's exposures to foreign currency risk are as follows:

	31 Dec 2018		31 Dec 2017		1 Jan 2017	
	Euro \$'000	US dollar \$'000	Euro \$'000	US dollar \$'000	Euro \$'000	US dollar \$'000
Group						
Trade and other receivables	–	12,964	(3)	9,546	(3)	17,325
Cash and cash equivalents	–	786	3	1,111	4	1,093
Trade and other payables	67	(1,687)	3	(6,395)	(98)	(8,063)
Loans and borrowings	–	(3,724)	–	(28,152)	–	(33,144)
Net exposure	67	8,339	3	(23,890)	(97)	(22,789)
Company						
Trade and other receivables	818	36,603	908	24,505	(3)	48,713
Cash and cash equivalents	–	4	3	68	3	149
Trade and other payables	–	(23)	(72)	(5,661)	(98)	(27,482)
Loans and borrowings	–	–	–	(2,772)	–	(3,020)
Net exposure	818	36,584	839	16,140	(98)	18,360

Sensitivity analysis

A 10% strengthening of the Singapore dollar against the following currencies at the reporting date would have increased/(decreased) equity and profit before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2017, as indicated below:

	Group		Company	
	Profit before tax \$'000	Equity \$'000	Profit before tax \$'000	Equity \$'000
31 December 2018				
Euro	(7)	–	(82)	–
US dollar	(834)	–	(3,658)	–
31 December 2017				
Euro	*	–	(84)	–
US dollar	2,389	–	(1,614)	–

* Amount stated is less than one thousand dollars

A 10% weakening of the Singapore dollar against the above currencies would have an equal but opposite effect on equity and profit or loss by the amounts shown above, on the basis that all other variables, in particular interest rates, remain constant.

NOTES TO THE FINANCIAL STATEMENTS

22 Financial instruments (Continued)

Measurement of fair values

The following summarises the significant methods and assumptions used in measuring the fair values of financial instruments of the Group and the Company.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements. For the floating rate interest-rate borrowings loans, which are repriced on a monthly or quarterly basis, the carrying amount of the loans reflect the corresponding fair value.

Other financial assets and liabilities

The carrying amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents, trade and other payables and interest-bearing borrowings) are assumed to approximate their fair values because of the short period to maturity.

Fair value hierarchy

The table below analyses fair value measurements for assets and liabilities, by the levels in the fair value hierarchy based on the inputs to valuation techniques. The different levels are defined as follows:

- Level 1 fair value measurements are those instruments valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those instruments valued using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those instruments valued using valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE FINANCIAL STATEMENTS

Financial instruments (Continued) Accounting classification and fair values

The carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy are as follows. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Note	Carrying amount		Fair value				
		Amortised cost \$'000	Other financial liabilities \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
31 December 2018								
Financial assets not measured at fair value								
Trade and other receivables	8	18,603	–	18,603				
Cash and cash equivalents	9	3,264	–	3,264				
		21,867	–	21,867				
Financial liabilities not measured at fair value								
Financial liabilities	13	–	(30,525)	(30,525)				
Trade and other payables	15	–	(15,553)	(15,553)				
		–	(46,078)	(46,078)				
31 December 2017								
Financial assets not measured at fair value								
Trade and other receivables	8	15,715	–	15,715				
Cash and cash equivalents	9	2,478	–	2,478				
		18,193	–	18,193				
Financial liabilities not measured at fair value								
Financial liabilities	13	–	(68,560)	(68,560)				
Trade and other payables	15	–	(28,548)	(28,548)				
		–	(97,108)	(97,108)				
		Loans and receivables	Other financial liabilities	Total				
		\$'000	\$'000	\$'000				

NOTES TO THE FINANCIAL STATEMENTS

22 Financial instruments (Continued)

Accounting classification and fair values (Continued)

	Note	Carrying amount			Fair value			
		Loans and receivables \$'000	Other financial liabilities \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
1 January 2017								
Financial assets not measured at fair value								
Trade and other receivables	8	25,554	–	25,554				
Cash and cash equivalents	9	3,287	–	3,287				
		28,841	–	28,841				
Financial liabilities not measured at fair value								
Loans and borrowings	13	–	(80,675)	(80,675)				
Trade and other payables	15	–	(20,104)	(20,104)				
		–	(100,779)	(100,779)				

NOTES TO THE FINANCIAL STATEMENTS

23

Commitments

(a) Operating lease commitments

The Group and the Company lease land, office, warehouse and factory facilities under operating leases. The leases typically run for an initial period of one to three years (2017: one to three years), with an option to renew after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

At 31 December 2018, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases as follows:

	Group		Company	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Payable:				
Within 1 year	967	1,530	448	912
After 1 year but within 5 years	153	818	–	547
	<u>1,120</u>	<u>2,348</u>	<u>448</u>	<u>1,459</u>

(b) Operating lease receivables

The Company lease land, office and warehouse to its subsidiary, and certain subsidiaries charter out their respective vessels. The leases typically run for an initial period of three years, with an option to renew after that date.

At 31 December 2018, the Group and the Company had non-cancellable operating lease receivable as follows:

	Group		Company	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Receivable:				
Within 1 year	7,874	9,401	183	209
After 1 year but within 5 years	253	10,711	–	836
	<u>8,127</u>	<u>20,112</u>	<u>183</u>	<u>1,045</u>

NOTES TO THE FINANCIAL STATEMENTS

24 Contingencies

(A) Litigation with Sumatec Resources Bhd ("Sumatec")

The Company and Ebony Ritz Sdn Bhd ("Ebony", an 80%-owned subsidiary of the Company currently under liquidation, with the Official Receiver of Malaysia acting as liquidator) have, pursuant to mediation at the Singapore Mediation Centre on 19 March 2018, entered into a conditional Settlement Agreement with Sumatec and Mr Chan Yok Peng ("Mr Chan") ("Settlement Agreement") in relation to the full and final settlement of the following Litigation (as referred to below) by the completion of Sumatec's corporate exercise which is expected no later than 30 October 2018 ("Corporate Exercise Completion Date"):

1. Singapore High Court Suit No. 534 of 2016;
 2. Singapore High Court Suit No. 808 of 2017; and
 3. Sumatec's counterclaim in Suit No. WA-22NCC-52-02/2017 before the High Court of Malaya at Kuala Lumpur against the Company;
- (collectively, the "Litigation").

The Settlement Agreement is conditional upon the approval of the Official Receiver of Malaysia on behalf of Ebony, Sumatec's Board of Directors and the Company's Board of Directors ("Approvals"), to be provided by 3 May 2018 ("Approval Date"). The Approval Date was extended to 6 June 2018. On 6 June 2018, Official Receiver did not approve the terms of the Settlement Agreement due to issues relating as to whether the Official Receiver could handle the issuance of the redeemable convertible preference shares (RCPS). The Settlement Agreement ceased to take effect and the legal suits were reinstated.

On 3 October 2018, the Judge issued his Judgement that Sumatec shall pay Ebony the following sums in respect of the Guarantee Claim:

- (i) RM10,000,000;
- (ii) Pre-judgment interest at the rate of 5.33% per annum on the judgment sum (ie RM10,000,000) from the date of accrual ranged from 31 March 2012 to 24 September 2012;
- (iii) As well as costs in the sum of S\$40,000.

