# Natural Cool Holdings Limited

ANNUAL REPORT 2018

# SPRING FORTH

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This Annual Report has been prepared by the Company and its contents have been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "Sponsor"), for compliance with the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Manual Section B: Rules of Catalist. The Sponsor has not verified the contents of this Annual Report.

This Annual Report has not been examined or approved by the SGX-ST. The Sponsor and the SGX-ST assume no responsibility for the contents of this Annual Report, including the accuracy, completeness or correctness of any of the information, statements or opinions made or reports contained in this Annual Report.

The contact person for the Sponsor is Ms Tan Pei Woon, Associate Director, Continuing Sponsorship (Mailing Address: 16 Collyer Quay, #10-00 Income at Raffles, Singapore 049318 and E-mail: sponsorship@ppcf.com.sg).

## VISION |

Natural Cool, the preferred choice in building solutions

## MISSION |

Enhancing the strength and trust in our Brand Name through: Safe, Superior, Reliable Products and Services, and Strategic Planning

## OUR VALUES |

OUR NAME, OUR BRAND
We fulfil promises to shareholders, customers and employees

CUSTOMER FOCUS
Customer satisfaction is our ultimate duty and responsibility

PEOPLE DEVELOPMENT
We identify and drive every staff to their fullest potential

TEAMWORK & UNITY
We win and grow through teamwork and unity

CREATIVITY
Our innovation sets us apart from the rest

SAFETY
Above all, we value lives and assets

# LETTER TO SHAREHOLDERS

## Dear Shareholders,

Last year, we made a number of difficult decisions which had an impact on our profitability. These decisions have proved prescient and we are happy that 2018 has sprouted green shoots of hope, and sparked some new businesses that we hope will make us stronger.

Business at our Aircon Division saw one of its best years and saw an almost 17.3% increase in revenues year-on-year. Almost every department in this division registered increased revenues. In particular, our trading department contributed substantially to this growth. Profitability however, was slightly impacted as the division had incurred more operating expenses to fuel this growth. 2018 also saw a number of contract wins from large corporate and government linked entities.

Embedded in the results of our Aircon Division are two of our recent investments – Natural Cool Asia Pte. Ltd. and JAD Solutions Pte. Ltd. – recorded profits, and shows much promise for future growth, both in Singapore and regionally.

Our Paint Division turned in an improved performance this year, growing its revenues by 12.9% year-on-year and reducing its losses to less than S$500,000 in 2018. With the sale of its property at 38 Lok Yang Way completed in November 2018, we are hopeful that the division will continue its performance momentum and deliver a watershed year in 2019.

Our Investment Division reported a smaller loss compared with 2017 but remains a challenge as the division is facing lower rental rates as our master tenancy at 29 Tai Seng Avenue is set to expire in August 2020. Nonetheless, we are actively considering the options available to us in regards to this building, and hope to have a clearer picture of the way forward later in 2019. Meanwhile, our investee company HMK Energy Pte Ltd continues to work on its exploration program.

On the corporate level, we are happy to report that all the significant litigation highlighted in our annual letter last year have been resolved, and the management fully focussed on growing the Group's business.

For 2019, we plan to continue to manage our businesses with prudence, keeping an eye out for opportunities to grow our revenues and profitability.

Indeed, you would have read that in February 2019 we announced a small investment in the food and beverage business that we hope will create a new source of revenue for our Group.

In the inaugural publication of our Sustainability Report, we have identified employment as a key Environmental, Social and Governance factor, and our employees a key stakeholder. We will continue to engage our employees to provide them training opportunities so that they will have meaningful careers with us. In addition, we continue to improve on staff welfare efforts and will be opening a new staff and recreation club at our building at 87 Defu Lane 10.

## APPRECIATION

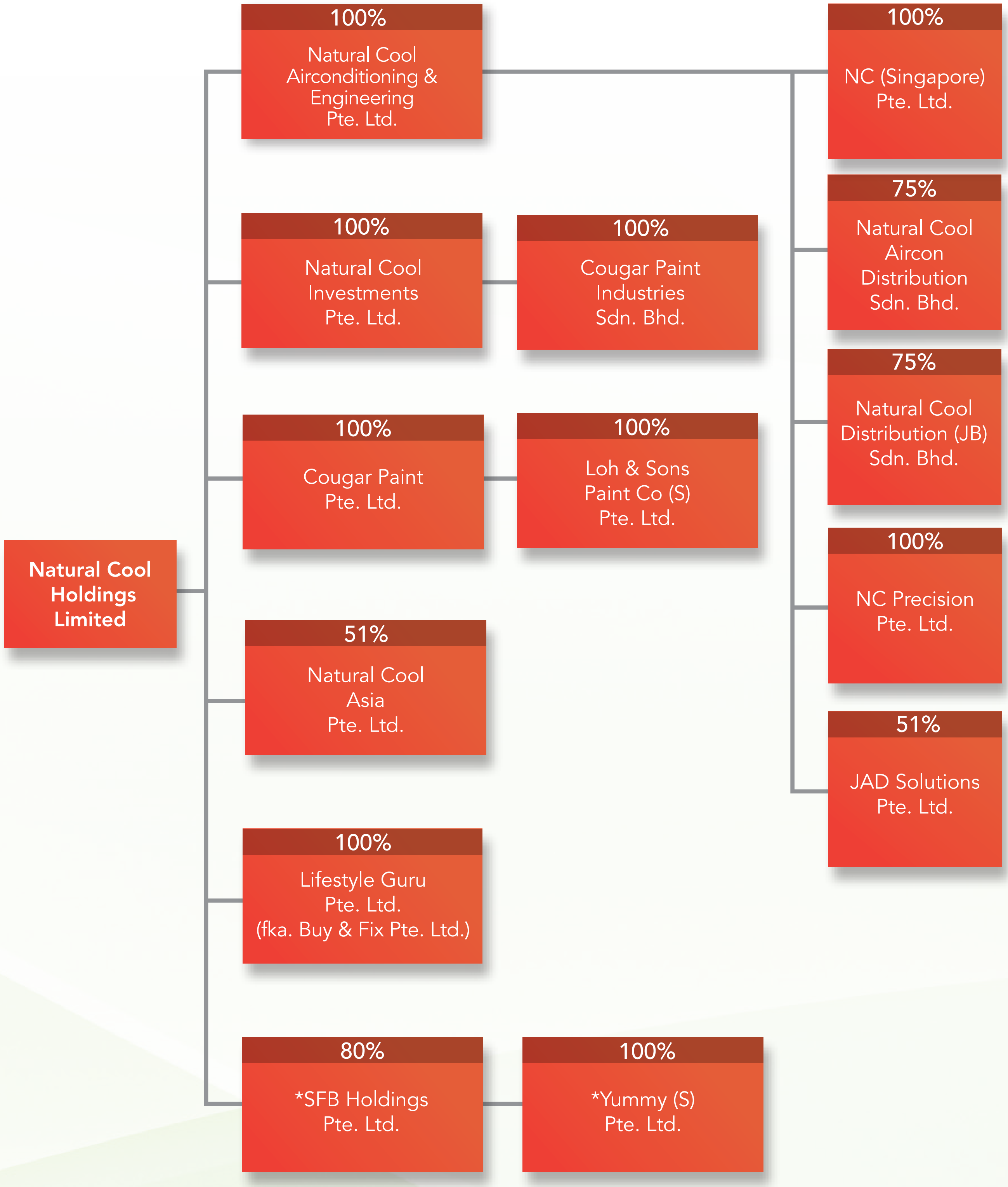
Finally, as always, we are mindful that our success is not possible without the support of all our stakeholders. Please continue to support our endeavours in the future.

Yours faithfully

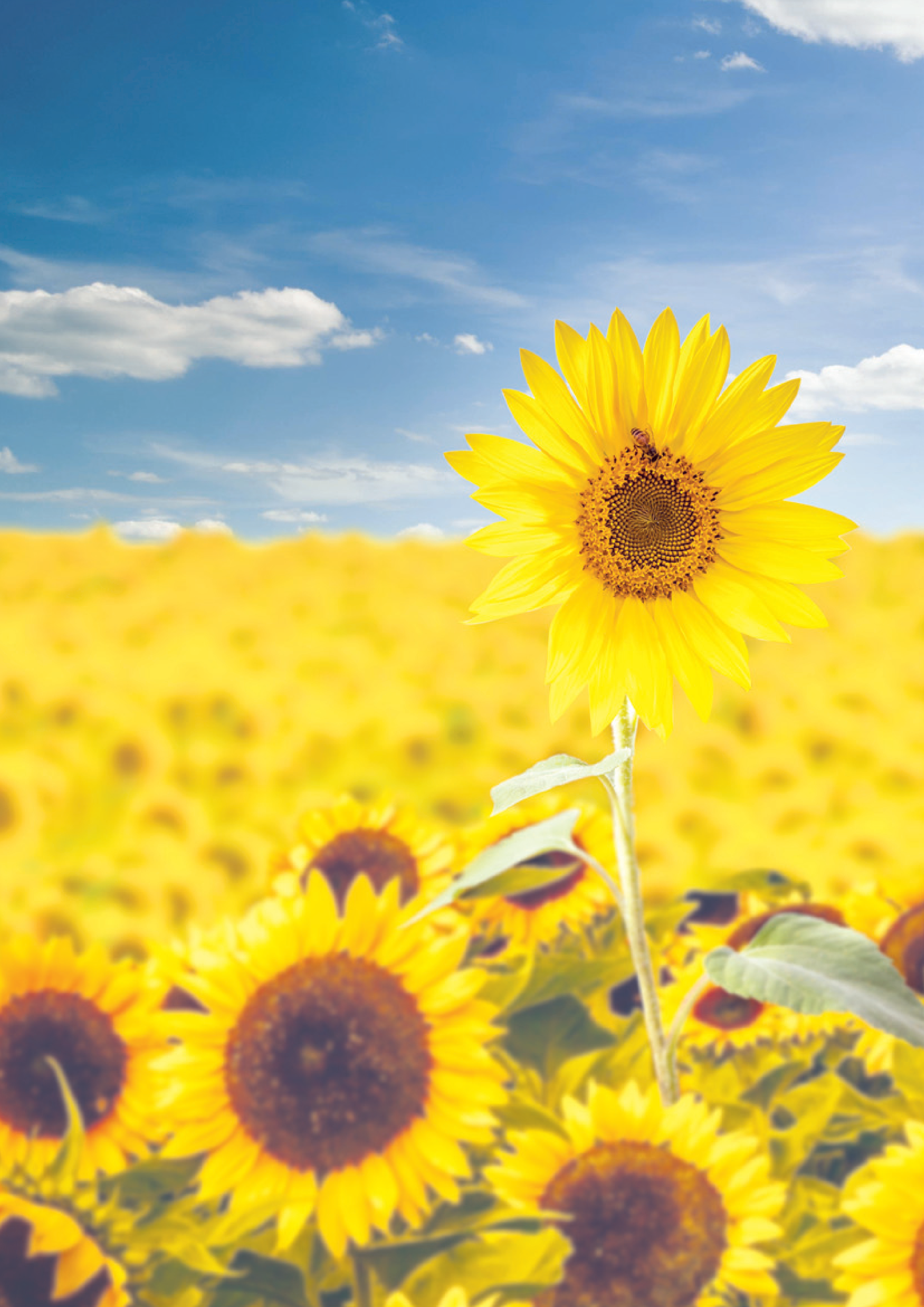
**Goh Teck Sia**
*Independent Non-Executive Director and Chairman*

**Tsng Joo Peng**
*Executive Director and Chief Executive Officer*

# CORPORATE STRUCTURE




* Both companies are incorporated in Year 2019.



## CULTIVATING VALUE

Over the years, Natural Cool has upheld its commitment in building a brand synonymous with reliability, safety and efficiency through its range of products and solutions. And amidst the headwinds we faced in the past year, we remained resilient and determined to plant the seeds for future growth. By constantly improving our capabilities and harnessing new technologies, we are able to address the changing needs of our customers and keep up with the heightened competition in the industry.

# BUSINESS PROFILE

## AIRCON DIVISION

Natural Cool's Aircon Division is the cornerstone of the Group's business and a recognised leader in the Aircon mechanical ventilation market in Singapore. We are proud of our high service standards as we constantly upgrade the skills of our repair and servicing staff, to proactively respond to all types of Aircon service requests and situations.

Natural Cool also has in place a team of in-house Aircon specialists to handle more complex repair and servicing services in commercial and industrial spaces. These include public institutions such as schools, hospitals, warehouses, commercial buildings like offices, shopping malls, retail and F&B establishments. Typically, commercial and industrial services in such non-standard buildings are subject to a tendering process as specialised knowledge is required to handle more sophisticated engineering demands.

Over the years, Natural Cool has acquired the necessary skills and knowledge to provide solutions to tackle Aircon mechanical ventilation systems problems. In addition, our Commercial Service Team is specially trained to provide facilities management services such as space planning, asset management and preventive maintenance of Aircon for smooth and uninterrupted operation.

Natural Cool's Aircon Division consists of our Commercial Installation Department, Trading Department and Mechanical & Electrical Department.

## COMMERCIAL INSTALLATION DEPARTMENT

Natural Cool's Commercial Installation Department provides Aircon systems and mechanical ventilation system installation services for commercial projects. Our commercial projects may relate to those in the public sector such as school campuses, bus depots, power substations and nursing homes, as well as private sector projects that include factories, offices, shopping malls, condominiums and residential landed properties.

Our commercial projects may be won via public tenders or by private invitations. For some projects, we provide only installation services, whereas for others, we provide turnkey services, including the procurement of Aircon systems.

Apart from the direct expand system installation, our Commercial Installation Department has also installed chilled water systems and cooling tower system for shopping malls such as One Raffles Place and commercial buildings such as Vision Exchange.

## TRADING DEPARTMENT

A One-Stop Aircon Equipment and Aircon Installation Materials Distribution Hub, located at Defu Lane and Bukit Batok Street 23. We add value to our contractor customers enabling them to compete effectively in Singapore by best sourcing of Aircon equipment and Aircon installation materials and accessories.

To do this, we represent all types of Aircon and equipment brands catering to the entire industrial, commercial and residential divisions, such brands included Mitsubishi Electric, Daikin, Panasonic, LG, Midea, York, Carrier and many more.

We also supply accessories including Aircon installation materials such as Aircon brackets, Aircon refrigerant gas, copper coil, wire, insulation, trunking, drain pipe, all other types of pipes and ducts, as well as industrial tools and equipment like electrical drills, drain pumps, screws, bolts and nuts, fasteners, and silicon applicators. Customers such as independent contractors find it useful and convenient as these items are housed under one roof and strategically located at our outlets in Defu Lane and Bukit Batok Street 23.

This capability makes our Trading Department the renowned Aircon Distribution Hub to the Aircon mechanical ventilation industry.

## MECHANICAL & ELECTRICAL DEPARTMENT

Over the years, Natural Cool's Mechanical & Electrical Department has trained a group of specialised people to provide solutions for building management to prepare ourselves for a role in to act as Managing Agent ("MA") for commercial buildings or commercial/industrial estates. We currently possess the full spectrum of skills required for the further expansion to acquire more MA contracts.

For greater customer convenience through social media marketing and software integration, we offer our flagship Service and Maintenance Contracts to both residential housing and commercial buildings. Customised sitemap and wireframe allow customers to better address their needs with more efficient response and effective results provided. Better interactions with technology to streamline our internal processes, explore new communication channels thereby to achieve cost effectiveness to our customers.

The business of our highly specialised Mechanical & Electrical Department is conducted through its Commercial and Retail Service Teams and its Fire Protection Team.

JAD Solutions Pte. Ltd. ("JAD"), is a high containment facility engineering company that the Group acquired in August 2018 that focuses on the healthcare, bio-medical industry and petrochemical research facilities by providing consultancy, integration of components, installation, testing, commissioning and the final accreditation to such industries.

## PAINT DIVISION

Natural Cool's Paint Division has over 20 years of history in the paint business supporting the construction and marine industry through our flagship Cougar Brand. Cougar Brand manufactures a complete range of cost-effective products which ranges from enamel coatings, epoxy coatings, PU coatings and solvents.

Through the years the Company has transformed from a backyard manufacturer to becoming a leading supplier of coatings and solvents.

## INVESTMENT DIVISION

Natural Cool's Investment Division was established to hold the non-core business activities of the Group, and holds the master tenancy to our corporate headquarters at 29 Tai Seng Avenue.