The Company has proposed the appointment of a private liquidator to replace Official Receiver. The Official Receiver has filed the Appointment application to the High Court of Malaysia. However, the minority shareholder of Ebony has filed a Stay Application. On 4 January 2019, the Court had granted an interim order of the Stay Application.

A summary of the Litigation, which will be withdrawn following the finalisation of the Approvals referred to above, is set out below.

(i) Singapore High Court Suit No. 534 of 2016 (Ebony vs Sumatec) ("Suit 534")

Ebony commenced Suit 534 in the High Court of Singapore on 24 May 2016 against Sumatec. Suit 534 relates to Ebony's claims for:

- a. RM 27,017,162.68 (equivalent to S\$8,886,890) under an option and financial representation agreement dated 5 May 2010 entered into between Ebony, Auspicious Journey Sdn Bhd and Sumatec ("OFRA Claim"), and
 - b. RM 10,000,000 (equivalent to S\$3,289,350) under a guarantee dated 5 May 2010 entered into between Ebony and Sumatec ("Guarantee Claim");
- in connection with Ebony's acquisition of a 49% equity interest in Semua International Sdn Bhd ("SISB") and its four wholly-owned subsidiaries (collectively, the "Semua Group").

NOTES TO THE FINANCIAL STATEMENTS

24 Contingencies (Continued)

(A) Litigation with Sumatec Resources Bhd ("Sumatec") (Continued)

(i) Singapore High Court Suit No. 534 of 2016 (Ebony vs Sumatec) ("Suit 534") (Continued)

Ebony applied to strike out Sumatec's defence and alternatively, for summary judgement against Sumatec. Sumatec, in turn, applied to amend its defence and put forward (among others) a counterclaim for an indemnity by Ebony for all claims and demands made by Ebony against Sumatec in the action, as well as all costs, damages and expenses incurred by Sumatec arising from the action. These applications were heard at first instance before an Assistant Registrar whose decision was appealed against by Ebony and Sumatec (the "Appeals").

On 9 November 2017, the Judge issued his Judgement on the Appeals, granting, principally:

- a. Summary judgement to Ebony in respect of its OFRA Claim ("Summary Judgement Order"); and
- b. Unconditional leave to defend to Sumatec in respect of the Guarantee Claim.

On 25 July 2018, Ebony was awarded pre-judgement interest at the rate of 5.33% per annum on the judgement sum for the period from 12 September 2012 to 9 November 2017. Pursuant to Order of Court dated 31 July 2018, Ebony was awarded costs in sum of S\$38,600.

On 20 November 2017, Sumatec filed a Notice of Appeal to the Court of Appeal against part of the Judge's decision, namely:

- a. The Summary Judgement Order; and
- b. The order that Sumatec's Compromise defence be struck out as disclosing no reasonable defence or as being frivolous or vexatious.

The appeal ("CA Appeal") has been fixed for hearing before the Court of Appeal on a date between 18 February and 8 March 2019 (both dates inclusive).

Further, on 22 December 2017, Sumatec applied for a stay of execution ("Stay Application") of the Summary Judgement Order pending the CA Appeal. On 30 January 2018, the Singapore High Court dismissed the Stay Application subject to the condition that any monies paid to Ebony and the Official Receiver of Malaysia (appointed as the liquidator of Ebony) shall not be distributed pending the disposal of the CA Appeal. The Singapore High Court also ordered Sumatec to make payment of the judgement sum in respect of the Summary Judgement Order to Ebony by 27 March 2018 and awarded costs to be paid by Sumatec to Ebony.

An order made on 12 September 2018, Sumatec's defence and counterclaim has been struck out. Pursuant to the Judgment dated 3 October 2018, Sumatec was ordered to pay Ebony the Guarantee claim and pre-judgement interest at the rate of 5.33% per annum on the judgement sum (ie total RM10,000,000) from the dates stipulated from 31 March 2012 to 24 September 2012 as well as costs in the sum of S\$40,000.

NOTES TO THE FINANCIAL STATEMENTS

24 Contingencies (Continued)

(A) Litigation with Sumatec Resources Bhd ("Sumatec") (Continued)

- (ii) Singapore High Court Suit No. 808 of 2017 (the Company vs (1) Sumatec (2) Mr Chan) ("Suit 808")

The Company commenced Suit 808 on 31 August 2017 before the Singapore High Court against Sumatec and Mr Chan for (among others) damages for conspiracy and causing loss by unlawful means to the Company in relation to their refusal and/or failure to extend funds to the Semua Group in breach of the Shareholders' Agreement dated 5 May 2010 entered into between Sumatec, Ebony and SISB.

By an Order of Court dated 7 December 2018, the Company was granted leave to discontinue Suit 808 against Mr Chan on the basis of the same cause of action in Suit 808 in Singapore or any other jurisdiction.

- (iii) Counterclaim by Sumatec in Suit No. WA-22NCC-52-02/2017 before the High Court of Malaya Kuala Lumpur

Sumatec commenced a counterclaim in Suit No. WA-22NCC-52- 02/2017 before the High Court of Malaya at Kuala Lumpur against the Company and Setinggi Holdings Ltd ("Setinggi") ("KL Counterclaim") which relates to the same matters and seeks substantially the same reliefs as in Kuala Lumpur High Court Suit No. WA-22NCC-142-04/2017 commenced by Sumatec against the Company, Ebony, Setinggi, Mr Kuah Geok Lin, Mr Kuah Geok Khim and Mr Teh Teong Lay (has been struck out pursuant to an Order of Court granted by the Singapore High Court on 30 November 2017 restraining Sumatec from maintaining and/or continuing the prosecution Suit No. WA-22NCC-142-04/2017).

(B) Kuala Lumpur High Court - Auspicious Journey Sdn Bhd vs Ebony Ritz Sdn Bhd

Auspicious Journey Sdn Bhd a minority shareholder in Ebony Ritz Sdn Bhd ("Ebony"), had filed in the Malaysian High Court a suit against the Company, being the majority shareholder in Ebony, for conducting the affairs of Ebony in manner that is oppressive to the Plaintiff. On 3 August 2016, the trial and hearing of the legal action has been concluded.

The Court issued an Order partially in favour of the Plaintiff and ordered:

- (a) A declaration that the company has conducted the affairs of Ebony in a manner that is oppressive to the Plaintiff;
- (b) Ebony is to be wound up and the Official Receiver be appointed as the liquidator of Ebony;
- (c) the Company is to pay general damages with interest to the Plaintiff, to be assessed by the Court through an assessment process; and
- (d) the Company has to pay costs of RM300,000 (equivalent to S\$98,680) to the Plaintiff.

Both the Plaintiff and the Company appealed against the Order. The Company, in particular, appealed against part (a), (c) and (d) of the Order whilst the Plaintiff appealed against part (b) of the Order. Company has paid RM300,000 (equivalent to S\$98,680) to plaintiff. The Appeals were heard on 21 November 2017 and 21 May 2018 in the Court of Appeal. Both were dismissed.