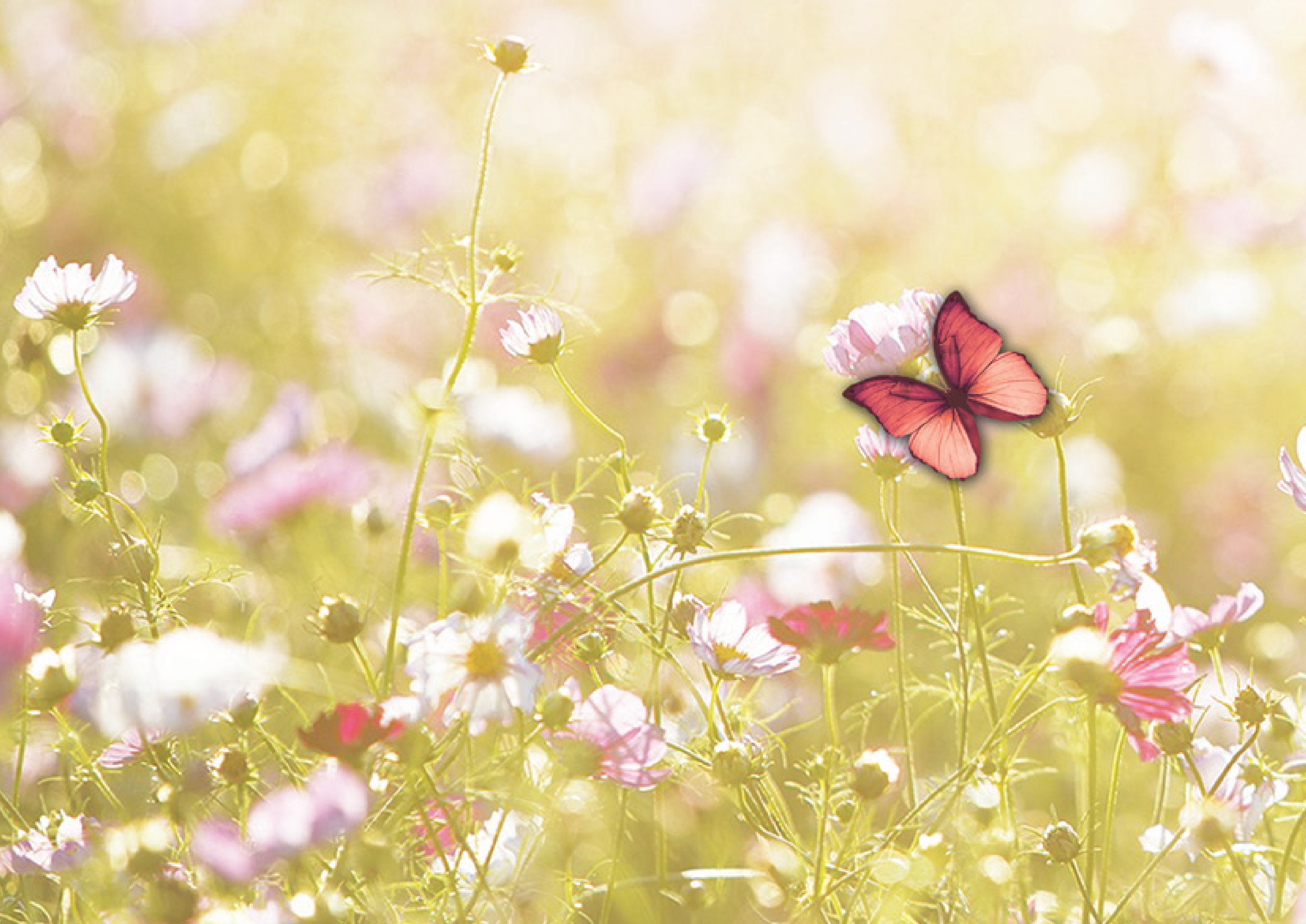
## REGIONAL BUSINESS DIVISION

Natural Cool Asia Pte. Ltd. ("NCA") was formed in August 2017 to spearhead and expand the Group interests into the regional markets for HVAC related products and services.

NCA was appointed Authorised Distributor by Panasonic for its full and complete range of commercial Aircon products for the regional markets including Bangladesh, Myanmar, Cambodia, Maldives and Nepal.

# RAISING ASPIRATIONS

The transition through a new season can present both opportunities and challenges, and one must possess the ability to adapt and evolve to thrive in changing conditions. Similar to the migration of the monarch butterfly in springtime, the Group strives to go beyond and explore opportunities that lie ahead. Our pursuit of new potential is in line with our goal to further strengthen our position and create greater value for our shareholders.



# OPERATIONS REVIEW

## COMMERCIAL INSTALLATION DEPARTMENT

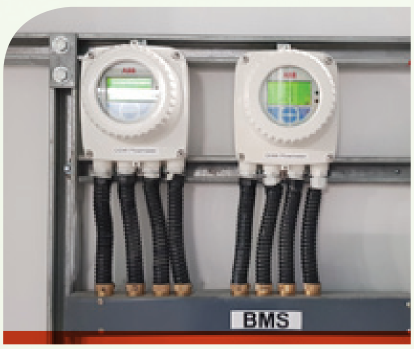
2018 was an eventful year for us at Commercial Installation. Apart from successfully completing several projects during the year, we have also commenced a number of high-profile projects such as, constructing air-conditioning systems in the buildings of Sembawang Neighbourhood and Defu City.


### Waterhub Building @ Toh Guan Road East

Worth about S$2 million in project value, we were involved in the additions & alterations works for a 6-storey office annex building the Waterhub building, where we installed the Aircon and Mechanical Ventilation ("ACMV") Chilled Water Systems and Building Management System ("BMS") for the entire project.

For this project, there were 28 mechanical ventilation exhaust/fresh air fans, 2 chilled water systems, 2 chilled water pumps, 6 air handling units and etc being installed.

The project was completed in September 2018.




## Sembawang Neighbourhood

Worth about S$7 million in project value, we are responsible for the fabrication, supply, installation and testing the ACMV, building automation system and smoke curtain works for this project.

In this project, we will install about 246 units of chilled water fan coil units, 108 of mechanical ventilation exhaust/fresh air fans and few sets of chilled water systems for the building.

This project is expected to complete in 2019.

## Defu City at Defu South

Following the above projects, we also won a role in the new Defu City project worth about S$17 million and the work commenced in April 2017. Defu City is a multi-user industrial development (factory units each with a mezzanine floor for ancillary office), with an ancillary workers' dormitory and ancillary staff canteen. At Defu City, we are responsible for the installation of ACMV, a smoke purging system, and engineered smoke control system for the entire project.

Currently the construction is still in the progress and we are expected to complete by 2020.

# OPERATIONS REVIEW

## TRADING DEPARTMENT

2018 was another busy year for Trading Department as we faced a more competitive market in Singapore. In order to address this, we continued to embark on a number of marketing initiatives which we set out below. We are pleased with the results of these initiatives which we intend to continue in the coming year.

### No Horse Run ("NHR") Breakfast

We continued to organise weekly NHR breakfast networking session every Friday to connect Aircon manufacturer and/or suppliers and contractors. At these sessions, technical support staff representing our principals were available to give technical advice and receive feedback from customers and contractors regarding their Aircon products and equipment.

### Natural Cool Annual Dinner and Dance

We invited our customers and contractors to join in Natural Cool's Annual Dinner and Dance to celebrate together the progressive growth of our business and build stronger relationship with them.

### Environmental Sustainability

We are committed to follow NEA's requirement to sell air-conditioners with energy labels that have an energy efficiency of 2 ticks and above. Our sales consultants are committed in educating our contractor customers to follow this requirement and we regularly conduct technical trainings for our contractors, updating them on R410A and R-32 refrigerant air-conditioners and product knowledge.

## MECHANICAL & ELECTRICAL DEPARTMENT

The Mechanical & Electrical business unit continue to build and position ourselves to compete with our peers. We record even higher income growth in 2018 despite the slow in economy.

Our Commercial Service Team has fully developed a full spectrum of skills sets required in our industry and are ready to respond to a more sophisticated market.

Our Retail Service Team has earned more fruitful results and market shares since we launched our "Lifestyle Guru" website serving as a platform for the consumers to reach us for services with ease.

Our Fire Protection Team had since made some major advancement in this Department. Besides sprinkles, hose reel, dry riser and conventional fire alarm systems, we are also capable to handle systems as follows:

1. FM 200 System
2. VESDA System
3. Novac 123 System
4. Addressable Fire Able System
5. Dry Sprinkler
6. Pre Action System

We had also been successfully awarded as the Main Contractor for Singtel's Data Centres which include builder's work, mechanical & electrical work from 2018 to 2021.

## PAINT DIVISION

Despite the challenging market conditions, the Paint Division has successfully achieved strong sales growth for 2018 as compared to 2017.

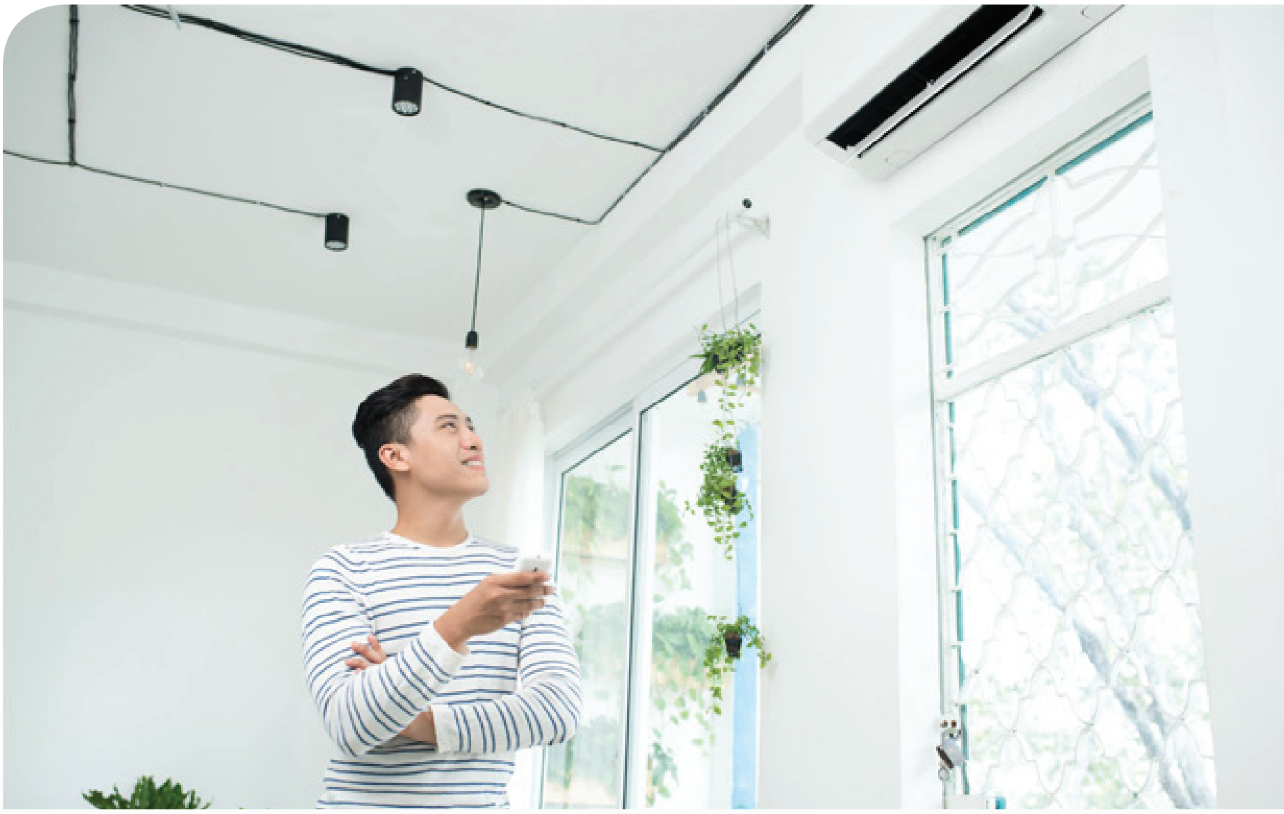
With our manufacturing facility strategically positioned in Malaysia, the team together with our partners have been capitalising and securing new coatings sales in that region. As part of our ongoing efforts for innovation drive, the Paint Division is constantly developing new technical solutions in addition to our current range to support the protective coating needs for the market.

Amidst the Paint Division is throttle towards growth and expansion, the team strongly believes that the key success factor are our employees which are most important asset.

## REGIONAL BUSINESS

NCA has achieved a very encouraging first year sales performance, barring any unforeseen circumstances, we are confident that sales will continue to grow.

# FINANCIAL REVIEW



## REVIEW OF INCOME STATEMENT

Our Group generated revenue of S$136.7 million for the financial year ended 31 December 2018 ("FY2018"), an increase of S$19.3 million, or 16.4% compared to S$117.4 million in the financial year ended 31 December 2017 ("FY2017"). Our Aircon Division reported an increase in revenue of S$19.1 million, or 17.3% compared to FY2017. The increase in revenue was mainly due to higher sales to aircon wholesalers booked by our trading department, and the full year contribution of revenue from regional sales by our 51%-owned subsidiary, Natural Cool Asia Pte. Ltd.. Our Paint Division also reported an increase in revenue of S$0.4 million, or 12.9% compared to FY2017. Investment Division recorded lower revenues of S$0.2 million.

Gross profit margins were 14.0% in FY2018, 0.2 percentage points higher than FY2017. Gross profit margins improved at our Aircon Division's commercial installation department, Lifestyle Guru subsidiary, and at our Investment Division.

Other income increased by S$0.6 million or 93.4% in FY2018 mainly due to the recovery of legal expenses from our insurers of S$0.3 million.

Distribution expenses increased by S$0.7 million or 46.8% in FY2018 mainly due to higher entertainment expenses, travelling expenses and commission expenses as a result of our increased business development efforts.

There was no significant fluctuation in administrative expenses in FY2018 compared to FY2017.

Other expenses decreased by S$3.5 million or 96.2% in FY2018. Impairments on property, plant and equipment, and intangible assets, as well as provision for onerous contracts incurred in FY2017 of S$2.5 million did not recur in FY2018.

Finance costs increased by S$0.3 million or 57.6% in FY2018 mainly due to interest costs incurred on the loan for the building at 87 Defu Lane that we acquired during the year.

We utilised the group relief scheme to transfer the current and prior year trade losses from the holding company to our profitable subsidiary to reduce the Group's tax expenses.

Arising from the above, we reported a profit after income tax of S$0.2 million in FY2018.

# FINANCIAL REVIEW

## REVIEW OF STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment decreased by S$1.5 million or 4.3% in FY2018 mainly due to depreciation of S$2.3 million for the year and disposal of assets (including two properties at Toh Guan Road) of S$3.8 million. However, we also incurred renovation expenditure of S$3.0 million, purchases of motor vehicle of S$0.8 million and other plant and equipment of S$0.5 million.

Intangible assets and goodwill increased by S$1.4 million or 227.3% mainly due to the goodwill arising from the acquisition of a 51% interest in JAD amounting to S$1.4 million, reduced by amortisation expenses relating to other intangible assets of S$0.2 million.

Asset held for sale in FY2017 related to our property located at 38 Lok Yang Way which was sold in November 2018.

Contract assets increased by S$1.6 million or 374.8% due to the higher volume works performed on certain projects but not billed to customers towards the end of FY2018.

Trade and other receivables increased by S$3.7 million or 23.1% as compared to FY2017 mainly as a result of higher sales volume contributed by our Aircon Division towards the end of FY2018 and accrued revenue for maintenance works performed.

Loans and borrowings (current and non-current) decreased by S$1.6 million or 6.2% mainly due to the full repayment of the loan relating to our property located at 38 Lok Yang Way amounting to S$4.3 million, general loan repayment of S$1.2 million, and hire purchases repayment amounting S$0.3 million. However, we recorded new hire purchase liabilities of S$0.5 million and an increase in bills payable of S$2.9 million for the purchase of inventories. The remaining increase was due to borrowings by JAD which was acquired in FY2018.

Trade and other payables increased by S$2.4 million or 13.8% in FY2018 mainly due to higher purchases made by our Aircon Division in November and December 2018.

Provisions (comprising current and non-current) decreased by S$0.6 million or 20.2% mainly due to the utilisation of the provision of onerous contract during FY2018 which was credited to our Group's income statement.

Contract liabilities increased by S$0.6 million or 4.4% in FY2018.

Current tax payable decreased by S$0.1 million or 20.9% mainly due to the Group transferring current and prior year trade losses from the holding company to our profitable subsidiary through the group relief scheme.

## REVIEW OF STATEMENT OF CASH FLOWS

In FY2018, our Group recorded net cash inflow of S$2.3 million before changes in working capital.

Our working capital outflows of S$1.7 million was due mainly to increases in trade and other receivables of S$1.3 million, contract assets of S$1.6 million and trade and other payables of S$1.8 million. The increase in trade and other receivables and trade and other payables are generally in line with the increases in our business activities towards the end of FY2018. These was offset by the reduction in provision of S$0.8 million.

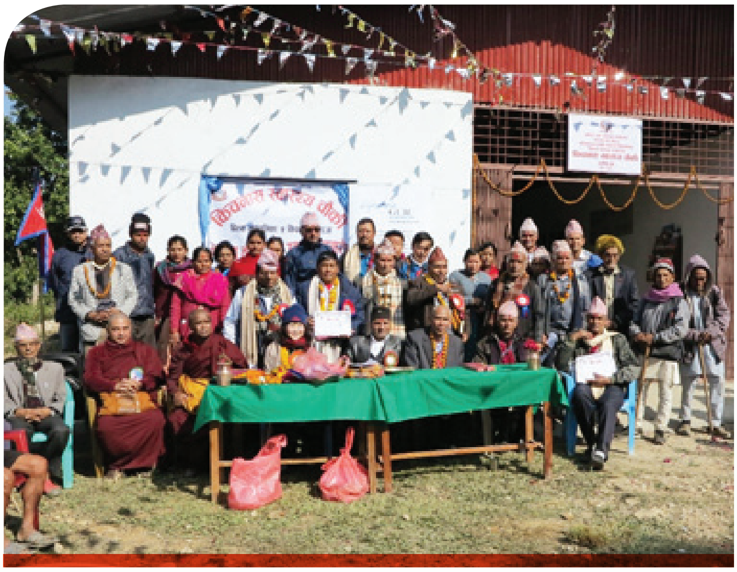
The Group recorded net cash generated from investing activities of S$2.5 million in FY2018 mainly due to the proceeds received from the sale of properties located in Toh Guan Road and 38 Lok Yang Way amounting to S$8.0 million. These was offset by the purchases of plant and equipment of S$3.9 million and acquisition of a 51% interest in a new subsidiary – JAD of S$1.5 million.

The Group recorded net cash used in financing activities of S$3.1 million in FY2018 mainly due to loan repayments.

As a result, our Group's cash and cash equivalents increased by S$0.1 million in FY2018.

## NEPAL PROJECT

In early 2017 our Audit Committee Chairman Ms Lau Lee Hua represented Natural Cool and visited Nepal to explore the needs for reconstruction after a devastating earthquake struck in 2015. During the visit, a few schools and medical centres in remote mountainous areas were visited and assessed.



Based on the damage assessed and prioritising urgent needs, plans and budget were provided for the construction of a medical centre in remote Kichanas. Funds were raised and construction efforts kicked off in late December 2017 with a group of Singaporeans working on the building foundation of this facility.

The 1,600 sq ft medical centre will serve to benefit some 70,000 people in the mountain villages in Kichanas which is only accessible by off road vehicles. The building was completed in 2018 and includes one delivery room, two wards, medical store, treatment room, an office with a reception that can accommodate an ambulance driving in.

A Grand Opening Ceremony was held in December 2018 with a one-day free medical check-up for the locals. Two doctors and five nurses served at the medical centre with the support of the local government, village heads, and four women committees, with medical supplies brought in by the volunteers.

Natural Cool, represented by Ms Lau, is proud to have participated in this project.

## BLOOD DONATION CAMPAIGN 2018

On 23 November 2018, Natural Cool participated in a blood donation campaign for the first time in its history. During this drive, 17 bags of blood were collected. These would be used to save precious lives during accidents and emergencies and to sustain the lives of people with medical conditions.

# CORPORATE SOCIAL RESPONSIBILITIES

## BANK'S CHARITY EFFORTS SPREAD CHINESE NEW YEAR CHEER

We are once again, happy to partner with UOB in continuing to help those in under-privileged circumstances in our community.

Led by Mr Wee Ee Cheong, UOB's Deputy Chairman and Chief Executive Officer, our Chief Investment Officer, Mr Benjamin Choy, and Executive Director of our Paint Division, Mr Lim Chiang Wei, joined close to 200 UOB employees and clients, in preparing 130 beneficiaries from the Society for the Physically Disabled ("SPD") charity to usher in the Chinese New Year on 24 January 2018.

SPD is a local charity which works with adults, youth and children with disabilities.

The team lent a hand to more than 40 people from SPD in stocking up on their Chinese New Year groceries, treats and household supplies from each person's wish list were bought at the FairPrice Xtra supermarket in Kallang Wave. They then moved to the SPD Tiong Bahru headquarters for festive feasting where Mr Wee gave out red packets and goodie bags containing cookies, coffee and pineapple tarts. Children were also given an additional treat of t-shirts and stationery.

## MR GOH TECK SIA
*INDEPENDENT NON-EXECUTIVE DIRECTOR AND CHAIRMAN OF THE BOARD*

Mr Goh was appointed as an Independent Non-Executive Director of the Company on 8 February 2017. He is the Chairman of the Board, Chairman of our Remuneration Committee and a member of the Company's Audit and Nominating Committees.

Mr Goh was a career police officer and he retired from the Singapore Police Force ("SPF") in end January 2017 after serving for about 50 years.

During his long and illustrious career, he served in senior positions in units including Police Academy, Special Operations Command (Police Task Force), Police Operations Department and Criminal Investigation Department. Mr Goh also served in a number of Police Land Divisions such as Central Police Division, Beach Road Police Division and Tanglin Police Division.

Prior to his retirement, Mr Goh was the Head, Support & Technical cum Head Discipline at Tanglin Police Division holding the rank of Deputy Superintendent of Police.

Mr Goh received the Long Service Medal in 1995, and the Commendation Medal in 2005. He also received the Appreciation Certificate in 2010 from the President of Singapore and Congratulatory Note from the Permanent Secretary, Ministry of Home Affairs in 2016 for his services and contributions to the nation.

On 23 March 2019, Mr Goh was appointed as the Vice-President of the Singapore Police Retirees Association ("SPRA").

| Past directorships in listed companies (For last three years) | Present directorships in listed companies (Other than the Company) |
|---|---|
| None | None |

## MR TSNG JOO PENG
*EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER*

Mr Tsng was appointed to our Board on 1 August 2005 (Date of last re-appointment as Director: 26 April 2018) and he was appointed as our Group Chief Executive Officer ("CEO") on 31 October 2013. As CEO, he is primarily responsible for overseeing strategic planning, overall business expansion and management of our Group. Mr Tsng has been a Director of Natural Cool since 1993. Prior to joining our Company, Mr Tsng was a Director and Shareholder of Aircon Designs Pte. Ltd., Aircon Designs Services Pte. Ltd., QPA Pte. Ltd., Quality Perfect Assurance Pte. Ltd. and NC Airconditioning Pte. Ltd..

| Past directorships in listed companies (For last three years) | Present directorships in listed companies (Other than the Company) |
|---|---|
| None | None |

## MR WONG LEON KEAT
*MANAGING DIRECTOR AND CHIEF CORPORATE OFFICER*

Mr Wong was appointed as an Executive Director of the Company on 8 February 2017 and Managing Director of the Company on 28 April 2017. As Managing Director, he is responsible for execution of the Company's business strategies and plans, overseeing financial, administrative, human resources, investor relations, regulatory and compliance functions.

Mr Wong has 20 years of experience in professional services and private equity investment in companies, some of which he still holds directorships in, none of which are executive in nature.

Mr Wong holds a Bachelor of Accountancy degree from the Nanyang Technological University and is a Public Accountant of Singapore and an Approved Liquidator registered with the Accounting and Corporate Regulatory Authority. He is also a Fellow Member of the Singapore Association of the Institute of Chartered Secretaries and Administrators and an Accredited Tax Practitioner with the Singapore Institute of Accredited Tax Professionals.

| Past directorships in listed companies (For last three years) | Present directorships in listed companies (Other than the Company) |
|---|---|
| None | None |

# BOARD OF DIRECTORS

## MS LAU LEE HUA
*INDEPENDENT NON-EXECUTIVE DIRECTOR*

Ms Lau was appointed as an Independent Non-Executive Director of the Company on 8 February 2017. She is the Chairman of our Audit Committee and a member of the Company's Nominating and Remuneration Committees.

Ms Lau is the proprietor-auditor of Lau Lee Hua & Co., a public accounting firm, since 1995. She is a practising member of Institute of Singapore Chartered Accountants having been admitted in 1995 and upgraded to a Fellow of the Association of Chartered Certified Accountants in 1997. She is a Public Accountant of Singapore and an Approved Liquidator registered with the Accounting and Corporate Regulatory Authority. She was appointed as Honorary Treasurer of the Movement for the Intellectually Disabled of Singapore, a voluntary welfare organisation, on 28 September 2013 and on 30 September 2017, she was appointed as Honorary Auditor. Ms Lau was awarded the "Long Service Award" by the People's Association in 2001 and the "MINDS Meritorious Service Award" by Movement for the Intellectually Disabled of Singapore in 2009.

Past directorships in listed companies
(For last three years)

Gaylin Holdings Limited

Present directorships in listed companies
(Other than the Company)

None

## MR MAHTANI BHAGWANDAS
*INDEPENDENT NON-EXECUTIVE DIRECTOR*

Mr Mahtani was appointed as an Independent Non-Executive Director of the Company on 9 December 2018. He is the Chairman of our Nominating Committee and a member of the Company's Audit and Remuneration Committees.

Mr Mahtani is a lawyer by profession and commenced practice as an Advocate and Solicitor of the Supreme Court of Singapore since 1993. Currently, he is a Senior Partner with LegalStandard LLP, a law firm in Singapore that specialises in commercial practice including commercial litigation work, and is also an Independent Director of SGX-listed GRP Limited. Formerly (past three years) he was an Independent Director of Alliance Mineral Assets Limited, SBI Offshore Limited and GKE Corporation Limited, Singapore. Mr Mahtani also holds several directorships in privately-held companies. Mr Mahtani graduated from the National University of Singapore with a Bachelor of Law (Honours) degree in 1992.

Past directorships in listed companies
(For last three years)

Alliance Mineral Assets Limited
SBI Offshore Limited
GKE Corporation Limited

Present directorships in listed companies
(Other than the Company)

GRP Limited

# KEY MANAGEMENT

## MR NEO HAN CHENG

*DIRECTOR AND CHIEF OPERATING OFFICER, NATURAL COOL AIRCONDITIONING & ENGINEERING PTE. LTD.*

Mr Neo was appointed to his current position on 19 July 2007 and is primarily responsible for the overall management, business planning and daily operations of Natural Cool Airconditioning & Engineering's Commercial Installation Department. Mr Neo joined our Group in 1997 and was promoted to an Assistant General Manager in 2005 where he was responsible for the implementation and evaluation of marketing strategies for Natural Cool Airconditioning & Engineering. Prior to his appointment as Assistant General Manager, Mr Neo was a Project Manager of Natural Cool Airconditioning & Engineering for seven years. From 1994 to 1997, he worked as a Technical Officer in the Port of Singapore Authority, where he was responsible for the supervision of the maintenance and servicing of mechanical and electrical building services. Mr Neo graduated with a Diploma in Manufacture Engineering from Singapore Polytechnic in 1990.

## MR TAN KIAN YONG

*DIRECTOR, NATURAL COOL AIRCONDITIONING & ENGINEERING PTE. LTD.*

Mr Tan was appointed as a Director of Natural Cool Airconditioning & Engineering on 15 February 2017. He is primarily responsible for the Mechanical & Electrical Department, including the Retail and Commercial Service Teams and Fire Protection Teams. He is also currently assisting the Group in some of its mergers and acquisition and joint ventures activities.

Mr Tan joined our Group as a Service Manager in 2002 and was promoted to an Assistant General Manager in year 2005 and seconded to the Group's Shanghai office from April 2006 to December 2008, responsible for business development, planning for both M&E installation projects and service and maintenance projects and was responsible for its daily operations. Mr Tan is also a Director of NC (Singapore) Pte. Ltd., a subsidiary of Natural Cool Airconditioning & Engineering Pte. Ltd. since January 2009, where he is responsible for the overall management, business planning and strategic execution of its operations.

## MR LEE WAN KAH

*DIRECTOR, NATURAL COOL AIRCONDITIONING & ENGINEERING PTE. LTD.*

Mr Lee joined the Group in 15 April 2006 as a Manager in one of the Group's former subsidiaries. In early 2009, he was transferred to Natural Cool Investments Pte. Ltd. to be Personal Assistant to Director (Special Project), and left the Group at the end of 2009 to pursue his own interests.

Mr Lee returned to the Group in 2012 as a Director of our Trading Department and was appointed as a Director of Natural Cool Airconditioning & Engineering on 15 February 2017. He is primarily responsible for the performance of our Trading Department at both our Defu Lane and Bukit Batok outlets, including overall management, business planning and daily operations. Mr Lee's business experience and astuteness lead Trading Department's sales to improve year-on-year since 2012, increasing our industry market share in Singapore. He spearheaded the expansion of Natural Cool's brand name into Malaysia, and set up outlets in Johor Bahru and Kuala Lumpur in 2015. He is also responsible for the implementation of business and evaluation of marketing strategies to capture local market share and improve sales in Malaysia.

## MR CHOY BING CHOONG

*CHIEF INVESTMENT OFFICER*

Mr Choy joined the Company as Chief Investment Officer in July 2014.

He is responsible for formulating, planning and executing the Company's corporate strategies, charting the growth of the Group through identification of merger and acquisition opportunities, management of the Group's investments more effectively by working closely with our Chief Corporate Officer and Chief Executive Officer.

Mr Choy has more than 25 years of work experience in a variety of roles in multiple industries and countries. Prior to joining our Company, he spent 8 years with the Corporate Finance Department at CIMB Bank Berhad, Singapore Branch, where he last held the position of Director, Corporate Finance. Before his stint at CIMB Bank Berhad, Singapore Branch, Mr Choy spent 3 years at the Corporate and Capital Markets Group in Rajah & Tann.

He is a Chartered Accountant (Singapore) and holds a Bachelor's of Accountancy Degree from the National University of Singapore.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS
Mr Goh Teck Sia
*Independent Non-Executive Director and Chairman*

Mr Tsng Joo Peng
*Executive Director and Chief Executive Officer*

Mr Wong Leon Keat
*Managing Director and Chief Corporate Officer*

Ms Lau Lee Hua
*Independent Non-Executive Director*

Mr Mahtani Bhagwandas
*Independent Non-Executive Director*

## AUDIT COMMITTEE
Ms Lau Lee Hua
*Chairman*

Mr Mahtani Bhagwandas
*Member*

Mr Goh Teck Sia
*Member*

## NOMINATING COMMITTEE
Mr Mahtani Bhagwandas
*Chairman*

Ms Lau Lee Hua
*Member*

Mr Goh Teck Sia
*Member*

## REMUNERATION COMMITTEE
Mr Goh Teck Sia
*Chairman*

Ms Lau Lee Hua
*Member*

Mr Mahtani Bhagwandas
*Member*

## COMPANY SECRETARY
Ms Yeoh Kar Choo Sharon

## AUDITOR
KPMG LLP
16 Raffles Quay
#22-00 Hong Leong Building
Singapore 048581

Partner-in-charge
Mr Phuoc Tran
(With effect from financial year 2016)

## CATALIST CONTINUING SPONSOR
PrimePartners Corporate Finance Pte. Ltd.
16 Collyer Quay
#10-00 Income at Raffles
Singapore 049318

## REGISTERED OFFICE
29 Tai Seng Avenue
#07-01 Natural Cool Lifestyle Hub
Singapore 534119
Tel: (65) 6454 5775
Fax: (65) 6454 6776
Website: www.natcool.com

## SHARE REGISTRAR
B.A.C.S. Private Limited
8 Robinson Road
#03-00 ASO Building
Singapore 048544

## PRINCIPAL BANKERS
United Overseas Bank

## INVESTOR RELATIONS
Email: corporateaffairs@natcool.com

# 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:

(a) the financial statements set out on pages 27 to 102 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50, Singapore Financial Reporting Standards (International) and International Financial Reporting Standards; 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 statement are as follows:

| | |
|---|---|
| Goh Teck Sia | Independent Non-Executive Chairman |
| Tsng Joo Peng | Executive Director and Chief Executive Officer |
| Wong Leon Keat | Executive Director, Chief Corporate Officer and Managing Director |
| Lau Lee Hua | Independent Director |
| Mahtani Bhagwandas | Independent Director (Appointed on 9 December 2018) |

## 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 children) in shares, debentures, warrants or share options in the Company and in related corporations (other than wholly-owned subsidiaries) 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 |
|---|---|---|
| **The Company** | | |
| Ordinary shares | | |
| Tsng Joo Peng | | |
| - interest held | 16,300,000 | 16,300,000 |
| - deemed interest | 1,048,426 | 1,048,426 |
| Wong Leon Keat | | |
| - interest held | 12,000,000 | – |
| - deemed interest | 11,200,000 | 23,200,000 |

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

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.