NOTES TO THE FINANCIAL STATEMENTS

24 Contingencies (Continued)

(B) Kuala Lumpur High Court -Auspicious Journey Sdn Bhd vs Ebony Ritz Sdn Bhd (Continued)

The Plaintiff filed an application for leave to appeal to the Federal Court against the dismissal of its Appeal by the Court of Appeal. While it was initially fixed for hearing in the Federal Court on 31 January 2019, the Federal Court has since vacated the hearing date and re-scheduled the same to 13 May 2019. The Company, upon legal advice, did not file such application for leave to appeal to Federal Court. There is also an assessment of damages proceedings taking place in the Kuala Lumpur High Court pursuant to the Order dated 3 August 2016. The said proceedings are still at an early stage and are kept in abeyance pending the outcome of the Leave Application.

While the Court has issued an order in favour of the minority shareholder, the amount of damages has not been assessed. As the proceedings for the assessment of damages are still at an early stage and cannot be estimated reliably, no provision has been made in the financial statements. The eventual outcome of the damage assessment could have a significant financial impact to the Group.

(C) Chimbusco Pan Nation Petro-chemical Co Ltd vs Arkstar Ship Management Pte Ltd ("ASM") - suit no. HCA1199/2015

The trial and hearing of the legal action has been concluded and that the Court has given an order on 11 January 2019. The Court ruled against ASM on the basis that ASM's defence and counterclaim was excluded according to the interpretation of the Contract and the factual finding that the bunkers were not contaminated. ASM is required by the Court to pay the principal claim amount, interest relating to the claim and party-to-party costs. Provision was made accordingly as at 31 December 2018. The plaintiff has filed an application for winding-up of ASM with High Court of Singapore. ASM was ordered to be wound up pursuant to the order of Court dated 29 March 2019 and that Acutus Advisory Pte Ltd was appointed as liquidators of ASM.

25 Related party transactions

Other related party transactions

Other than those disclosed elsewhere in the financial statements, transactions with related parties are as follows:

	Group	
	2018 \$'000	2017 \$'000
Related corporations		
Interest expenses	317	178
Security expenses	86	76
Rental and miscellaneous expenses	486	412
Rental income	64	62

NOTES TO THE FINANCIAL STATEMENTS

25 Related party transactions (Continued)

Key management personnel of the Group are persons having the authority and responsibility for planning, directing and controlling the activities of Group entities. The directors, department heads and the chief executive officer are considered as key management personnel of the Group.

	Group	
	2018 \$'000	2017 \$'000
Key management personnel compensation comprised:		
Short-term employee benefits	1,616	1,774
Post-employment benefits (including CPF)	93	92
	1,709	1,866

26 Explanation of transition to SFRS(I) and adoption of new standards

In December 2017, the Accounting Standards Council (ASC) issued the Singapore Financial Reporting Standards (International) (SFRS(I)). SFRS(I) comprises standards and interpretations that are equivalent to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) at 31 December 2017 that are applicable for annual period beginning on 1 January 2018.

As stated in note 2.1, these are the first financial statements of the Group and of the Company prepared in accordance with SFRS(I).

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended 31 December 2018, the comparative information presented in these financial statements for the year ended 31 December 2017 and in the preparation of the opening SFRS(I) statement of financial position at 1 January 2017 (the Group's date of transition), subject to the mandatory exceptions and optional exemptions under SFRS(I) 1.

In preparing the opening SFRS(I) statement of financial position, the Group has adjusted amounts reported previously in the financial statements prepared in accordance with previous FRS.

In addition to the adoption of the new framework, the Group also concurrently applied the following SFRS(I)s, interpretations of SFRS(I)s and requirements of SFRS(I)s which are mandatorily effective from the same date.

- SFRS(I) 15 *Revenue from Contracts with Customers* which includes clarifications to IFRS 15 *Revenue from Contracts with Customers* issued by the IASB in April 2016;
- SFRS(I) 9 *Financial Instruments* which includes amendments arising from IFRS 4 *Insurance Contracts* issued by the IASB in September 2016;
- requirements in SFRS(I) 2 *Share-based Payment* arising from the amendments to IFRS 2 – *Classification and measurement of share-based payment transactions* issued by the IASB in June 2016;
- requirements in SFRS(I) 1-40 *Investment Property* arising from the amendments to IAS 40 – *Transfers of investment property* issued by the IASB in December 2016;
- requirements in SFRS(I) 1 arising from the amendments to IFRS(I) – *Deletion of short-term exemptions for first-time adopters* issued by the IASB in December 2016;
- requirements in SFRS(I) 1-28 *Investments in Associates and Joint Ventures* arising from the amendments to IAS 28 – *Measuring an associate or joint venture at fair value* issued by the IASB in December 2016; and
- SFRS(I) INT 22 *Foreign Currency Transactions and Advance Consideration*.

NOTES TO THE FINANCIAL STATEMENTS

26 Explanation of transition to SFRS(I) and adoption of new standards (Continued)

The application of the above standards and interpretations do not have material effect on the financial statements, except for SFRS(I) 9.

An explanation of how the transition from previous FRS to SFRS(I) and the adoption of SFRS(I) 9 and SFRS(I) 15 have affected the Group's financial position, financial performance and cash flows, and the Company's financial position is set out under the summary of quantitative impact and the accompanying notes.

Summary of quantitative impact

The following reconciliations summarise the impacts on initial application of SFRS(I) 1 and SFRS(I) 9 on the Company's financial positions as at 1 January 2017, 31 December 2017 and 1 January 2018 and the Company's profit or loss and other comprehensive income for the year ended 31 December 2017. There were no material adjustments to the Company's statement of cash flows for the year ended 31 December 2017 arising on the transition to SFRS(I).

	Note	31 December 2017		1 January 2018		
		FRS frame- work \$'000	SFRS(I) 1 \$'000	SFRS(I) frame- work \$'000	SFRS(I) 9 \$'000	SFRS(I) frame- work \$'000
Assets						
Non-current assets						
		30,278	–	30,278	–	30,278
Inventories		23,509	–	23,509	–	23,509
Trade and other receivables	(b)	15,997	–	15,997	(1,027)	14,970
Cash and cash equivalents		2,478	–	2,478	–	2,478
Current assets						
		41,984	–	41,984	(1,027)	40,957
Total assets						
		72,262	–	72,262	(1,027)	71,235
Equity						
Share capital		69,490	–	69,490	–	69,490
Treasury shares		(55)	–	(55)	–	(55)
Currency translation reserve	(a)	(1,299)	1,629	330	–	330
Accumulated losses	(a)/(b)	(96,011)	(1,629)	(97,640)	(1,027)	(98,667)
Share-based compensation reserve		171	–	171	–	171
(Deficit)/Equity attributable to owners of the Company						
		(27,704)	–	(27,704)	(1,027)	(28,731)
Non-controlling interests						
		(1,183)	–	(1,183)	–	(1,183)
Total (deficit)/equity						
		(28,887)	–	(28,887)	(1,027)	(29,914)
Liabilities						
Non-current liabilities						
		832	–	832	–	832
Current liabilities						
		100,317	–	100,317	–	100,317
Total liabilities						
		101,149	–	101,149	–	101,149
Total equity and liabilities						
		72,262	–	72,262	(1,027)	71,235