# DIRECTORS' STATEMENT

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

During the financial year, there were:

(i) no options granted by the Company or its subsidiaries to any person to take up unissued shares in the Company or its subsidiaries; and

(ii) no shares issued by virtue of any exercise of option to take up unissued shares of the Company or its subsidiaries.

As at the end of the financial year, there were no unissued shares of the Company or its subsidiaries under option.

## Audit Committee

The members of the Audit Committee during the year and at the date of this statement are:

- Lau Lee Hua (Chairman), Independent Director
- Goh Teck Sia, Independent Director
- Mahtani Bhagwandas, Independent Director

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

The Audit Committee has held two meetings since the last directors' statement. In performing its functions, the Audit Committee met with the Company's external and internal auditors to discuss the scope of their work, the results of their examination and evaluation of the Company's internal accounting control system.

The Audit Committee also reviewed the following:

- assistance provided by the Company's officers to the internal and external auditors;
- half yearly 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 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.

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 our auditors for the Company and subsidiaries, we have complied with Rules 712 and 715 of the SGX Listing Manual.

**Auditors**

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

On behalf of the Board of Directors

| | |
|---|---|
| **Tsng Joo Peng**<br>*Director* | **Wong Leon Keat**<br>*Director* |

29 March 2019

# INDEPENDENT AUDITOR'S REPORT

Members of the Company
Natural Cool Holdings Limited

## Report on the audit of the financial statements

*Opinion*

We have audited the financial statements of Natural Cool Holdings Limited (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2018, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 27 to 102.

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) and International Financial Reporting Standards (IFRSs) 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 *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with 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.

| **Valuation of non-financial assets**<br>**(Refer to Notes 4 and 5 to the financial statements)** | |
|---|---|
| *The key audit matter* | *How the matter was addressed in our audit* |
| As at 31 December 2018, the Group's market capitalisation was below its net assets. This is an indication that the Group's non-financial assets may be impaired. The Group performed an impairment assessment of its non-financial assets by estimating the recoverable amounts of its three cash generating units ("CGUs") – Aircon CGU, Paint CGU and Investment CGU. The recoverable amount of each CGU has been derived based on their values in use from the respective cash flow forecasts. Forecasting future cash flows is a highly judgemental process which involves making assumptions relating to estimates on revenue growth, gross profit margin, operating expenses and the discount rates. | We assessed the Group's process of setting budgets on which the cash flow forecasts are based.<br>The key assumptions including, revenue growth, gross profit margin and operating expenses were assessed by comparing them to historical results, market data and industry forecasts. This includes making enquiries with management about their business strategies and plan on revenue growth and profitability.<br>We assessed the discount rates used by reference to comparable companies' weighted average cost of capital.<br>We performed sensitivity analysis around the key drivers of the cash flow forecasts, in particular the revenue growth, gross profit margin and operating expenses.<br>We assessed whether the disclosures were appropriate.<br>*Our findings*<br>We found the estimates used in the cash flow forecasts to be balanced and the disclosures in the notes to the financial statements to be appropriate. |

*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 auditor's report thereon.

We have obtained all other information prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*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 IFRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

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

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

*Auditor's responsibilities for the audit of the financial statements*

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless 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 auditor's report is Phuoc Tran.

**KPMG LLP**
*Public Accountants and*
*Chartered Accountants*

**Singapore**
29 March 2019

# STATEMENTS OF FINANCIAL POSITION

As at 31 December 2018

| | | Group | | | Company | | |
|---|---|---|---|---|---|---|---|
| | Note | 31 Dec 2018 | 31 Dec 2017 | 1 Jan 2017 | 31 Dec 2018 | 31 Dec 2017 | 1 Jan 2017 |
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Assets** | | | | | | | |
| Property, plant and equipment | 4 | 32,658 | 34,126 | 21,512 | 16 | 24 | 23 |
| Intangible assets and goodwill | 5 | 1,977 | 604 | 690 | 1 | 16 | 33 |
| Subsidiaries | 6 | – | – | – | 6,952 | 6,852 | 6,899 |
| Other investments | 7 | 688 | – | 928 | 688 | – | 928 |
| Deferred tax assets | 15 | 360 | 581 | 802 | – | – | – |
| **Non-current assets** | | 35,683 | 35,311 | 23,932 | 7,657 | 6,892 | 7,883 |
| Asset held for sale | 8 | – | 4,148 | – | – | – | – |
| Inventories | 9 | 11,927 | 11,595 | 11,503 | – | – | – |
| Contract assets | 20 | 2,032 | 428 | 208 | – | – | – |
| Trade and other receivables | 10 | 19,862 | 16,139 | 13,354 | 807 | 690 | 11,434 |
| Other investments | 7 | – | 688 | – | – | 688 | – |
| Cash and cash equivalents | 11 | 11,757 | 11,685 | 25,028 | 208 | 695 | 3,080 |
| **Current assets** | | 45,578 | 44,683 | 50,093 | 1,015 | 2,073 | 14,514 |
| **Total assets** | | 81,261 | 79,994 | 74,025 | 8,672 | 8,965 | 22,397 |
| **Equity** | | | | | | | |
| Share capital | 12 | 36,412 | 36,412 | 36,412 | 36,412 | 36,412 | 36,412 |
| Reserves | 13 | (3,037) | (3,041) | (3,078) | 300 | 300 | 300 |
| Accumulated losses | | (12,422) | (12,688) | (7,373) | (29,508) | (29,341) | (14,833) |
| **Equity attributable to owners of the Company** | | 20,953 | 20,683 | 25,961 | 7,204 | 7,371 | 21,879 |
| **Non-controlling interests** | | 509 | 52 | (1) | – | – | – |
| **Total equity** | | 21,462 | 20,735 | 25,960 | 7,204 | 7,371 | 21,879 |
| **Liabilities** | | | | | | | |
| Loans and borrowings | 14 | 19,246 | 19,512 | 12,097 | – | – | – |
| Deferred tax liabilities | 15 | 396 | 457 | 1,427 | – | – | – |
| Provisions | 17 | 1,533 | 2,234 | 1,570 | – | – | – |
| **Non-current liabilities** | | 21,175 | 22,203 | 15,094 | – | – | – |
| Loans and borrowings: | 14 | | | | | | |
| - Loan associated with asset held for sale | | – | 4,252 | – | – | – | – |
| - Others | | 4,607 | 1,663 | 1,582 | – | – | – |
| Contract liabilities | 20 | 13,222 | 12,661 | 14,712 | – | – | – |
| Trade and other payables | 16 | 19,423 | 17,067 | 15,439 | 1,468 | 1,594 | 518 |
| Provisions | 17 | 819 | 714 | 423 | – | – | – |
| Current tax liabilities | | 553 | 699 | 815 | – | – | – |
| **Current liabilities** | | 38,624 | 37,056 | 32,971 | 1,468 | 1,594 | 518 |
| **Total liabilities** | | 59,799 | 59,259 | 48,065 | 1,468 | 1,594 | 518 |
| **Total equity and liabilities** | | 81,261 | 79,994 | 74,025 | 8,672 | 8,965 | 22,397 |

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

# CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2018

| | Note | Group 2018 $'000 | Group 2017 $'000 |
|---|---|---|---|
| Revenue | 20 | 136,660 | 117,406 |
| Cost of sales | | (117,534) | (101,171) |
| **Gross profit** | | 19,126 | 16,235 |
| Other income | 21 | 1,139 | 589 |
| Distribution expenses | | (2,273) | (1,548) |
| Administrative expenses | | (17,271) | (17,115) |
| Reversal of impairment loss/(Impairment loss) on trade receivables and contract assets | | 455 | (208) |
| Other expenses | | (139) | (3,642) |
| **Results from operating activities** | | 1,037 | (5,689) |
| Finance costs | 22 | (895) | (568) |
| **Profit/(Loss) before tax** | | 142 | (6,257) |
| Tax credit | 23 | 18 | 850 |
| **Profit/(Loss) for the year** | 24 | 160 | (5,407) |
| **Profit/(Loss) attributable to:** | | | |
| Owners of the Company | | 266 | (5,315) |
| Non-controlling interests | | (106) | (92) |
| **Profit/(Loss) for the year** | | 160 | (5,407) |
| **Earnings/(Loss) per share** | | | |
| Basic and diluted earnings/(loss) per share (cents) | 25 | 0.11 | (2.12) |

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

| | Group | |
|---|---|---|
| | 2018 | 2017 |
| | $'000 | $'000 |
| **Profit/(Loss) for the year** | 160 | (5,407) |
| **Other comprehensive income** | | |
| *Items that are or may be reclassified subsequently to profit or loss:* | | |
| Foreign currency translation differences from translation of foreign operations | 6 | (5) |
| Exchange differences on monetary items forming part of net investment in foreign operations | – | 40 |
| **Other comprehensive income for the year** | 6 | 35 |
| **Total comprehensive income for the year** | 166 | (5,372) |
| | | |
| **Total comprehensive income attributable to:** | | |
| Owners of the Company | 270 | (5,278) |
| Non-controlling interests | (104) | (94) |
| **Total comprehensive income for the year** | 166 | (5,372) |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

| Group | Note | Share capital | Capital reserve | Translation reserve | Accumulated losses | Total attributable to owners of the Company | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| At 1 January 2017, as previously reported | | 36,412 | (3,078) | (398) | (6,975) | 25,961 | (1) | 25,960 |
| Adjustments on transitions to SFRS(I)s | 33 | – | – | 398 | (398) | – | – | – |
| At 1 January 2017, adjusted | | 36,412 | (3,078) | – | (7,373) | 25,961 | (1) | 25,960 |
| **Total comprehensive income for the year** | | | | | | | | |
| Loss for the year | | – | – | – | (5,315) | (5,315) | (92) | (5,407) |
| **Other comprehensive income** | | | | | | | | |
| Foreign currency translation differences from translation of foreign operations | | – | – | (3) | – | (3) | (2) | (5) |
| Exchange differences on monetary items forming part of net investment in foreign operations | | – | – | 40 | – | 40 | – | 40 |
| **Total comprehensive income for the year** | | – | – | 37 | (5,315) | (5,278) | (94) | (5,372) |
| **Transactions with owners, recognised directly in equity** | | | | | | | | |
| Capital injection by non-controlling interest of a subsidiary | | – | – | – | – | – | 147 | 147 |
| At 31 December 2017 | | 36,412 | (3,078) | 37 | (12,688) | 20,683 | 52 | 20,735 |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2018

| Group | Note | Share capital | Capital reserve | Translation reserve | Accumulated losses | Total attributable to owners of the Company | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| At 1 January 2018, adjusted | | 36,412 | (3,078) | 37 | (12,688) | 20,683 | 52 | 20,735 |
| **Total comprehensive income for the year** | | | | | | | | |
| Profit for the year | | – | – | – | 266 | 266 | (106) | 160 |
| **Other comprehensive income** | | | | | | | | |
| Foreign currency translation differences from translation of foreign operations | | – | – | 4 | – | 4 | 2 | 6 |
| **Total comprehensive income for the year** | | – | – | 4 | 266 | 270 | (104) | 166 |
| **Transactions with owners, recognised directly in equity** | | | | | | | | |
| Acquisition of subsidiary | 31 | – | – | – | – | – | 71 | 71 |
| Capital injection by non-controlling interest of a subsidiary | | – | – | – | – | – | 490 | 490 |
| **Total transactions with owners** | | – | – | – | – | – | 561 | 561 |
| At 31 December 2018 | | 36,412 | (3,078) | 41 | (12,422) | 20,953 | 509 | 21,462 |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

| | Group | |
|---|---|---|
| | 2018 | 2017 |
| | $'000 | $'000 |
| **Cash flows from operating activities** | | |
| Profit/(Loss) for the year | 160 | (5,407) |
| Adjustments for: | | |
| Amortisation of deferred revenue | (1,300) | (1,300) |
| Amortisation of intangible assets | 264 | 106 |
| Depreciation of property, plant and equipment | 2,291 | 1,912 |
| Gain on disposal of property, plant and equipment | (25) | (12) |
| Impairment loss on property, plant and equipment | – | 1,822 |
| Impairment loss on intangible assets | – | 119 |
| Interest expenses | 895 | 568 |
| Interest income | (8) | (14) |
| Property, plant and equipment written-off | 16 | 3 |
| Provisions | – | 535 |
| Tax credit | (18) | (850) |
| Net change in fair value of zero-coupon convertible bonds | – | 240 |
| | 2,275 | (2,278) |
| Changes in: | | |
| Inventories | (332) | (92) |
| Trade and other receivables | (1,300) | (2,785) |
| Contract assets | (1,604) | (220) |
| Trade and other payables | 1,809 | 2,995 |
| Provisions | (824) | (422) |
| Contract liabilities | 561 | (2,051) |
| Cash generated from/(used in) operations | 585 | (4,853) |
| Tax paid | – | (15) |
| **Net cash generated from/(used in) operating activities** | 585 | (4,868) |
| **Cash flows from investing activities** | | |
| Acquisition of subsidiary, net of cash acquired | (1,493) | – |
| Interest received | 8 | 14 |
| Proceeds from disposal of property, plant and equipment | 3,857 | 19 |
| Purchase of intangible assets | (43) | (206) |
| Purchase of property, plant and equipment | (3,933) | (19,563) |
| Proceed from sale of asset held for sale | 4,148 | – |
| **Net cash generated from/(used in) investing activities** | 2,544 | (19,736) |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2018

| | Note | Group 2018 $'000 | Group 2017 $'000 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Interest paid | | (667) | (380) |
| Proceeds from borrowings | | – | 14,875 |
| Repayment of borrowings | | (5,478) | (3,334) |
| Changes in bills payable | | 2,864 | 35 |
| Payment of finance lease liabilities | | (273) | (114) |
| Capital injection by non-controlling interest of a subsidiary | | 490 | 147 |
| **Net cash (used in)/generated from financing activities** | | (3,064) | 11,229 |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | 65 | (13,375) |
| Cash and cash equivalents at beginning of year | | 11,685 | 25,028 |
| Effect of foreign exchange fluctuations on cash held | | 7 | 32 |
| **Cash and cash equivalents at end of year** | 11 | 11,757 | 11,685 |

**Significant non-cash transactions**

During the financial year, the Group acquired plant and equipment amounting to $4,332,000 (2017: $20,503,000), of which $450,000 (2017: $286,000) was acquired under finance lease (see Note 4) and $nil (2017: $51,000) remained unpaid as at year end (see Note 16).

In 2017, the Group acquired computer software amounting to $139,000, of which $21,000 remained unpaid as at 31 December 2017 (see Note 16).

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

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 29 March 2019.

## 1 Domicile and activities

Natural Cool Holdings Limited (the 'Company') is a company incorporated in Singapore. The address of the Company's registered office is 29 Tai Seng Avenue, #07-01 Natural Cool Lifestyle Hub, Singapore 534119.

The principal activity of the Company is that of an investment holding company. The principal activities of the subsidiaries are as follows:

- Air-conditioning: trading of air-conditioning units and spare parts, installation services for commercial air-conditioning systems and mechanical ventilation, and maintenance services;
- Investment: property investment holding; and
- Paint: manufacturing, and trading of paint and basic chemicals.

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)) and International Financial Reporting Standards (IFRSs). SFRS(I)s are issued by the Accounting Standards Council, which comprise standards and interpretations that are equivalent to IFRSs issued by the International Accounting Standards Board. All references to SFRS(I)s and IFRSs are subsequently referred to as SFRS(I)s in these financial statements unless otherwise specified. 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 33.

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

These 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) 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.

## 2 Basis of preparation (Continued)

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:

- Notes 4 and 5 – impairment assessment of property, plant and equipment, intangible assets and goodwill: key assumptions underlying the recoverable amounts;
- Note 6 – measurement of recoverable amounts of interests in subsidiaries;
- Note 9 – measurement of net realisable value on inventories;
- Note 17 – measurement of provisions: key assumptions about the likelihood and magnitude of an outflow of resources;
- Note 18 – measurement of expected credit loss ("ECL") allowance for trade receivables and contract assets: key assumptions in determining the weighted-average loss rate;
- Note 20 – revenue recognition: estimate of expected returns and total contract costs to complete; and
- Note 31 – acquisition of subsidiary: fair value of the assets acquired and liabilities assumed.

**Measurement of fair values**

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. Management has overall responsibility for all significant fair value measurement, including Level 2 and Level 3 fair values, and reports directly to the Board of Directors.