NOTES TO THE FINANCIAL STATEMENTS

26 Explanation of transition to SFRS(I) and adoption of new standards (Continued)

Reconciliation of the Group's equity Consolidated statement of financial position

		1 January 2017		
	Note	FRS frame-work \$'000	SFRS(I) 1 \$'000	SFRS(I) frame-work \$'000
Assets				
Non-current assets				
		68,141	–	68,141
Current assets				
		55,045	–	55,045
Total assets				
		123,186	–	123,186
Equity				
Share capital		69,490	–	69,490
Treasury shares		(55)	–	(55)
Currency translation reserve	(a)	(1,629)	1,629	–
Share-based compensation reserve		171	–	171
Accumulated losses	(a)	(48,142)	(1,629)	(49,771)
Equity attributable to owners of the Company				
		19,835	–	19,835
Non-controlling interests				
		(1,127)	–	(1,127)
Total equity				
		18,708	–	18,708
Liabilities				
Non-current liabilities				
		1,526	–	1,526
Current liabilities				
		102,952	–	102,952
Total liabilities				
		104,478	–	104,478
Total equity and liabilities				
		123,186	–	123,186

NOTES TO THE FINANCIAL STATEMENTS

26 Explanation of transition to SFRS(I) and adoption of new standards (Continued)

Reconciliation of the Company's equity Statement of financial position

		<u>31 Dec 2017</u>		<u>1 Jan 2018</u>
	Note	FRS frame-work \$'000	SFRS(I) 9 \$'000	SFRS(I) frame-work \$'000
Assets				
Non-current assets				
		10,802	–	10,802
Trade and other receivables	(b)	9,016	(1,100)	7,916
Cash and cash equivalents		114	–	114
Current assets		<u>9,130</u>	<u>(1,100)</u>	<u>8,030</u>
Total assets		<u>19,932</u>	<u>(1,100)</u>	<u>18,832</u>
Equity				
Share capital		69,490	–	69,490
Treasury shares		(55)	–	(55)
Share-based compensation reserve		171	–	171
Accumulated losses	(b)	(101,626)	(1,100)	(102,726)
(Deficit)/Equity attributable to owners of the Company		<u>(32,020)</u>	<u>(1,100)</u>	<u>(33,120)</u>
Liabilities				
Non-current liabilities				
		19	–	19
Current liabilities				
		51,933	–	51,933
Total liabilities		<u>51,952</u>	<u>–</u>	<u>51,952</u>
Total equity and liabilities		<u>19,932</u>	<u>(1,100)</u>	<u>18,832</u>

NOTES TO THE FINANCIAL STATEMENTS

26 Explanation of transition to SFRS(I) and adoption of new standards (Continued)

Notes to the reconciliations

(a) SFRS(I) 1

In adopting SFRS(I) in 2018, the Group has applied the transition requirements in SFRS(I) 1 with 1 January 2017 as the date of transition. SFRS(I) 1 generally requires that the Group applies SFRS(I) that are effective as at 31 December 2018 on a retrospective basis, as if such accounting policy had always been applied, subject to the mandatory exceptions and optional exemptions in SFRS(I) 1. Except as described below, the application of the mandatory exceptions and the optional exemptions in SFRS(I) 1 did not have any significant impact on the financial statements.

(i) Foreign currency translation reserve (FCTR)

The Group elected the optional exemption in SFRS(I) 1 to reset its cumulative FCTR for all foreign operations to nil at the date of transition (1 January 2017) and reclassify the cumulative FCTR of S\$1,629,000 as at 1 January 2017 to accumulated losses. After the date of transition, any gain or loss on disposal of any foreign operations will exclude translation differences that arose before the date of transition.

By electing this optional exemption, the cumulative FCTR decreased by \$1,629,000 and accumulated losses increased by the same amount as at 31 December 2017.

(b) SFRS(I) 9

SFRS(I) 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. It also introduces a new 'expected credit loss' (ECL) model. The Group adopted SFRS(I) 9 from 1 January 2018.

In accordance with the exemption in SFRS(I) 1, the Group elected not to restate information for 2017. Accordingly, the information presented for 2017 is presented, as previously reported, under FRS 39 Financial Instruments: Recognition and Measurement. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SFRS(I) 9 are recognised in accumulated losses and reserves as at 1 January 2018.

Arising from this election, the Group is exempted from providing disclosures required by SFRS(I) 7 *Financial Instruments: Disclosures* for the comparative period to the extent that these disclosures relate to items within the scope of SFRS(I) 9. Instead, disclosures under FRS 107 *Financial Instruments: Disclosures* relating to items within the scope of FRS 39 are provided for the comparative period.

Changes in accounting policies resulting from the adoption of SFRS(I) 9 have been applied by the Group retrospectively, except as described below.

The following assessments were made on the basis of facts and circumstances that existed at 1 January 2018.

- The determination of the business model within which a financial asset is held; and
- The determination of whether the contractual terms of a financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS

26 Explanation of transition to SFRS(I) and adoption of new standards (Continued)

Notes to the reconciliations (Continued)

(b) SFRS(I) 9 (Continued)

The impact upon adoption of SFRS(I) are described below.

Classification of financial assets and financial liabilities

Under SFRS(I) 9, financial assets are classified in the following categories: measured at amortised cost. The classification of financial assets under SFRS(I) 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. SFRS(I) 9 eliminates the previous FRS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under SFRS(I) 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The following table and the accompanying notes below explain the original measurement categories under FRS 39 and the new measurement categories under SFRS(I) 9 for each class of the Group's financial assets as at 1 January 2018.

Group

			1 January 2018	
			Original carrying amount under FRS 39	New carrying amount under SFRS(I) 9
	Note	Original classification under FRS 39	New classification under SFRS(I) 9	
			\$'000	\$'000
Financial assets				
Trade and other receivables	(i)	Loans and receivables	Amortised cost	15,997
Cash and cash equivalents		Loans and receivables	Amortised cost	2,478
Total financial assets			18,475	17,448

Company

			1 January 2018	
			Original carrying amount under FRS 39	New carrying amount under SFRS(I) 9
	Note	Original classification under FRS 39	New classification under SFRS(I) 9	
			\$'000	\$'000
Financial assets				
Trade and other receivables	(i)	Loans and receivables	Amortised cost	9,016
Cash and cash equivalents		Loans and receivables	Amortised cost	114
Total financial assets			9,130	8,030

NOTES TO THE FINANCIAL STATEMENTS

26 Explanation of transition to SFRS(I) and adoption of new standards (Continued)

Notes to the reconciliations (Continued)

(b) SFRS(I) 9 (Continued)

Trade and other receivables that were classified as loans and receivables under FRS 39 are now classified at amortised cost. An increase of \$1,027,000 and \$1,100,000 in the allowance for impairment was recognised in opening retained earnings of the Group and Company respectively at 1 January 2018 on transition to SFRS(I) 9.

(i) Impairment of financial assets

SFRS(I) 9 replaces the 'incurred loss' model in FRS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and intra-group financial guarantee contracts.