Management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SFRS(I), including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Board of Directors and Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 : 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 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 2 Basis of preparation (Continued)

2.4 Use of estimates and judgements (Continued)

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement (with Level 3 being the lowest).

The Group recognises transfers between levels of fair value hierarchy as of the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 19 – Measurement of fair values.

## 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) statement of financial position at 1 January 2017 for the purpose of the transition to SFRS(I), unless otherwise indicated.

The accounting policies have been applied consistently by the Group entities.

3.1 Basis of consolidation

***(i) Business combinations***

The Group accounts for business combinations using the acquisition method when control is transferred to the Group.

***Acquisitions from 1 January 2017***

For acquisitions from 1 January 2017, the Group measures goodwill at the date of acquisition as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests (“NCI”) 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 remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

NCI 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 NCI’s’ proportionate share of the recognised amounts of the acquiree’s identifiable net assets, at the acquisition date. The measurement basis taken is elected on a transaction-by-transaction basis. All other NCI are measured at acquisition-date fair value, unless another measurement basis is required by SFRS(I)s.

## 3 Significant accounting policies (Continued)

3.1 Basis of consolidation (Continued)

***(i) Business combinations (Continued)***

***Acquisitions from 1 January 2017 (Continued)***

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.

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 NCI 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 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 when necessary to align them with the policies adopted by the Group. Losses applicable to NCI 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) Acquisitions from entities under common control***

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity, and any gain/loss arising is recognised directly in equity.

***(iv) 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.

***(v) 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.

## 3 Significant accounting policies (Continued)

3.1 Basis of consolidation (Continued)

***(vi) Subsidiaries in the separate financial statements***

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

3.2 Foreign currency

***(i) 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.

***(ii) Foreign operations***

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, 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. Since 1 January 2017, the Group's date of transition to SFRS(I), such differences have been recognised in the 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, significant influence or joint control is lost, the cumulative amount in the 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 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 are recognised in other comprehensive income, and are presented in the translation reserve in equity.

3.3 Financial instruments

***(i) Recognition and initial measurement***

**Non-derivative financial assets and financial liabilities**

Trade and other receivables (excluding prepayments and GST receivable) and debt instruments 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.

## 3 Significant accounting policies (Continued)

3.3 Financial instruments (Continued)

*(i) Recognition and initial measurement (Continued)*

**Non-derivative financial assets and financial liabilities (Continued)**

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 applicable from 1 January 2018**

On initial recognition, a financial asset is classified as measurement at: amortised cost; fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; FVTPL.

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.

**Financial assets at amortised cost**

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is 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.

**Financial assets at FVTPL**

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL.

**Financial assets: Business model assessment – Policy applicable from 1 January 2018**

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

## 3 Significant accounting policies (Continued)

3.3 Financial instruments (Continued)

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

Financial assets at FVTPL (Continued)

**Financial assets: Business model assessment – Policy applicable from 1 January 2018 (Continued)**

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held-for-trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

**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.

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.

**Non-derivative financial assets: Subsequent measurement and gains and losses – Policy applicable from 1 January 2018**

Financial assets at amortised cost

These assets are subsequently 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 at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

## 3 Significant accounting policies (Continued)

3.3 Financial instruments (Continued)

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

**Non-derivative financial assets: Subsequent measurement and gains and losses – Policy applicable before 1 January 2018**

The Group classified non-derivative financial assets into the following categories: financial assets at FVTPL, loans and receivables and available-for-sale financial assets.

**Non-derivative financial assets: Subsequent measurement and gains and losses – Policy applicable before 1 January 2018**

<u>Financial assets at FVTPL</u>

A financial asset was classified at FVTPL if it was classified as held-for-trading or was designated as such upon initial recognition. Financial assets were designated at FVTPL if the Group managed such investments and made purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Directly attributable transaction costs were recognised in profit or loss as incurred. Financial assets at FVTPL were measured at fair value, and changes therein, which took into account any dividend income, were recognised in profit or loss.

Financial assets designated at FVTPL comprised investment in zero-coupon convertible bonds.

<u>Loans and receivables</u>

Loans and receivables were financial assets with fixed or determinable payments that were not quoted in an active market. Such assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables were measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprised cash and cash equivalents, and trade and other receivables, excluding prepayments and GST receivable.

<u>Available-for-sale financial assets</u>

Available-for-sale financial assets were non-derivative financial assets that were designated as available-for-sale or were not classified in any of the above categories of financial assets. Available-for-sale financial assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they were measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on available-for-sale debt investment, were recognised in other comprehensive income and accumulated in the fair value reserve in equity. When these amounts were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

Available-for-sale financial assets comprised unquoted equity securities.

**Non-derivative financial liabilities: Classification, subsequent measurement and gains and losses**

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 and trade and other payables.

## 3 Significant accounting policies (Continued)

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 acquisition date 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 consolidated 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 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.

***(vii) Intra-group financial guarantees in the separate financial statements***

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 guarantee contracts are accounted for as insurance contracts. A provision is recognised based on the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date. The provision is assessed by reviewing individual claims and tested for adequacy by comparing the amount recognised and the amount that would be required to settle the guarantee contracts.

## 3 Significant accounting policies (Continued)

3.4 Property, plant and equipment

***(i) Recognition and measurement***

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing cost, less accumulated depreciation and accumulated impairment losses.

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 asset to a working condition for its intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the cost of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

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 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 their 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.

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.

## 3 Significant accounting policies (Continued)

3.4 Property, plant and equipment (Continued)

*(iii)* ***Depreciation*** **(Continued)**

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

| | |
|---|---|
| • Leasehold properties | over the lease terms ranging from 20 – 46 years |
| • Computers | 3 years |
| • Furniture, fittings and office equipment | 5 years |
| • Motor vehicles | 5 – 10 years |
| • Tools and machineries | 5 – 10 years |
| • Renovation | 5 – 10 years |

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

3.5 Intangible assets and goodwill

***(i) Goodwill***

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see Note 3.1(i).

***Subsequent measurement***

Goodwill is measured at cost less accumulated impairment losses.

***(ii) Customer relationships and trademark***

Customer relationships and trademark that are acquired in a business combination by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of 20 years.

***(iii) Computer software***

Computer software licenses are initially recognised at cost which includes the purchase price (net of any discounts and rebates) and other costs directly attributable to bringing the assets to a working condition for their intended use. Direct expenditure, which enhances or extends the performance of computer software beyond its specifications and which can be reliably measured, is recognised as a capital improvement and added to the original cost of the software. Costs associated with maintaining the computer software are recognised as an expense as incurred.

Computer software licenses are subsequently measured at cost less accumulated amortisation and impairment losses.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of 3 years from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

## 3 Significant accounting policies (Continued)

3.5 Intangible assets and goodwill (Continued)

***(iv) Order backlogs***

Order backlogs are sales contracts that are acquired in a business combination by the Group. They are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of one year.

***(v) Subsequent expenditure***

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill, is recognised in profit or loss as incurred.

***(vi) Amortisation***

Amortisation is calculated based on the cost of the asset, less its residual value.

Amortisation methods, useful lives and residual values are reviewed at each reporting period and adjusted if appropriate.

3.6 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.

3.7 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, 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 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 sales.

3.8 Impairment

***(i) Non-derivative financial assets and contract assets***

**Policy applicable from 1 January 2018**

The Group recognises loss allowances for ECL on:

- financial assets measured at amortised costs; and
- contract assets (as defined in SFRS(I) 15).

## 3 Significant accounting policies (Continued)

3.8 Impairment (Continued)

*(i) Non-derivative financial assets and contract assets (Continued)*

**Policy applicable from 1 January 2018 (Continued)**

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.

General approach

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

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); or

- the financial asset is more than 90 days past due.

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

## 3 Significant accounting policies (Continued)

3.8 Impairment (Continued)

***(i) Non-derivative financial assets and contract assets (Continued)***

**Measurement of 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 and debt investments at FVOCI 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 or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

**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.

**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 applicable before 1 January 2018**

A financial asset not carried at FVTPL was assessed at the end of each reporting period to determine whether there was objective evidence that it was impaired. A financial asset was impaired if objective evidence indicated that a loss event(s) had occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that could be estimated reliably.

Objective evidence that financial assets (including equity investments) were impaired included 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 would enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

## 3 Significant accounting policies (Continued)

3.8 Impairment (Continued)

***(i) Non-derivative financial assets and contract assets (Continued)***

**Policy applicable before 1 January 2018 (Continued)**

Loans and receivables and contract assets

The Group considered evidence of impairment for loans and receivables and contract assets at both an individual asset and collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser 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.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss recognised previously in profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss.

***(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. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its 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 CGUs. 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.

## 3 Significant accounting policies (Continued)

3.8 Impairment (Continued)

***(ii) Non-financial assets (Continued)***

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 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.

3.9 Non-current assets held for sale

Non-current assets that are highly probable to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter, the assets, are generally measured at the lower of their carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Property, plant and equipment once classified as held for sale are depreciated.

3.10 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 staff costs in profit or loss in the periods during which related services are rendered by employees.

***(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.

3.11 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 a finance cost.

## 3 Significant accounting policies (Continued)

3.11 Provisions (Continued)

***(i) Onerous contract***

A provision for onerous contract is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

***(ii) Restoration***

In accordance with a tenancy agreement, a provision for restoration in respect of a building held under operating lease is recognised.

3.12 Deferred revenue

***Excess of sales proceeds over the fair value of the property***

Deferred revenue relates to the excess of sales proceeds over the fair value of the property which is deferred and accreted over the period for which the property is expected to be used, when the sale and leaseback transaction resulted in operating lease.

3.13 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.

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) Rental income***

Rental income is recognised as ‘revenue’ on a straight-line basis over the term of the lease.

## 3 Significant accounting policies (Continued)

3.14 Government grants

An unconditional government grants related to Productivity and Innovation Credit Scheme and Wage Credit Scheme are recognised in profit or loss as 'other income' when the grants become receivable.

3.15 Lease 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 expense and the reduction of the outstanding liability. The finance expense 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.

***Determining whether an arrangement contains a lease***

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- the fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the asset(s).

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

3.16 Finance income and finance costs

Finance income comprises interest income on funds placed with banks. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and unwinding of the discounts on provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the profit or loss using the effective interest method.

3.17 Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised 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.

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. Current tax also includes any tax arising from dividends.

## 3 Significant accounting policies (Continued)

3.17 Tax (Continued)

Current tax assets and liabilities are offset only if certain criteria are met.

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 recognised 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;

- temporary differences related to investments in subsidiaries to the extent that it is probable 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; and

- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the reporting period, 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 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 realised 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. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. 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; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions 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.

3.18 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 year, 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.

## 3 Significant accounting policies (Continued)

3.19 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 Chief Executive Officer ("CEO") and Group's Chief Corporate Officer ("CCO") 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 and CCO 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 and tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

3.20 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) 116 *Leases*;
- SFRS(I) INT FRS 123 *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); and
- *Plan Amendment, Curtailment or Settlement* (Amendments to SFRS(I) 1-19).

**Applicable to 2021 financial statements**

- SFRS(I) 17 *Insurance Contracts*

**Mandatory effective date 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)

## 3 Significant accounting policies (Continued)

3.20 New standards and interpretations not yet adopted (Continued)

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 plans 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 retained earnings at 1 January 2019, with no restatement of comparative information. The Group plans 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.

***(i) The Group as lessee***

The Group expects to measure lease liabilities by applying a single discount rate to their portfolio of warehouse and office leases. Furthermore, the Group is likely to apply the practical expedient to recognise amounts of ROU assets equal to its lease liabilities at 1 January 2019. For lease contracts that contain the option to renew, the Group is expected to use hindsight in determining the lease term.

The Group expects its existing operating lease arrangements to be recognised as ROU assets with corresponding lease liabilities under SFRS(I) 16. The Group will no longer recognise onerous provision as described in Note 17. Instead, the Group will include the payments due under the lease in their lease liability.

In addition, the Group does not reassess sale-and-leaseback transactions entered into before the date of initial application to determine whether a sale occurred. The Group adjusted the leaseback ROU asset for any deferred gains or losses that relate to off-market terms recognised in the statement of financial position immediately before the date of initial application.

As at 1 January 2019, the Group expects an increase in ROU assets of $6,493,000, a decrease in plant and equipment of $1,612,000, an increase in lease liabilities of $8,697,000, a decrease in provisions of $1,698,000 and a decrease in deferred revenue of $2,118,000.

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

***(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.

No significant impact is expected for other leases in which the Group is a lessor.

## 4 Property, plant and equipment

| | Note | Leasehold properties | Computers | Furniture, fittings and office equipment | Motor vehicles | Tools and machineries | Renovation | Total |
|---|---|---|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | | | | | |
| **Cost** | | | | | | | | |
| At 1 January 2017 | | 18,348 | 728 | 983 | 3,485 | 2,160 | 3,844 | 29,548 |
| Additions | | 18,042 | 78 | 95 | 1,089 | 406 | 793 | 20,503 |
| Disposals/write-offs | | – | (11) | (8) | (111) | (29) | – | (159) |
| Reclassification to asset held for sale | 8 | (6,000) | – | – | – | – | – | (6,000) |
| Effect of movements in exchange rates | | – | – | 3 | 2 | 3 | 2 | 10 |
| At 31 December 2017 | | 30,390 | 795 | 1,073 | 4,465 | 2,540 | 4,639 | 43,902 |
| Additions | | – | 30 | 101 | 830 | 378 | 2,993 | 4,332 |
| Acquisition through business combination | 31 | – | – | 33 | 307 | – | – | 340 |
| Disposals/write-offs | | (4,300) | (15) | (114) | (452) | (14) | (453) | (5,348) |
| Effect of movements in exchange rates | | – | (1) | – | – | – | – | (1) |
| At 31 December 2018 | | 26,090 | 809 | 1,093 | 5,150 | 2,904 | 7,179 | 43,225 |
| **Accumulated depreciation and impairment losses** | | | | | | | | |
| At 1 January 2017 | | 1,294 | 552 | 687 | 1,254 | 1,015 | 3,234 | 8,036 |
| Depreciation | | 566 | 126 | 88 | 517 | 224 | 391 | 1,912 |
| Disposals/write-offs | | – | (9) | (8) | (108) | (24) | – | (149) |
| Impairment loss | | 1,455 | 6 | 41 | 30 | 127 | 163 | 1,822 |
| Reclassification to asset held for sale | 8 | (1,852) | – | – | – | – | – | (1,852) |
| Effect of movements in exchange rates | | – | – | 2 | 1 | 2 | 2 | 7 |
| At 31 December 2017 | | 1,463 | 675 | 810 | 1,694 | 1,344 | 3,790 | 9,776 |
| Depreciation | | 809 | 70 | 98 | 643 | 247 | 424 | 2,291 |
| Disposals/write-offs | | (591) | (14) | (112) | (328) | (14) | (441) | (1,500) |
| At 31 December 2018 | | 1,681 | 731 | 796 | 2,009 | 1,577 | 3,773 | 10,567 |
| **Carrying amounts** | | | | | | | | |
| At 1 January 2017 | | 17,054 | 176 | 296 | 2,231 | 1,145 | 610 | 21,512 |
| At 31 December 2017 | | 28,927 | 120 | 263 | 2,771 | 1,196 | 849 | 34,126 |
| At 31 December 2018 | | 24,409 | 78 | 297 | 3,141 | 1,327 | 3,406 | 32,658 |

## 4 Property, plant and equipment (Continued)

| | Computers | Furniture and fittings | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **Company** | | | |
| **Cost** | | | |
| At 1 January 2017 | 35 | – | 35 |
| Additions | 10 | 4 | 14 |
| At 31 December 2017 | 45 | 4 | 49 |
| Additions | 3 | – | 3 |
| At 31 December 2018 | 48 | 4 | 52 |
| **Accumulated depreciation** | | | |
| At 1 January 2017 | 12 | – | 12 |
| Depreciation | 12 | 1 | 13 |
| At 31 December 2017 | 24 | 1 | 25 |
| Depreciation | 8 | 3 | 11 |
| At 31 December 2018 | 32 | 4 | 36 |
| **Carrying amounts** | | | |
| At 1 January 2017 | 23 | – | 23 |
| At 31 December 2017 | 21 | 3 | 24 |
| At 31 December 2018 | 16 | – | 16 |

**Depreciation**

The depreciation charge of the Group is recognised in the following line items of the statement of profit or loss:

| | 2018 | 2017 |
|---|---|---|
| | $'000 | $'000 |
| Cost of sales | 324 | 301 |
| Other operating expenses | 1,967 | 1,611 |
| | 2,291 | 1,912 |

**Impairment loss**

The property, plant and equipment comprise mainly assets attributable to the Paint and Aircon CGU. An impairment loss of $367,000 was recognised in relation to the Paint CGU in 2017 (see Note 5). The remaining impairment loss in the prior year was related to a property which was reclassed to asset held for sale (see Note 8).