The application of SFRS(I) 9 impairment requirements at 1 January 2018 results in additional allowances for impairment as follows:

	Group \$'000	Company \$'000
Loss allowance at 31 December 2017 under FRS 39	31,488	75,875
Additional impairment loss recognised at 1 January 2018 on trade receivables as at 31 December 2017	1,027	1,100
Loss allowance at 1 January 2018 under SFRS(I) 9	32,515	76,975

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Additional information about how the Group and Company measure the allowance for impairment is described in Note 8.

(ii) Transition impact on equity

The following table summarises the impact, net of tax, of transition to SFRS(I) 9 on reserves and accumulated losses at 1 January 2018.

	Impact of adopting SFRS(I) 9 at 1 January 2018	
	Group \$'000	Company \$'000
Accumulated losses		
Closing balance under FRS 39 (31 December 2017)	(96,011)	(101,626)
Recognition of expected credit losses under SFRS(I) 9	(1,027)	(1,100)
Opening balance under SFRS(I) 9 (1 January 2018)	(97,038)	(102,726)

NOTES TO THE FINANCIAL STATEMENTS

27 New standards and interpretations not yet adopted

A number of new standards and interpretations and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted the new or amended standards and interpretations in preparing these financial statements.

The following new SFRS(I)s, interpretations and amendments to SFRS(I)s are effective for annual periods beginning after 1 January 2018:

Applicable to 2019 financial statements

- SFRS(I) 16 *Leases*
- SFRS(I) INT 23 *Uncertainty over Income Tax Treatments*
- *Long-term Interests in Associates and Joint Ventures* (Amendments to SFRS(I) 1-28)
- *Prepayment Features with Negative Compensation* (Amendments to SFRS(I) 9)
- *Previously Held Interest in a Joint Operation* (Amendments to SFRS(I) 3 and 11)
- *Income Tax Consequences of Payments on Financial Instruments Classified as Equity* (Amendments to SFRS(I) 1-12)
- *Borrowing Costs Eligible for Capitalisation* (Amendments to SFRS(I) 1-23)
- *Plan Amendment, Curtailment or Settlement* (Amendments to SFRS(I) 1-19)

Applicable to 2021 financial statements

- SFRS(I) 17 *Insurance Contracts*

Mandatory effective data deferred

- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to SFRS(I) 10 and SFRS(I) 1-28).

The Group has assessed the estimated impact that initial application of SFRS(I) 16 will have on the financial statements. The Group's assessment of SFRS(I) 16, which is expected to have a more significant impact on the Group, is as described below.

SFRS(I) 16

SFRS(I) 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. SFRS(I) 16 replaces existing lease accounting guidance, including SFRS(I) 1-17 *Leases*, SFRS(I) INT 4 *Determining whether an Arrangement contains a Lease*, SFRS(I) INT 1-15 *Operating Leases – Incentives* and SFRS(I) INT 1-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Group and the Company plan to apply SFRS(I) 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting SFRS(I) 16 will be recognised as an adjustment to the opening balance of accumulated losses at 1 January 2019, with no restatement of comparative information. The Group and the Company plan to apply the practical expedient to grandfather the definition of a lease on transition. This means that they will apply SFRS(I) 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with SFRS(I) 1-17 and SFRS(I) INT 4.

NOTES TO THE FINANCIAL STATEMENTS

27 New standards and interpretations not yet adopted (Continued)

SFRS(I) 16 (Continued)

i. *The Group and the Company as lessee*

The Group and the Company expect to measure lease liabilities by applying discount rates relevant to their respective land, office, warehouse and factory facilities leases. Furthermore, the Group and the Company are likely to apply the practical expedient to recognise amounts of ROU assets equal to their lease liabilities at 1 January 2019. For lease contracts that contain the option to renew, the Group and the Company are expected to use hindsight in determining the lease term.

As at 1 January 2019, the Group expects an increase in ROU assets of \$191,000 and an increase in lease liabilities of \$195,000 and a decrease in accumulated losses of \$4,000. The Company expects no material change in ROU assets and lease liabilities as at 1 January 2019 as it is in the process of negotiating its expiring lease.

The nature of expenses related to those leases will change as SFRS(I) 16 replaces the straight-line operating lease expense with depreciation charge for ROU assets and interest expense on lease liabilities.

No significant impact is expected for the Group's and the Company's finance leases.

ii. *The Group as lessor*

SFRS(I) 16 substantially carries forward the current existing lessor accounting requirements. Accordingly, the Group continues to classify its leases as operating leases or finance leases, and to account for these two types of leases using the existing operating lease and finance lease accounting models respectively.

The Group will reassess the classification of sub-leases in which the Group is a lessor. Based on the information currently available, no significant impact is expected for other leases in which the Group is a lessor.

SHAREHOLDING STATISTICS

AS AT 20 MARCH 2019

DISTRIBUTION OF SHAREHOLDERS BY SIZE OF SHAREHOLDINGS AS AT 20 MARCH 2019

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 99	44	2.95	596	0.00
100 – 1,000	108	7.24	70,485	0.00
1,001 – 10,000	322	21.60	2,249,080	0.04
10,001 – 1,000,000	976	65.46	119,466,924	2.13
1,000,001 AND ABOVE	41	2.75	5,497,645,494	97.83
TOTAL	1,491	100.00	5,619,432,579	100.00

NOTE: PERCENTAGE COMPUTED IS BASED ON 5,619,432,579 SHARES (EXCLUDING SHARES HELD AS TREASURY SHARES) AS AT 20 MARCH 2019. TREASURY SHARES AS AT 20 MARCH 2019 ARE 470,000 SHARES.

TWENTY LARGEST SHAREHOLDERS AS AT 20 MARCH 2019

NO.	SHAREHOLDER'S NAME	NUMBER OF SHARES HELD	%
1	UNITED OVERSEAS BANK NOMINEES PTE LTD	1,611,072,393	28.67
2	HOE LEONG CO. (PTE.) LTD.	1,589,854,677	28.29
3	DBS NOMINEES PTE LTD	975,184,725	17.35
4	CGS-CIMB SECURITIES (SINGAPORE) PTE LTD	462,497,404	8.23
5	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	291,653,850	5.19
6	RHB BANK NOMINEES PTE LTD	280,903,297	4.99
7	SING INVESTMENTS & FINANCE LTD	125,305,561	2.23
8	MAYBANK NOMINEES (SINGAPORE) PTE LTD	38,396,802	0.68
9	KUAH GEOK LIN	15,506,617	0.28
10	KUAH GEOK KHIM	15,314,117	0.27
11	QUAH YOKE HWEE	15,314,117	0.27
12	MAYBANK KIM ENG SECURITIES PTE.LTD.	11,177,676	0.20
13	RAFFLES NOMINEES (PTE) LIMITED	7,557,800	0.13
14	KUAH GEOK KHIM	7,400,592	0.13
15	HENG WANG CHEW	4,000,000	0.07
16	CHUA YEAN CHENG (CAI YINGQING)	3,506,900	0.06
17	OCBC SECURITIES PRIVATE LTD	2,974,766	0.05
18	CHEW EU HOCK	2,907,800	0.05
19	TAN BAK CHUA ROBERT	2,509,000	0.04
20	LARRY KONG CHIN WA (KUANG ZHENHUA)	2,300,000	0.04
	TOTAL	5,465,338,094	97.22

NOTE: PERCENTAGE COMPUTED IS BASED ON 5,619,432,579 SHARES (EXCLUDING SHARES HELD AS TREASURY SHARES) AS AT 20 MARCH 2019. TREASURY SHARES AS AT 20 MARCH 2019 ARE 470,000 SHARES.

SHAREHOLDING STATISTICS

AS AT 20 MARCH 2019

Class of shares	:	Ordinary shares fully paid
Voting rights	:	One vote per share
No. of issued and paid-up shares (excluding treasury shares)	:	5,619,432,579
No. of treasury shares held	:	470,000

REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 20 MARCH 2019

	Direct Interest		Deemed Interest	
	No. of Shares	%	No. of Shares	%
United Overseas Bank Limited ⁽¹⁾	–	–	1,610,543,486	28.66
Hoe Leong Co. (Pte.) Ltd.	1,589,854,677	28.29	–	–
DBS Bank Ltd. ⁽²⁾	–	–	916,972,699	16.32
CIMB Bank Berhad ⁽³⁾	–	–	457,221,350	8.14
Australia and New Zealand Banking Group Ltd ⁽⁴⁾	–	–	291,055,850	5.18
Kuah Geok Lin ⁽⁵⁾	15,506,617	0.28	1,589,854,677	28.29
Kuah Geok Khim ⁽⁵⁾	15,314,117	0.27	1,589,854,677	28.29
Quah Yoke Hwee ⁽⁵⁾	15,314,117	0.27	1,589,854,677	28.29
Mdm Kuah Geok Khim ⁽⁵⁾	7,400,592	0.13	1,589,854,677	28.29

Note:

- (1) United Overseas Bank Limited's interests in 1,610,543,486 shares were held under the name of nominees – United Overseas Bank Nominees (Pte) Ltd.
- (2) DBS Bank Ltd.'s interests in 916,972,699 shares were held under the name of nominees – DBS Nominees Pte Ltd.
- (3) CIMB Bank Berhad's interests in 457,221,350 shares were held under the name of nominees – CGS-CIMB Securities (Singapore) Pte Ltd.
- (4) Australia and New Zealand Banking Group Ltd's interests in 291,055,850 shares were held under the name of nominees – DBS Vickers Securities (Singapore) Pte Ltd.
- (5) Messrs Kuah Geok Lin, Kuah Geok Khim, Quah Yoke Hwee and Mdm Kuah Geok Khim are deemed to be interested in the shares of the Company held by Hoe Leong Co. (Pte.) Ltd. by virtue of Section 7(4) of the Companies Act.

PERCENTAGE OF SHAREHOLDING IN THE HANDS OF THE PUBLIC

As at 20 March 2019, 12.25% of the issued share capital of the Company was held in the hands of the public (based on the information available to the Company). Accordingly, the Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting (“AGM”) of Hoe Leong Corporation Ltd. (the “Company”) will be held at No. 6 Clementi Loop, Copenhagen Meeting Room, 4th Floor, Singapore 129814 on Monday, 29 April 2019 at 10.00am to transact the following businesses:–

AS ORDINARY BUSINESS

1. To receive and adopt the Audited Financial Statements of the Company for the financial year ended 31 December 2018 and the Directors’ Statement and the Auditor’s Report thereon. **(Resolution 1)**
2. To re-elect the following Directors retiring by rotation pursuant to Article 95(2) of the Constitution of the Company:
 - (i) Mr Kuah Geok Lin **(Resolution 2)**
 - (ii) Mr Ang Mong Seng **(Resolution 3)**

Mr Ang Mong Seng, if re-elected, will remain as the Chairman of the Remuneration Committee and a member of the Audit Committee and Nominating Committee. He will be considered as independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited (“SGX-ST”).
3. To approve payment of Directors’ fees of SGD145,000 for the financial year ending 31 December 2019 (2018: SGD145,000). **(Resolution 4)**
4. To re-appoint Messrs KPMG LLP as Auditors of the Company for the financial year ending 31 December 2019 and to authorise the Directors to fix their remuneration. **(Resolution 5)**
5. To transact any other ordinary business which may be properly transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

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

6. Authority to issue shares **(Resolution 6)**

“That pursuant to Section 161 of the Companies Act, Chapter 50 (“Act”), and the Listing Manual of the Singapore Exchange Securities Trading Limited (“SGX-ST”), authority be and is hereby given to the Directors of the Company to:–

 - (a) (i) issue shares in the capital of the Company whether by way of rights, bonus or otherwise;
 - (ii) make or grant offers, agreements or options that might or would require shares to be issued or other transferable rights to subscribe for or purchase shares (collectively, “Instruments”) including but not limited to the creation and issue of warrants, debentures or other instruments convertible into shares;
 - (iii) issue additional Instruments arising from adjustments made to the number of Instruments previously issued in the event of rights, bonus or capitalisation issues.

NOTICE OF ANNUAL GENERAL MEETING

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

- (b) (notwithstanding that the authority conferred by the shareholders may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while the authority was in force,

provided always that

the aggregate number of shares to be issued pursuant to this resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this resolution) does not exceed 50% of the Company's total number of issued shares (excluding treasury shares), of which the aggregate number of shares (including shares to be issued in pursuance of Instruments made or granted pursuant to this resolution) to be issued other than on a pro rata basis to shareholders of the Company does not exceed 20% of the total number of issued shares (excluding treasury shares) of the Company, and for the purpose of this resolution, the total number of issued shares (excluding treasury shares) shall be the Company's total number of issued shares (excluding treasury shares) at the time this resolution is passed, after adjusting for:

- (i) new shares arising from the conversion or exercise of convertible securities,
- (ii) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time this resolution is passed provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST, and
- (iii) any subsequent bonus issue, consolidation or subdivision of the Company's shares, and

such authority shall, unless revoked or varied by the Company at a general meeting, continue in force until the conclusion of the next AGM or the date by which the next AGM of the Company is required by law to be held, whichever is the earlier."

(See Explanatory Note 1)

On Behalf of the Board

KUAH GEOK LIN
Chairman and Chief Executive Officer

Dated: 12 April 2019

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Note:

1. Resolution 6, if passed, will authorise and empower the Directors of the Company from the date of the above AGM until the next AGM to issue shares and convertible securities in the Company up to an amount not exceeding in aggregate 50% of the total number of issued shares (excluding treasury shares) of the Company of which the total number of shares and convertible securities issued other than on a pro rata basis to existing shareholders shall not exceed 20% of the total number of issued shares (excluding treasury shares) of the Company at the time the resolution is passed, for such purposes as they consider would be in the interests of the Company. Rule 806(3) of the Listing Manual of Singapore Exchange Securities Trading Limited currently provides that the total number of issued shares (excluding treasury shares) of the Company for this purpose shall be the total number of issued shares (excluding treasury shares) at the time of this resolution is passed (after adjusting for new shares arising from the conversion of convertible securities or share options on issue at the time this resolution is passed and any subsequent consolidation or subdivision of the Company's shares). This authority will, unless revoked or varied at a general meeting, expire at the next AGM of the Company.