The impairment loss was recorded in 'other expenses' in the profit or loss.

## 4 Property, plant and equipment (Continued)

### Leased assets

During the financial year, the Group acquired plant and equipment under finance leases amounting to $450,000 (2017: $286,000). As at the reporting date, the net book value of plant and equipment which were held under finance leases is as follows:

| | 2018 | 2017 |
|---|---|---|
| | $'000 | $'000 |
| Motor vehicles | 1,612 | 1,110 |

### Securities

At 31 December 2018, several leasehold properties are pledged as security to secure bank loans (see Note 14).

## 5 Intangible assets and goodwill

| | Note | Goodwill | Order backlogs | Customer relationships | Trademark | Computer software | Total |
|---|---|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | | | | |
| **Cost** | | | | | | | |
| At 1 January 2017 | | 1,607 | – | 118 | 383 | 431 | 2,539 |
| Additions | | – | – | – | – | 139 | 139 |
| Write-offs | | – | – | – | – | (2) | (2) |
| At 31 December 2017 | | 1,607 | – | 118 | 383 | 568 | 2,676 |
| Additions | | – | – | – | – | 22 | 22 |
| Acquisition through business combination | 31 | 1,427 | 188 | – | – | – | 1,615 |
| Write-offs | | – | – | – | – | (11) | (11) |
| At 31 December 2018 | | 3,034 | 188 | 118 | 383 | 579 | 4,302 |
| **Accumulated amortisation and impairment losses** | | | | | | | |
| At 1 January 2017 | | 1,580 | – | 6 | 19 | 244 | 1,849 |
| Amortisation | | – | – | 6 | 19 | 81 | 106 |
| Impairment loss | | – | – | 27 | 89 | 3 | 119 |
| Write-offs | | – | – | – | – | (2) | (2) |
| At 31 December 2017 | | 1,580 | – | 39 | 127 | 326 | 2,072 |
| Amortisation | | – | 128 | 6 | 19 | 111 | 264 |
| Write-offs | | – | – | – | – | (11) | (11) |
| At 31 December 2018 | | 1,580 | 128 | 45 | 146 | 426 | 2,325 |
| **Carrying amounts** | | | | | | | |
| At 1 January 2017 | | 27 | – | 112 | 364 | 187 | 690 |
| At 31 December 2017 | | 27 | – | 79 | 256 | 242 | 604 |
| At 31 December 2018 | | 1,454 | 60 | 73 | 237 | 153 | 1,977 |

## 5 Intangible assets and goodwill (Continued)

| | Computer software |
|---|---|
| | $'000 |
| **Company** | |
| **Cost** | |
| At 1 January 2017, 31 December 2017 and 31 December 2018 | 53 |
| **Accumulated amortisation** | |
| At 1 January 2017 | 20 |
| Amortisation | 17 |
| At 31 December 2017 | 37 |
| Amortisation | 15 |
| At 31 December 2018 | 52 |
| **Carrying amounts** | |
| At 1 January 2017 | 33 |
| At 31 December 2017 | 16 |
| At 31 December 2018 | 1 |

**Amortisation**

The amortisation of order backlogs, customer relationships, trademark and computer software are included in 'administrative expenses' in profit or loss.

**Impairment assessment for Paint CGU**

In 2017, the impairment assessment of the Paint CGU was triggered because of continuing poor financial performance of the CGU.

The recoverable amount of the Paint CGU was based on its value in use, determined by discounting the pre-tax future cash flows to be generated from the continuing use of the CGU.

Based on the above assessment, impairment losses amounted to $119,000 and $367,000 were recognised for the Paint CGU's intangible assets and plant and equipment respectively. The impairment losses were included in 'other expenses' in the profit or loss.

**Impairment assessment for Aircon CGU**

In 2018, goodwill of $1,427,000 was recognised from the acquisition of 51% equity interest in JAD Solutions Pte Ltd ("JAD") and was allocated to the Aircon CGU.

The recoverable amount of the Aircon CGU was based on its value in use, determined by discounting the pre-tax future cash flows to be generated from the continuing use of the CGU.

The Group prepared a 5-year cash flow forecast derived from the most recent financial budgets approved by the Directors of the Group. Key assumptions used in the estimation of the value in use calculation are as set out below.

– Revenue growth of 4.0% in the following financial year and with 2.5% annual growth assumed for the subsequent years;

– Pre-tax discount rate of 8.9% has been applied to the pre-tax cash flow projections; and

– The terminal value was estimated using the cash flow forecast at the fifth year with a perpetual growth rate of 2.5%.

## 5 Intangible assets and goodwill (Continued)

**Impairment assessment for Aircon CGU (Continued)**

The values assigned to the key assumptions, which represent management's assessment of future trends in the industry, are not greater than the industry's long term growth.

Management believes that any reasonable change in the above key assumptions will not materially cause the recoverable value to be lower than the carrying amount.

***Sources of estimation uncertainty***

In estimating the recoverable amounts of the CGUs using value in use, the Group assumed revenue growth rates throughout the cash flow forecast periods, terminal values at the end of the cash flow forecast period and discount rate applied to the cash flow projections. These assumptions continue to be subjected to estimation uncertainties that may result in material adjustments on the recoverable amounts in future periods.

## 6 Subsidiaries

| | Company | | |
|---|---|---|---|
| | **2018** | **2017** | **1 Jan 2017** |
| | **$'000** | **$'000** | **$'000** |
| Unquoted equity investments, at cost | 7,152 | 7,052 | 6,899 |
| Impairment loss | (200) | (200) | – |
| | 6,952 | 6,852 | 6,899 |

The change in impairment losses in respect of the investments in subsidiaries during the year is as follows:

| | Company | |
|---|---|---|
| | **2018** | **2017** |
| | **$'000** | **$'000** |
| At 1 January | 200 | – |
| Impairment loss recognised | – | 200 |
| At 31 December | 200 | 200 |

In 2017, the impairment test of the investment in a subsidiary was triggered because of the continuing poor financial performance of the subsidiary. Management assessed the recoverable amount of the subsidiary to be $nil, which is based on the net asset position of the subsidiary. Accordingly, the Company recognised an impairment loss on investment in the subsidiary of $200,000 in profit or loss.

## 6 Subsidiaries (Continued)

Details of significant subsidiaries are as follows:

| Name of subsidiaries | Principal activities | Principal place of business/ Country of incorporation | Ownership interest 2018 | Ownership interest 2017 |
|---|---|---|---|---|
| | | | % | % |
| **Held by the Company** | | | | |
| Natural Cool Airconditioning & Engineering Pte. Ltd. [1] | Trading of air-conditioning units and spare parts, installation services and maintenance services | Singapore | 100 | 100 |
| Natural Cool Investments Pte. Ltd. [1] | Investment holding company | Singapore | 100 | 100 |

*(1) KPMG LLP is the auditor of all significant Singapore-incorporated subsidiaries.*

***Sources of estimation uncertainty***

When a subsidiary is in a net liability position and/or has suffered recurring losses, the Company's management will undertake an impairment assessment to determine the estimated recoverable amount of the investment in the subsidiary. This determination requires significant judgement. An estimate is made of the future profitability, the financial health of and near-term business outlook for the subsidiary, including factors such as industry and sector performance, and operating and financing cash flows. The recoverable amount of the subsidiary will change significantly as a result of changes in market conditions and the assumptions used in determining the recoverable amount.

## 7 Other investments

| | Group and Company 2018 | Group and Company 2017 | Group and Company 1 Jan 2017 |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **Non-current investments** | | | |
| Zero-coupon convertible bonds – at FVTPL | 688 | – | 928 |
| **Current investments** | | | |
| Zero-coupon convertible bonds – at FVTPL | – | 688 | – |

***Zero-coupon convertible bonds***

The zero-coupon convertible bonds ("bonds") are convertible in full into 240,000 ordinary shares of the issuer at the option of the bond holders, at US$7 per share. The unconverted bonds were to be redeemed and repayable by the issuer at the initial principal amount in August 2018. In July 2018, the maturity date was extended to August 2020.

***Unquoted equity investment***

The Group and the Company have equity investment of $3,750,000 which was accounted for as available-for-sale investment and have been fully impaired in the prior year. During the year, arising from the adoption of SFRS(I) 9, the investment is classified as FVTPL.

The Group's and the Company's exposure to credit risk is disclosed in Note 18.

## 8 Asset held for sale

In November 2018, the sale of the leasehold property within the Paint CGU was completed.

## 9 Inventories

| | Group | | |
|---|---|---|---|
| | 2018 | 2017 | 1 Jan 2017 |
| | $'000 | $'000 | $'000 |
| Raw materials | 280 | 365 | – |
| Finished goods | 11,647 | 11,230 | 11,503 |
| | 11,927 | 11,595 | 11,503 |

In 2018, inventories of $93,047,000 (2017: $75,142,000; 1 Jan 2017: $77,703,000) were recognised as an expense during the year and included in 'cost of sales'.

***Sources of estimation uncertainty***

Management reviews an ageing analysis at each reporting date, and makes allowance for obsolete and slow-moving inventory items, if any. Management estimates the net realisable value of goods based primarily on the latest selling prices and current market conditions. As at 31 December 2018, the inventories are stated after allowance for inventory obsolescence of $53,000 (2017: $252,000; 1 Jan 2017: $35,000). Adjustments to the carrying amount of inventories could be made in future periods in the event that their carrying amounts may not be recoverable resulting from future loss events.

## 10 Trade and other receivables

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 1 Jan 2017 | 2018 | 2017 | 1 Jan 2017 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Trade receivables | 14,800 | 10,872 | 10,718 | – | – | – |
| Unbilled trade receivables | 1,730 | 788 | 295 | – | – | – |
| Amounts due from subsidiaries: | | | | | | |
| - Trade | – | – | – | – | 298 | 1,751 |
| - Non-trade | – | – | – | 331 | 53 | 9,635 |
| Accrued discount receivables | 1,648 | 804 | 854 | – | – | – |
| Deposits | 1,233 | 1,961 | 455 | 379 | 295 | – |
| Other receivables | 112 | 111 | 450 | 60 | 6 | 11 |
| Financial assets | 19,523 | 14,536 | 12,772 | 770 | 652 | 11,397 |
| Prepayments | 339 | 381 | 582 | 37 | 38 | 37 |
| GST receivable | – | 1,222 | – | – | – | – |
| | 19,862 | 16,139 | 13,354 | 807 | 690 | 11,434 |

All outstanding balances due from subsidiaries are unsecured, interest-free and repayable on demand. As at 31 December 2018, the impairment losses on amounts due from subsidiaries amount to $10,936,000 (2017: $10,936,000; 1 Jan 2017: $nil).

## 10 Trade and other receivables (Continued)

GST receivable was related to the purchase of a leasehold property in 2017.

The Group's and the Company's exposure to credit risk and impairment losses for trade and other receivables are disclosed in Note 18.

***Sources of estimation uncertainty***

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates to be applied for the respective category of the financial assets and contract assets. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation including evaluation of the Group's historical loss rates, existing market conditions as well as forward looking estimates at the end of each reporting period.

## 11 Cash and cash equivalents

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **1 Jan 2017** | **2018** | **2017** | **1 Jan 2017** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Cash at bank and in hand | 11,745 | 11,674 | 24,516 | 208 | 695 | 3,080 |
| Fixed deposits | 12 | 11 | 512 | – | – | – |
| | 11,757 | 11,685 | 25,028 | 208 | 695 | 3,080 |

## 12 Share capital

| | Ordinary shares | | | |
|---|---|---|---|---|
| | **2018** | | **2017** | |
| | **No. of shares '000** | **$'000** | **No. of shares '000** | **$'000** |
| **Company** | | | | |
| In issue at 1 January and 31 December | 250,448 | 36,412 | 250,448 | 36,412 |

All issued shares are fully paid, with no par value.

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

## 13 Reserves

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 1 Jan 2017 | 2018 | 2017 | 1 Jan 2017 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Capital reserve | (3,078) | (3,078) | (3,078) | 300 | 300 | 300 |
| Translation reserve | 41 | 37 | – | – | – | – |
| | (3,037) | (3,041) | (3,078) | 300 | 300 | 300 |

The capital reserve arises from a common control transaction accounted for using the 'pooling of interest' method and equity component of convertible loan notes.

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

## 14 Loans and borrowings

| | Group | | |
|---|---|---|---|
| | 2018 | 2017 | 1 Jan 2017 |
| | $'000 | $'000 | $'000 |
| **Non-current liabilities** | | | |
| *Unsecured* | | | |
| Term loans | 73 | – | 574 |
| *Secured* | | | |
| Bank loans | 18,484 | 19,248 | 11,286 |
| Finance lease liabilities | 689 | 264 | 237 |
| | 19,173 | 19,512 | 11,523 |
| **Total non-current liabilities** | 19,246 | 19,512 | 12,097 |
| **Current liabilities** | | | |
| *Unsecured* | | | |
| Term loans | 104 | – | 191 |
| *Secured* | | | |
| Loan associated with asset held for sale | – | 4,252 | – |
| Bank loans | 770 | 855 | 763 |
| Finance lease liabilities | 252 | 191 | 46 |
| Bills payable | 3,481 | 617 | 582 |
| | 4,503 | 1,663 | 1,391 |
| **Total current liabilities** | 4,607 | 5,915 | 1,582 |
| **Total loans and borrowings** | 23,853 | 25,427 | 13,679 |

Information about the Group's exposure to interest rate risk and liquidity risks is included in Note 18.

## 14 Loans and borrowings (Continued)

**Terms and debt repayment schedule**

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

| | Nominal interest rate | Year of maturity | 2018 Face value | 2018 Carrying amount | 2017 Face value | 2017 Carrying amount | 1 Jan 2017 Face value | 1 Jan 2017 Carrying amount |
|---|---|---|---|---|---|---|---|---|
| | % | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | | | | | |
| S$ floating rate loans | From 0% to 4.17% below prime rate | 2017 to 2035 | 19,431 | 19,431 | 24,355 | 24,355 | 12,049 | 12,049 |
| S$ fixed rate term loan | 3.50% | 2017 | – | – | – | – | 765 | 765 |
| Bills payable | 2.40% to 3.17% | 2017 to 2019 | 3,481 | 3,481 | 617 | 617 | 582 | 582 |
| Finance lease liabilities | 1.88% to 6.70% | 2017 to 2024 | 1,060 | 941 | 513 | 455 | 340 | 283 |
| | | | 23,972 | 23,853 | 25,485 | 25,427 | 13,736 | 13,679 |

The secured banking facilities of the Group are secured over leasehold properties (including asset held for sale) with carrying amounts of $24,409,000 (2017: $31,199,000; 1 Jan 2017: $17,054,000).

***Finance lease liabilities***

Finance lease liabilities are payable as follows:

| | 2018 | | | 2017 | | | 1 Jan 2017 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Future minimum lease payments | Interest | Present value of minimum lease payments | Future minimum lease payments | Interest | Present value of minimum lease payments | Future minimum lease payments | Interest | Present value of minimum lease payments |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | | | | | | |
| Within 1 year | 296 | 44 | 252 | 214 | 23 | 191 | 68 | 22 | 46 |
| Between 1 year and 5 years | 760 | 74 | 686 | 260 | 34 | 226 | 272 | 35 | 237 |
| More than 5 years | 4 | 1 | 3 | 39 | 1 | 38 | – | – | – |
| | 1,060 | 119 | 941 | 513 | 58 | 455 | 340 | 57 | 283 |

## 14 Loans and borrowings (Continued)

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

| | Liabilities | | | |
|---|---|---|---|---|
| | Bills payable | Other loans and borrowings | Finance lease liabilities | Total |
| | $'000 | $'000 | $'000 | $'000 |
| **Balance at 1 January 2017** | 582 | 12,814 | 283 | 13,679 |
| **Changes from financing cash flows** | | | | |
| Interest paid | – | (357) | (23) | (380) |
| Proceeds from borrowings | – | 14,875 | – | 14,875 |
| Repayment of borrowings | – | (3,334) | – | (3,334) |
| Changes in bills payable | 35 | – | – | 35 |
| Payment of finance lease liabilities | – | – | (114) | (114) |
| **Total changes from financing cash flows** | 35 | 11,184 | (137) | 11,082 |
| **Other changes** | | | | |
| **Liability-related** | | | | |
| New finance leases | – | – | 286 | 286 |
| Interest expenses | – | 357 | 23 | 380 |
| **Total liability-related other changes** | – | 357 | 309 | 666 |
| **Balance at 31 December 2017** | 617 | 24,355 | 455 | 25,427 |
| **Balance at 1 January 2018** | 617 | 24,355 | 455 | 25,427 |
| **Changes from financing cash flows** | | | | |
| Interest paid | – | (619) | (48) | (667) |
| Repayment of borrowings | – | (5,478) | – | (5,478) |
| Changes in bills payable | 2,864 | – | – | 2,864 |
| Payment of finance lease liabilities | – | – | (273) | (273) |
| **Total changes from financing cash flows** | 2,864 | (6,097) | (321) | (3,554) |
| **Other changes** | | | | |
| **Liability-related** | | | | |
| New finance leases | – | – | 450 | 450 |
| Interest expenses | – | 619 | 48 | 667 |
| Acquisition through business combination | – | 554 | 309 | 863 |
| **Total liability-related other changes** | – | 1,173 | 807 | 1,980 |
| **Balance at 31 December 2018** | 3,481 | 19,431 | 941 | 23,853 |

## 15 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | | Liabilities | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 1 Jan 2017 | 2018 | 2017 | 1 Jan 2017 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | | | |
| Property, plant and equipment | – | – | – | 396 | 457 | 1,427 |
| Deferred revenue | (360) | (581) | (802) | – | – | – |
| Net deferred tax (assets)/ liabilities | (360) | (581) | (802) | 396 | 457 | 1,427 |

Movement in temporary differences (prior to offsetting of balances) during the year are as follows:

| | Balance as at 1 January 2017 | Recognised in profit or loss (Note 23) | Other | Balance as at 31 December 2017 | Recognised in profit or loss (Note 23) | Other | Balance as at 31 December 2018 |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | | | | |
| **Deferred tax assets** | | | | | | | |
| Deferred revenue | (802) | – | 221 | (581) | – | 221 | (360) |
| **Deferred tax liabilities** | | | | | | | |
| Property, plant and equipment | 1,427 | (970) | – | 457 | (61) | – | 396 |

***Unrecognised deferred tax assets***

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | $'000 | $'000 | $'000 | $'000 |
| Unabsorbed capital allowances | 302 | 256 | – | – |
| Unutilised tax losses | 8,320 | 8,220 | 7,141 | 7,141 |
| | 8,622 | 8,476 | 7,141 | 7,141 |

The tax losses are subject to agreement by the tax authorities and compliance with tax regulations including satisfactory outcomes over changes in shareholders and the shareholding test. The tax losses and unabsorbed capital allowances do not expire under current tax legislation.

## 16 Trade and other payables

| | | Group | | | Company | | |
|---|---|---|---|---|---|---|---|
| | Note | 2018 | 2017 | 1 Jan 2017 | 2018 | 2017 | 1 Jan 2017 |
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Trade payables | | 11,035 | 7,383 | 7,832 | 15 | 75 | 226 |
| Amount due to subsidiaries: | | | | | | | |
| - Trade | | – | – | – | 69 | 4 | – |
| - Non-trade | | – | – | – | 1,157 | 46 | – |
| Deposits received | | 1,023 | 905 | 647 | 1 | – | – |
| GST payable | | 548 | – | – | 22 | – | – |
| Deferred revenue | (i) | 2,160 | 4,115 | 4,773 | – | – | – |
| Accrued expenses | (ii) | 4,271 | 4,384 | 1,726 | 204 | 1,465 | 292 |
| Other payables | | 386 | 280 | 461 | – | 4 | – |
| | | 19,423 | 17,067 | 15,439 | 1,468 | 1,594 | 518 |

(i) Includes deferred revenue of $2,118,000 (2017: $3,418,000; 1 Jan 2017: $4,718,000) representing the excess of selling price over the fair value, i.e. market value at the date of disposal for the property located at 29 Tai Seng Avenue, Singapore 534119, which was disposed under a sale and leaseback arrangement. The deferred revenue is amortised on a straight-line basis over the leaseback period of 10 years. As at the reporting date, deferred tax assets amounting to $360,000 (2017: $581,000; 1 Jan 2017: $802,000) in respect of the deferred revenue have been recognised.

(ii) Includes unpaid invoices for acquisition of plant and equipment of $nil (2017: $51,000; 1 Jan 2017: $51,000) and computer software of $nil (2017: $21,000; 1 Jan 2017: $88,000).

Outstanding balances due to subsidiaries are unsecured, interest-free and repayable on demand.

The Group's and the Company's exposure to liquidity risks related to trade and other payables are disclosed in Note 18.

## 17 Provisions

| | Onerous contract | Restoration | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **Group** | | | |
| At 1 January 2017 | 1,993 | – | 1,993 |
| Provision made during the year | 535 | 654 | 1,189 |
| Provision used during the year | (422) | – | (422) |
| Unwind of discount | 188 | – | 188 |
| At 31 December 2017 | 2,294 | 654 | 2,948 |
| Provision used during the year | (824) | – | (824) |
| Unwind of discount | 228 | – | 228 |
| At 31 December 2018 | 1,698 | 654 | 2,352 |
| **1 January 2017** | | | |
| Non-current | 1,570 | – | 1,570 |
| Current | 423 | – | 423 |
| | **1,993** | **–** | **1,993** |
| **31 December 2017** | | | |
| Non-current | 1,580 | 654 | 2,234 |
| Current | 714 | – | 714 |
| | 2,294 | 654 | 2,948 |
| **31 December 2018** | | | |
| Non-current | 879 | 654 | 1,533 |
| Current | 819 | – | 819 |
| | 1,698 | 654 | 2,352 |

***Onerous contract***

In 2010, the Group entered into a non-cancellable sales and leaseback transaction for its Natural Cool Lifestyle Hub building for a period of 10 years whereby rental expenses are committed for the leaseback period up to year 2020. Due to changes in market conditions, estimated rental income is expected to be lower than the committed rental expenses under the sales and leaseback arrangement. The future losses have been provided for as onerous contract.

***Restoration***

A provision of $654,000 (2017: $654,000; 1 Jan 2017: $nil) relates to the Group's obligation to restore a building at the end of its useful life.

***Sources of estimation uncertainty***

Estimates of the Group's obligations arising from the onerous contract that exist as at balance sheet date may be affected by future events, which cannot be predicted with any certainty. Future rental rates, occupancy rates and expenses are made based on the management's knowledge and experience and may vary from actual experience so that the actual liability may vary considerably from the best estimates.

## 18 Financial instruments

**Financial risk management**

**Overview**

The Group has exposure to the following risks arising from financial instruments:

(i) credit risk

(ii) liquidity risk

(iii) market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their rules and obligations.

The Group 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 Group Audit Committee is assisted in its oversight role by outsourced Internal Audit. 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.

***(i) Credit risk***

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and debt investment.

The carrying amounts of financial assets and contract assets represent the Group's and the Company's maximum exposure to credit risk, before taking into account any collateral held. The Group and the Company do not hold any collateral in respect of their financial assets.

The Group's and the Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Group has policies in place to ensure sales are made to customers with an appropriate credit history and monitors their balances on an ongoing basis.

*Exposure to credit risk*

The Group's and Company's exposure to credit risk for trade and other receivables and contract assets is concentrated in Singapore.

## 18 Financial instruments (Continued)

**Risk management framework (Continued)**

***(i) Credit risk (Continued)***

The exposure to credit risk for trade and other receivables (excluding prepayments and GST receivable), and contract assets at the reporting date by type of counterparty was:

| | 2018 | 2017 | 1 Jan 2017 |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **Group** | | | |
| Commercial | 12,114 | 5,695 | 4,308 |
| Trading | 9,441 | 9,269 | 8,672 |
| | 21,555 | 14,964 | 12,980 |
| **Company** | | | |
| Commercial | 770 | 652 | 11,397 |

The carrying amount of the Group's most significant receivable is $2,154,000 (2017: $1,605,000; 1 Jan 2017: $1,083,000) as at 31 December 2018. The Company has no concentration of customers' credit risk.

**Comparative information under FRS 39**

The ageing of trade and other receivables (excluding prepayments and GST receivable) and contract assets at the reporting date is as follows:

| | Gross 2017 | Impairment losses 2017 | Gross 1 Jan 2017 | Impairment losses 1 Jan 2017 |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | |
| Neither past due nor impaired | 9,457 | – | 7,839 | – |
| Past due 0 – 30 days | 3,700 | – | 2,841 | – |
| Past due 31 – 120 days | 1,522 | – | 1,833 | (138) |
| Past due 121 – 365 days | 317 | (32) | 640 | (126) |
| More than one year | 643 | (643) | 294 | (203) |
| | 15,639 | (675) | 13,447 | (467) |
| **Company** | | | | |
| Neither past due nor impaired | 9,913 | (9,597) | 9,513 | – |
| Past due 0 – 30 days | 94 | (88) | 97 | – |
| Past due 31 – 120 days | 253 | (253) | 192 | – |
| Past due 121 – 365 days | 676 | (676) | 857 | – |
| More than one year | 652 | (322) | 738 | – |
| | 11,588 | (10,936) | 11,397 | – |

## 18 Financial instruments (Continued)

**Risk management framework (Continued)**

*(i) Credit risk (Continued)*

**Comparative information under FRS 39 (Continued)**

The Group and the Company established the allowance for impairment that represented its estimated incurred losses in respect of trade and other receivables and contract assets. The main components of this allowance were a specific loss component that relates to individually significant exposures.

The Group and the Company believed that the unimpaired amounts that were past due were still collectible in full, based on historical payment behaviour and extensive analyses of customer credit risk, including underlying customers' credit ratings, when available.

***Expected credit loss assessment as at 1 January and 31 December 2018***

The Group uses an allowance matrix to measure the ECLs of trade receivables and contract assets from individual customers, which comprise a very large number of small balances. As the Group's past default experience does not show significantly different loss patterns for different customer segments, the allowance matrix is not further distinguished between the different customer bases.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off.

Loss rates are based on actual credit loss experience over the past three years adjusted for current conditions and the Group's view of economic conditions over the expected lives of the trade receivables only if these factors have a significant impact to the credit loss.

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

| | Group | | | |
|---|---|---|---|---|
| | Weighted average loss rate | Gross carrying amount | Impairment loss allowance | Credit impaired |
| | % | $'000 | $'000 | |
| Current (not past due) | 0.11 | 10,756 | (11) | *No* |
| 1 – 30 days past due | 0.14 | 4,613 | (6) | *No* |
| 31 – 60 days past due | 0.40 | 1,727 | (7) | *No* |
| 61 – 90 days past due | 1.34 | 374 | (5) | *No* |
| More than 90 days past due | 3.17 | 1,227 | (106) | *Yes* |
| | | 18,697 | (135) | |

Management believe that there is no indication that any macro-economic factor will have a significant direct and immediate impact on the credit quality of the Group's trade receivables.

Loss rates for trade receivables due from the Company's subsidiaries has been measured as an amount equal to lifetime expected losses ECL. The ECL on trade receivables are estimated based on past default experiences of the subsidiaries and an analysis of the subsidiaries' economic conditions. The Company has recognised a loss allowance of 100% against all trade receivables because historical experience has indicated that these receivables are generally not recoverable.

## 18 Financial instruments (Continued)

**Risk management framework (Continued)**

***(i) Credit risk (Continued)***

***Movements in allowance for impairment in respect of trade receivables and contract assets***

The movement in the allowance for impairment in respect of trade receivables and contract assets during the year was as follows:

| | Group | Company |
|---|---|---|
| | **$'000** | **$'000** |
| At 1 January 2017 per FRS 39 | 467 | – |
| Impairment loss recognised | 208 | 1,339 |
| At 31 December 2017 per FRS 39 | 675 | 1,339 |
| Reversal of impairment loss | (455) | – |
| Impairment loss utilised | (85) | – |
| At 31 December 2018 per SFRS(I) 9 | 135 | 1,339 |

*Other receivables*

Impairment on accrued discount receivables, deposits and other receivables has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. Other receivables are considered to have low credit risk as they are not due for payment at the end of reporting period and there has been no significant increase in the risk of default on the receivables since initial recognition. The amount of the allowance on other receivables was negligible.

*Cash and cash equivalents*

The Group and the Company held cash and cash equivalents of $11,757,000 and $208,000 respectively at 31 December 2018 (2017: $11,685,000 and $695,000 respectively; 1 Jan 2017: $25,028,000 and $3,080,000 respectively). The cash and cash equivalents are held with bank and financial institution counterparties which are rated A- to AA-, based on rating agency Standard & Poor's ratings.

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 amount of the allowance on cash and cash equivalents was negligible.

**Intra-group financial guarantees**

The Group's policy is to provide financial guarantees only for subsidiaries' liabilities. The maximum exposure of the Company in respect of the intra-group financial guarantee at the reporting date is $28,972,000 (2017: $24,972,000; 1 Jan 2017: $13,396,000). At the reporting date, the Company does not consider it probable that a claim will be made against the Company under the intra-group financial guarantees.

**Other investments**

*Risk management policy*

Other investments are made through studies of different markets and their environment by the directors.

## 18 Financial instruments (Continued)

**Risk management framework (Continued)**

***(ii) Liquidity risk***

*Risk management policy*

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

At the reporting date, the Group maintains $5,349,000 of uncommitted credit facilities that can be drawn down to meet short-term financing needs.

*Exposure to liquidity risk*

The following are the remaining contractual maturities of financial liabilities. The amounts are gross and undiscounted, and include contractual interest payments:

| | | Contractual undiscounted cash flows | | | |
|---|---|---|---|---|---|
| | Carrying amount | Total | Within 1 year | Within 2 to 5 years | More than 5 years |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | | |
| **31 December 2018** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Variable interest rate loans | 19,431 | (23,196) | (1,254) | (5,016) | (16,926) |
| Bills payable | 3,481 | (3,507) | (3,507) | – | – |
| Finance lease liabilities | 941 | (1,060) | (296) | (760) | (4) |
| Trade and other payables* | 17,263 | (17,263) | (17,263) | – | – |
| | 41,116 | (45,026) | (22,320) | (5,776) | (16,930) |
| **31 December 2017** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Variable interest rate loans | 24,355 | (28,339) | (5,604) | (4,916) | (17,819) |
| Bills payable | 617 | (621) | (621) | – | – |
| Finance lease liabilities | 455 | (513) | (214) | (260) | (39) |
| Trade and other payables* | 12,952 | (12,952) | (12,952) | – | – |
| | 38,379 | (42,425) | (19,391) | (5,176) | (17,858) |
| **1 January 2017** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Variable interest rate loans | 12,049 | (15,987) | (1,036) | (6,647) | (8,304) |
| Fixed interest rate loan | 765 | (862) | (235) | (627) | – |
| Bills payable | 582 | (586) | (586) | – | – |
| Finance lease liabilities | 283 | (340) | (68) | (272) | – |
| Trade and other payables* | 10,666 | (10,666) | (10,666) | – | – |
| | 24,345 | (28,441) | (12,591) | (7,546) | (8,304) |

## 18 Financial instruments (Continued)

**Risk management framework (Continued)**

***(ii) Liquidity risk (Continued)***

*Exposure to liquidity risk (Continued)*

| | Carrying amount | Contractual undiscounted cash flows Total | Within 1 year |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **Company** | | | |
| **31 December 2018** | | | |
| **Non-derivative financial liabilities** | | | |
| Trade and other payables | 1,468 | (1,468) | (1,468) |
| Intra-group financial guarantees | – | (28,972) | (28,972) |
| | 1,468 | (30,440) | (30,440) |
| **31 December 2017** | | | |
| **Non-derivative financial liabilities** | | | |
| Trade and other payables | 1,594 | (1,594) | (1,594) |
| Intra-group financial guarantees | – | (24,972) | (24,972) |
| | 1,594 | (26,566) | (26,566) |
| **1 January 2017** | | | |
| **Non-derivative financial liabilities** | | | |
| Trade and other payables | 518 | (518) | (518) |
| Intra-group financial guarantees | – | (13,396) | (13,396) |
| | 518 | (13,914) | (13,914) |

* *Exclude deferred revenue*

The maturity analysis shows the contractual undiscounted cash flows of the Group's and the Company's financial liabilities on the basis of their earliest possible contractual maturity. Except for the cash flow arising from the intra-group financial guarantees, it is not expected that the cash flows included in the maturity analysis of the Group and the Company could occur significantly earlier, or at significantly different amounts.

## 18 Financial instruments (Continued)

**Risk management framework (Continued)**

***(iii) Market risk***

Market risk is the risk that changes in market prices, such as foreign currencies and interest 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 exposure within acceptable parameters, while optimising the return.

**Foreign currency risk**

*Risk management policy*

The Group is exposed to foreign currency risk on sales and purchases, including inter-company sales, purchases and inter-company balances that are denominated in a currency other than the respective functional currencies of the Group entities. The currencies in which these transactions primarily are denominated are the Singapore dollar ("SGD").