Notes:

1. A member who is not a relevant intermediary may appoint not more than two proxies to attend and vote at the Meeting.
2. Where a member appoints more than one proxy, he shall specify the proportion of his shareholding to be represented by each proxy, failing which, the first named proxy may be treated as representing 100% of the shareholding and the second name proxy as an alternate to the first named.
3. A member who is a relevant intermediary is entitled to appoint more than two proxies to attend and vote in his/her stead, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the proxy form.

"relevant intermediary" means:

- (a) a banking corporation licensed under the Banking Act, Chapter 19 of Singapore or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity;
 - (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 who holds shares in that capacity; or
 - (c) the Central Provident Fund Board ("CPF Board") established by the Central Provident Fund Act, Chapter 36 of Singapore, in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the CPF Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.
4. A proxy need not be a member of the Company.
 5. If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.
 6. The instrument appointing a proxy must be deposited at the registered office of the Company at No. 6 Clementi Loop, Singapore 129814 not later than 48 hours before the time appointed for the AGM.

"Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agent) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agent) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty."

DISCLOSURE OF INFORMATION ON DIRECTORS SEEKING RE-ELECTION

Mr Kuah Geok Lin and Mr Ang Mong Seng are the Directors seeking re-election at the forthcoming Annual General Meeting of the Company to be convened on 29 April 2019 (“AGM”) (collectively, the “Retiring Directors” and each a “Retiring Director”).

Pursuant to Rule 720(6) of the Listing Manual of the SGX-ST, the following is the information relating to the Retiring Directors as set out in Appendix 7.4.1 to the Listing Manual of the SGX-ST:

	MR KUAH GEOK LIN	MR ANG MONG SENG
Date of Appointment	18 November 1994	29 September 2005
Date of last re-appointment	29 April 2016	29 April 2016
Age	67	69
Country of principal residence	Singapore	Singapore
The Board’s comments on this appointment (including rationale, selection criteria, and the search and nomination process)	Mr Kuah Geok Lin has many years of experience in manufacturing and distribution of equipment parts for both heavy equipment and industrial machinery. He has been an Executive Director since 1994 and is very familiar with the business operations of the Company. The Board of Directors of the Company has considered, among others, the recommendation of the Nominating Committee (“NC”) and has reviewed and considered the qualification, work experiences, contribution and performance, attendance, preparedness, participation, candour and suitability of Mr Kuah Geok Lin for re-appointment as Chairman of the Board of the Company. The Board have reviewed and concluded that Mr Kuah Geok Lin has the experience, expertise, knowledge and skills to contribute towards the core competencies of the Board.	The Board of Directors of the Company has considered, among others, the recommendation of the Nominating Committee (“NC”) and has reviewed and considered the contribution and performance, attendance, preparedness, participation, candour and suitability of Mr Ang Mong Seng for re-appointment as Independent Non-Executive Director of the Company. The Board have reviewed and concluded that Mr Ang Mong Seng has the experience, expertise, knowledge and skills to contribute towards the core competencies of the Board.
Whether appointment is executive, and if so, the area of responsibility	Executive Responsible for the Group’s business operations and strategic planning.	Non-Executive
Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)	Executive Director, Chairman of the Board and a member of the Nominating Committee.	Independent Director, Chairman of the Remuneration Committee and a member of the Audit and Nominating Committee.
Professional qualifications	Bachelor Degree In Architecture from University of Singapore	Bachelor Degree In Arts from Nanyang University

DISCLOSURE OF INFORMATION ON DIRECTORS SEEKING RE-ELECTION

	MR KUAH GEOK LIN	MR ANG MONG SENG
Working experience and occupation(s) during the past 10 years	2005 to current Chairman of the Board of Hoe Leong Corporation Ltd	2005 to current Serves as Independent Director on the Board of listed companies 2001-2012 Chief Operating Officer, EM Services Pte Ltd 2001-2011 Member of Parliament for Hong Kah GRC
Shareholding interest in the listed issuer and its subsidiaries	Direct Interest: 15,506,617 shares Deemed Interest: 1,589,854,677	175,000 ordinary shares
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	Father of Mr Alvin Kuah Han Zhou and brother of Mdm Kuah Geok Khim.	No
Conflict of Interest (including any competing business)	No	No
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer	Yes	Yes
Other Principal Commitments* Including Directorships#		
Past (for the last 5 years)	<ol style="list-style-type: none"> 1. Aries Offshore Singapore Pte Ltd 2. Eagle 1 Pte. Ltd. 3. Eagle 2 Pte. Ltd. 4. Eagle 3 Pte. Ltd. 	<ol style="list-style-type: none"> 1. AnnAik Ltd 2. Gaylin Holding Ltd 3. United Fiber Systems Ltd 4. Ecowise Holdings Ltd
Present	<ol style="list-style-type: none"> 1. Hoe Leong Crawler Parts Pte. Ltd. 2. Arkstar Energy Pte Ltd 3. Arkstar Voyager Pte Ltd 4. Arkstar Ship Management Pte. Ltd. 5. Arkstar Offshore Pte. Ltd. 6. Arkstar Unicorn Pte. Ltd. 7. Arkstar Eagle 3 Pte. Ltd. 8. Semua Ship Agency and Supplies Private Limited 9. Tracskpares (Australia) Pty Ltd 10. Trackex Pty Ltd 11. Korea Crawler Track Ltd 12. Ho Leong Tractors Sdn. Bhd. 13. Ebony Ritz Sdn Bhd 14. Semua International Sdn Bhd 15. Semua Chemical Shipping Sdn Bhd 16. Mini Tanker Chartering Sdn Bhd 17. PT Trackspare 	<ol style="list-style-type: none"> 1. Chip Eng Seng Corporation Ltd. 2. Emerging Towns & Cities Singapore Ltd. 3. Advisor, Ascendas-Protrade Singapore Industry Tech Park, Ho Chi Minh City, Vietnam 4. President, Singapore Wushu Dragon and Lion Dance Federation 5. Advisor, Nanyang Ang Clan Guild Association 6. Exco Member, International Wushu Federation 7. Vice Chairman, Pei Hwa Federation 8. Director, Chinese Opera Institute

DISCLOSURE OF INFORMATION ON DIRECTORS SEEKING RE-ELECTION

	MR KUAH GEOK LIN	MR ANG MONG SENG
	18. Kunshan Kanto Buhin Manufacturing Co Ltd 19. Shenyang Mileguip Industry Co., Ltd 20. Quanzhou Kanto Buhin Machinery Manufacturing Co., Ltd 21. Hoe Leong Co. (Pte) Ltd. 22. Hoe Leong Metal & Machinery Pte Ltd 23. Hoe Leong Development Pte Ltd 24. HL Indo Trading Pte Ltd 25. Robin25 Pte Ltd 26. Bandarama Sdn Bhd 27. Ho Leong Precision Stamping Sdn Bhd 28. PT Sumber Bajatama 29. PT Batam General Supplier 30. Haikou Hoe Leong Machinery Co., Ltd 31. Hainan Hoe Leong Real Estate Development Co., Ltd 32. Shanghai Sinati Machinery Limited 33. Hoe Leong Plastic Industry (China) Ltd 34. Guizhou He Li Hydraulic Pressure Co., Ltd 35. Yunnan Realty Pte Ltd 36. Singapore Hokkien Huay Kuan 37. The Hokkien Foundation 38. Singapore Hokkien Huay Kuan Culture Academy Pte Ltd 39. Singapore Chinese Dance Theatre	

DISCLOSURE OF INFORMATION ON DIRECTORS SEEKING RE-ELECTION

	MR KUAH GEOK LIN	MR ANG MONG SENG
<p>Disclose the following matters concerning an appointment of director, chief executive officer, chief financial officer, chief operating officer, general manager or other officer of equivalent rank. If the answer to any question is “yes”, full details must be given.</p>		
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
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

DISCLOSURE OF INFORMATION ON DIRECTORS SEEKING RE-ELECTION

	MR KUAH GEOK LIN	MR ANG MONG SENG
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
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

DISCLOSURE OF INFORMATION ON DIRECTORS SEEKING RE-ELECTION

	MR KUAH GEOK LIN	MR ANG MONG SENG
Disclosure applicable to the appointment of Director only		
<p>Any prior experience as a director of a listed company?</p> <p>If yes, please provide details of prior experience.</p> <p>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.</p> <p>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).</p>	NA.	NA.

HOE LEONG CORPORATION LTD.

(Company Registration No.: 199408433W)
(Incorporated in the Republic of Singapore)

PROXY FORM FOR ANNUAL GENERAL MEETING

IMPORTANT:

1. Pursuant to Section 181(1C) of the Companies Act, Chapter 50 (the "Act"), Relevant Intermediaries may appoint more than two proxies to attend, speak and vote at the Annual General Meeting.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors are requested to contact their respective Agent Banks for any queries they may have with regard to their appointment as proxies.

(PLEASE SEE NOTES OVERLEAF BEFORE COMPLETING THIS FORM)

I/We _____ (Name) _____ NRIC/Passport No.)
of _____ (Address)
being a member/members of HOE LEONG CORPORATION LTD. (the "Company"), hereby appoint:-

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

*and/or

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

or failing *him/her, the Chairman of the Annual General Meeting (the "Meeting") as *my/our proxy/proxies to vote for *me/us on *my/our behalf at the Meeting of the Company to be held at No. 6 Clementi Loop, Copenhagen Meeting Room, 4th Floor, Singapore 129814 on day, 29 April 2019 at 10.00am and at any adjournment thereof.

*I/We direct *my/our *proxy/proxies to vote for or against the Ordinary Resolutions to be 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.

Resolutions No.	Ordinary Resolutions	For	Against
1	Directors' Statement and Audited Financial Statements for the financial year ended 31 December 2018		
2	Re-election of Mr Kuah Geok Lin as a Director		
3	Re-election of Mr Ang Mong Seng as a Director		
4	Approval of Directors' fee of SGD145,000 for the financial year ending 31 December 2019		
5	Re-appointment of Messrs KPMG LLP as Auditor		
6	Authority to issue shares		

(Please indicate your vote "For" or "Against" with a tick [✓] within the box provided.)

Signed this _____ day of _____ 2019.

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

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

* Delete accordingly

IMPORTANT:-

Please read the notes overleaf:



Notes:–

1. Except for a member who is a Relevant Intermediary as defined under Section 181(6) of the Companies Act, Chapter 50 of Singapore (the "Companies Act"), a member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two (2) proxies to attend and vote in his stead. Such proxy need not be a member of the Company.
2. Where a member of the Company appoints two (2) proxies, he shall specify the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each such proxy.
3. Pursuant to Section 181(1C) of the Companies Act, a member who is a Relevant Intermediary is entitled to appoint more than two proxies to attend, speak and vote at the meeting, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the proxy form.
4. The instrument appointing a proxy or proxies must be under the hand of the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or under the hand of its attorney or duly authorised officer.
5. A corporation which is a member of the Company may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Annual General Meeting, in accordance with its Constitution and Section 179 of the Companies Act.
6. The instrument appointing proxy or proxies, together with the power of attorney or other authority (if any) under which it is signed, or notarially certified copy thereof, must be deposited at the registered office of the Company at No. 6 Clementi Loop, Singapore 129814 not less than forty-eight (48) hours before the time set for the Annual General Meeting.
7. A member should insert the total number of shares held. If the member has shares entered against his name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert the number of shares. If the member has shares entered against his name in the Depository Register and shares registered in his name in the Register of Members of the Company, he should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by the member of the Company.
8. 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 members of the Company whose shares are entered against their names in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if such members are not shown to have shares entered against their names in the Depository Register seventy-two (72) hours before the time appointed for holding the Annual General Meeting as certified by The Central Depository (Pte) Limited to the Company.
9. A Depositor shall not be regarded as a member of the Company entitled to attend the Annual General Meeting and to speak and vote thereat unless his name appears on the Depository Register seventy-two (72) hours before the time set for the Annual General Meeting.
10. An investor who buys shares using CPF monies ("CPF Investor") and/or SRS monies ("SRS Investor") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Annual General Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Annual General Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Annual General Meeting.

"Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) or proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendances lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agent) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company(or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty."

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive:

James Kuah Geok Lin (Chairman and CEO)
Quah Yoke Hwee (Executive Director)
Paul Kuah Geok Khim (Executive Director)

Non-Executive:

Yeoh Seng Huat Geoffrey
(Lead Independent Director)
Hoon Ching Sing (Independent Director)
Ang Mong Seng (Independent Director)

AUDIT COMMITTEE

Hoon Ching Sing (Chairman)
Yeoh Seng Huat Geoffrey
Ang Mong Seng

NOMINATING COMMITTEE

Yeoh Seng Huat Geoffrey (Chairman)
James Kuah Geok Lin
Ang Mong Seng

REMUNERATION COMMITTEE

Ang Mong Seng (Chairman)
Hoon Ching Sing
Yeoh Seng Huat Geoffrey

COMPANY SECRETARY

Ang Siew Koon, ACIS

REGISTERED OFFICE

6 Clementi Loop
Singapore 129814
Tel : (65) 6463-8666
Fax : (65) 6564-7252
Website : <http://www.hoeleong.com>
Registration No. 199408433W

SHARE REGISTRAR

Tricor Barbinder Share Registration Services
(A division of Tricor Singapore Pte. Ltd.)
80 Robinson Road
#02-00
Singapore 068898

AUDITORS

KPMG LLP
16 Raffles Quay, #22-00
Hong Leong Building
Singapore 048581
Audit Partner-in-charge
Lucas Tran
Appointed with effect from financial year 2018

PRINCIPAL BANKERS

United Overseas Bank Limited
Standard Chartered Bank (Singapore) Limited



HOE LEONG CORPORATION LTD.

REGISTRATION NO.: 199408433W

6 CLEMENTI LOOP, SINGAPORE 129814

TEL: +65 6463 8666

FAX: +65 6564 7252