*Exposure to foreign currency risk*

The Group and the Company are not significantly exposed to foreign currency risk.

**Interest rate risk**

*Exposure to interest rate risk*

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

| | 2018 | 2017 | 1 Jan 2017 |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **Group** | | | |
| **Fixed rate instruments** | | | |
| Loans and borrowings | (4,422) | (1,072) | (1,630) |
| Fixed deposits | 12 | 11 | 512 |
| | (4,410) | (1,061) | (1,118) |
| **Variable rate instruments** | | | |
| Loans and borrowings | (19,431) | (24,355) | (12,049) |

*Fair value sensitivity analysis for fixed rate instruments*

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, in respect of the fixed rate instrument a change in interest rates at the reporting date would not affect profit or loss.

## 18 Financial instruments (Continued)

**Risk management framework (Continued)**

***(iii) Market risk (Continued)***

*Sensitivity analysis for variable rate instruments*

A change of 100 basis points in interest rates would have increased or decreased profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

| | 2018 | | 2017 | | 1 Jan 2017 | |
|---|---|---|---|---|---|---|
| | | | Profit or loss | | | |
| | 100 bp increase | 100 bp decrease | 100 bp increase | 100 bp decrease | 100 bp increase | 100 bp decrease |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | | | |
| **Profit before tax** | | | | | | |
| Variable rate instruments | (194) | 194 | (244) | 244 | (120) | 120 |

***Capital management***

The Board's policy is to maintain a sound capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital, reserves, accumulated losses and non-controlling interests of the Group. The Board of Directors monitors the return on capital which the Group defines as net operating income divided by total average shareholders' equity excluding non-controlling interests, as well as the level of dividends to ordinary shareholders.

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

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 18 Financial instruments (Continued)

*(iii) Market risk (Continued)*

***Accounting classifications 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.

| | | Carrying amount | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|
| Group | Note | Mandatorily at fair value through profit or loss | Financial assets at amortised cost | Other financial liabilities | Total | Level 1 | Level 2 | Level 3 | Total |
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **31 December 2018** | | | | | | | | | |
| **Financial assets measured at fair value** | | | | | | | | | |
| Other investments: | | | | | | | | | |
| - Zero-coupon convertible bonds | 7 | 688 | – | – | 688 | – | – | 688 | 688 |
| **Financial assets not measured at fair value** | | | | | | | | | |
| Trade and other receivables | 10 | – | 19,523 | – | 19,523 | | | | |
| Cash and cash equivalents | 11 | – | 11,757 | – | 11,757 | | | | |
| | | – | 31,280 | – | 31,280 | | | | |
| **Financial liabilities not measured at fair value** | | | | | | | | | |
| Variable interest rate loans | 14 | – | – | 19,431 | 19,431 | – | 19,431 | – | 19,431 |
| Bills payable | 14 | – | – | 3,481 | 3,481 | – | 3,481 | – | 3,481 |
| Finance lease liabilities | 14 | – | – | 941 | 941 | – | 964 | – | 964 |
| Trade and other payables* | 16 | – | – | 17,263 | 17,263 | | | | |
| | | – | – | 41,116 | 41,116 | | | | |

**18 Financial instruments (Continued)**

*(iii) Market risk (Continued)*

***Accounting classifications and fair values (Continued)***

| Group | Note | Carrying amount: Designated at fair value through profit or loss | Carrying amount: Loans and receivables | Carrying amount: Other financial liabilities | Carrying amount: Total | Fair value: Level 1 | Fair value: Level 2 | Fair value: Level 3 | Fair value: Total |
|---|---|---|---|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **31 December 2017** | | | | | | | | | |
| **Financial assets measured at fair value** | | | | | | | | | |
| Other investments: | | | | | | | | | |
| - Zero-coupon convertible bonds | 7 | 688 | – | – | 688 | – | – | 688 | 688 |
| **Financial assets not measured at fair value** | | | | | | | | | |
| Trade and other receivables | 10 | – | 14,536 | – | 14,536 | | | | |
| Cash and cash equivalents | 11 | – | 11,685 | – | 11,685 | | | | |
| | | – | 26,221 | – | 26,221 | | | | |
| **Financial liabilities not measured at fair value** | | | | | | | | | |
| Variable interest rate loans | 14 | – | – | 24,355 | 24,355 | – | 24,355 | – | 24,355 |
| Bills payable | 14 | – | – | 617 | 617 | – | 617 | – | 617 |
| Finance lease liabilities | 14 | – | – | 455 | 455 | – | 445 | – | 445 |
| Trade and other payables* | 16 | – | – | 12,952 | 12,952 | | | | |
| | | – | – | 38,379 | 38,379 | | | | |

## 18 Financial instruments (Continued)

*(iii) Market risk (Continued)*

*Accounting classifications and fair values (Continued)*

| Group | Note | Carrying amount: Designated at fair value through profit or loss | Carrying amount: Loans and receivables | Carrying amount: Other financial liabilities | Carrying amount: Total | Fair value: Level 1 | Fair value: Level 2 | Fair value: Level 3 | Fair value: Total |
|---|---|---|---|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **1 January 2017** | | | | | | | | | |
| **Financial assets measured at fair value** | | | | | | | | | |
| Other investments: | | | | | | | | | |
| - Zero-coupon convertible bonds | 7 | 928 | – | – | 928 | – | – | 928 | 928 |
| **Financial assets not measured at fair value** | | | | | | | | | |
| Trade and other receivables | 10 | – | 12,772 | – | 12,772 | | | | |
| Cash and cash equivalents | 11 | – | 25,028 | – | 25,028 | | | | |
| | | – | 37,800 | – | 37,800 | | | | |
| **Financial liabilities not measured at fair value** | | | | | | | | | |
| Variable interest rate loans | 14 | – | – | 12,049 | 12,049 | – | 12,049 | – | 12,049 |
| Fixed interest rate loans | 14 | – | – | 765 | 765 | – | 765 | – | 765 |
| Bills payable | 14 | – | – | 582 | 582 | – | 582 | – | 582 |
| Finance lease liabilities | 14 | – | – | 283 | 283 | – | 280 | – | 280 |
| Trade and other payables* | 16 | – | – | 10,666 | 10,666 | | | | |
| | | – | – | 24,345 | 24,345 | | | | |

* *Exclude deferred revenue*

## 18 Financial instruments (Continued)

*(iii) Market risk (Continued)*

*Accounting classifications and fair values (Continued)*

| Company | Note | Carrying amount: Mandatorily at fair value through profit or loss | Carrying amount: Financial assets at amortised cost | Carrying amount: Other financial liabilities | Carrying amount: Total | Fair value: Level 1 | Fair value: Level 2 | Fair value: Level 3 | Fair value: Total |
|---|---|---|---|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **31 December 2018** | | | | | | | | | |
| **Financial assets measured at fair value** | | | | | | | | | |
| Other investments: | | | | | | | | | |
| - Zero-coupon convertible bonds | 7 | 688 | – | – | 688 | – | – | 688 | 688 |
| **Financial assets not measured at fair value** | | | | | | | | | |
| Trade and other receivables | 10 | – | 770 | – | 770 | | | | |
| Cash and cash equivalents | 11 | – | 208 | – | 208 | | | | |
| | | – | 978 | – | 978 | | | | |
| **Financial liabilities not measured at fair value** | | | | | | | | | |
| Trade and other payables | 16 | – | – | 1,468 | 1,468 | | | | |

## 18 Financial instruments (Continued)

*(iii) Market risk (Continued)*

*Accounting classifications and fair values (Continued)*

| Company | Note | Carrying amount | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Designated at fair value through profit or loss | Loans and receivables | Other financial liabilities | Total | Level 1 | Level 2 | Level 3 | Total |
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **31 December 2017** | | | | | | | | | |
| **Financial assets measured at fair value** | | | | | | | | | |
| Other investments: | | | | | | | | | |
| - Zero-coupon convertible bonds | 7 | 688 | – | – | 688 | – | – | 688 | 688 |
| **Financial assets not measured at fair value** | | | | | | | | | |
| Trade and other receivables | 10 | – | 652 | – | 652 | | | | |
| Cash and cash equivalents | 11 | – | 695 | – | 695 | | | | |
| | | – | 1,347 | – | 1,347 | | | | |
| **Financial liabilities not measured at fair value** | | | | | | | | | |
| Trade and other payables | 16 | – | – | 1,594 | 1,594 | | | | |

**18 Financial instruments (Continued)**

***(iii) Market risk (Continued)***

***Accounting classifications and fair values (Continued)***

| | | Carrying amount | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Company** | **Note** | **Designated at fair value through profit or loss** | **Loans and receivables** | **Other financial liabilities** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **1 January 2017** | | | | | | | | | |
| **Financial assets measured at fair value** | | | | | | | | | |
| Other investments: | | | | | | | | | |
| - Zero-coupon convertible bonds | 7 | 928 | – | – | 928 | – | – | 928 | 928 |
| **Financial assets not measured at fair value** | | | | | | | | | |
| Trade and other receivables | 10 | – | 11,397 | – | 11,397 | | | | |
| Cash and cash equivalents | 11 | – | 3,080 | – | 3,080 | | | | |
| | | – | 14,477 | – | 14,477 | | | | |
| **Financial liabilities not measured at fair value** | | | | | | | | | |
| Trade and other payables | 16 | – | – | 518 | 518 | | | | |

## 18 Financial instruments (Continued)

**Level 3 fair value**

The following table shows a reconciliation from the opening balance to the ending balance for Level 3 fair value:

| | Unquoted equity securities | Zero-coupon convertible bonds |
|---|---|---|
| | $'000 | $'000 |
| **Group and Company** | | |
| At 1 January 2017 | – | 928 |
| Fair value loss recognised in profit or loss | – | (240) |
| At 31 December 2017 and 31 December 2018 | – | 688 |

## 19 Measurement of fair values

A number of Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

***Non-derivative financial liabilities***

The fair values of non-derivative financial liabilities which are determined for disclosure purposes, are 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.

***Other non-derivative financial assets and liabilities***

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

***Other investments***

The following table shows the valuation technique used in measuring the Level 3 fair value as well as the significant unobservable inputs used for other investments:

| Type | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable input and fair value measurement |
|---|---|---|---|
| **Group and Company** | | | |
| Other investments | The fair values of financial assets designated at FVTPL which are not traded in active markets are determined using recoverable amount based on fair value less costs to sell. | Selling price of the Production Sharing Contract ("PSC") | The fair value of the instrument will increase/(decrease) if the selling price of the PSC was higher/(lower). |

*Sensitivity analysis*

Management considers that changing the significant unobservable inputs used to other reasonably possible alternative assumptions would not result in a significant change in the estimated fair value.

## 20 Revenue

| | Group | |
|---|---|---|
| | 2018 | 2017 |
| | $'000 | $'000 |
| Revenue from contracts with customers | 132,497 | 113,441 |
| Rental income | 4,163 | 3,965 |
| | 136,660 | 117,406 |

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

***Trading***

| | |
|---|---|
| Nature of goods or services | The Group sells air-conditioning units, spare parts and paints. |
| When revenue is recognised | Revenue is recognised when goods are delivered to the customer and all criteria for acceptance have been satisfied. |
| Significant payment terms | Invoices are issued upon delivery of goods. Payment terms range from cash on delivery to 60 days after invoice date. |
| Obligations for warranties | Air-conditioning units sold by the Group come with a standard warranty term ranging from one to five years. The warranty is directly covered by the suppliers. Accordingly, the Group has no warranty obligations relating to the air-conditioning units.<br>There is no warranty for paint products. |

***Servicing***

| | |
|---|---|
| Nature of goods or services | The Group provides maintenance services such as inspection and cleaning of air-conditioning and ventilation systems to residential and commercial market. |
| When revenue is recognised | Revenue is recognised when services are provided to the customer and all criteria for acceptance have been satisfied. |
| Significant payment terms | Invoices are issued upon completion of services. Residential customers are required to make payments in advance of services rendered or cash on delivery. Commercial customers are given a credit term ranging from 30 to 60 days after invoice date. |
| Obligations for warranties | There is no warranty. |

***Installation***

| | |
|---|---|
| Nature of goods or services | The Group provides installation services for commercial air-conditioning systems and mechanical ventilation. |
| When revenue is recognised | The Group has assessed that these installation services qualify for over time revenue recognition. The Group has the enforceable rights to payment for performance completed till date. The stage of completion is assessed by reference to the contract costs incurred till date in proportion to the total estimated contract costs of each contract. |
| Significant payment terms | Progress billings to the customer are based on a payment schedule in the contract that is dependent on the achievement of specified construction milestones. If the value of the installation services rendered exceeds payments received from the customer, a contract asset is recognised. |
| Obligations for warranties | The contracts will be covered under defect liability period ranging from one to two years. |

## 20 Revenue (Continued)

### Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by revenue streams and timing of revenue recognition.

| | Paint | | Aircon | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Revenue streams** | | | | | | | | |
| Trading | 3,797 | 3,362 | 91,183 | 75,522 | – | – | 94,980 | 78,884 |
| Installation | – | – | 23,431 | 26,004 | – | – | 23,431 | 26,004 |
| Servicing | – | – | 13,997 | 8,553 | 89 | – | 14,086 | 8,553 |
| | 3,797 | 3,362 | 128,611 | 110,079 | 89 | – | 132,497 | 113,441 |
| **Timing of revenue recognition** | | | | | | | | |
| Products and services transferred over time | – | – | 23,431 | 26,004 | – | – | 23,431 | 26,004 |
| Products transferred at a point in time | 3,797 | 3,362 | 105,180 | 84,075 | 89 | – | 109,066 | 87,437 |
| | 3,797 | 3,362 | 128,611 | 110,079 | 89 | – | 132,497 | 113,441 |

### Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

| | Note | 2018 | 2017 | 1 Jan 2017 |
|---|---|---|---|---|
| | | $'000 | $'000 | $'000 |
| Trade receivables | 10 | 14,800 | 10,872 | 10,718 |
| Contract assets | | 2,032 | 428 | 208 |
| Contract liabilities | | (13,222) | (12,661) | (14,712) |

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on installation of air-conditioning systems and mechanical ventilation. The contract assets are transferred to trade receivables when the rights become unconditional. This usually occurs when the Group invoices the customer.

The contract liabilities primarily relate to consideration received from customers exceeding progress of installations and advance considerations received from customers for maintenance services.

## 20 Revenue (Continued)

*Contract balances (Continued)*

Significant changes in the contract assets and the contract liabilities balances during the period are as follows.

| | Contract assets | | Contract liabilities | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | $'000 | $'000 | $'000 | $'000 |
| Revenue recognised that was included in the contract liability balance at the beginning of the year | – | – | 8,472 | 8,863 |
| Increases due to cash received and progress billings, excluding amounts recognised as revenue during the year | – | – | (9,033) | (6,812) |
| Transfer from contract assets recognised at the beginning of the year to receivables | (142) | (205) | – | – |
| Recognition of revenue, net of recognised in receivables | 1,746 | 425 | – | – |

***Sources of estimation uncertainty***

Revenue recognition on installation are dependent on estimating the total completion cost of the construction contract. Actual total costs may be higher or lower than estimated at the reporting date, which would affect the revenue recognised in future years. As at the reporting date, management considered that all costs to complete and revenue can be reliably estimated.

**Transaction price allocated to the remaining performance obligations**

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially satisfied) at the reporting date.

| | 2019 | 2020 | 2021 | 2020 | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Installation | 26,526 | 15,986 | 12,493 | 6,499 | 61,504 |

Variable consideration that is constrained and therefore not included in the transaction price is excluded in the amount presented above.

The Group applies the practical expedient in paragraph 121 of SFRS(I) 15 and does not disclose information about its remaining performance obligations if:

- the performance obligation is part of a contract that has an original expected duration of one year or less; or
- the Group has a right to invoice a customer an amount that corresponds directly with its performance to date, then it recognises revenue in that amount.

The Group's exposure to impairment losses for contract assets is disclosed in Note 18.

## 21 Other income

| | Group 2018 $'000 | Group 2017 $'000 |
|---|---|---|
| Gain on disposal of property, plant and equipment | 25 | 12 |
| Government grants | 118 | 251 |
| Interest income | 8 | 14 |
| Sponsorship from supplier | 188 | – |
| Insurance claim recoveries | 284 | – |
| Others | 516 | 312 |
| | 1,139 | 589 |

## 22 Finance costs

| | Group 2018 $'000 | Group 2017 $'000 |
|---|---|---|
| Interest expenses: | | |
| - Bank loans | 619 | 357 |
| - Finance leases | 48 | 23 |
| Unwind of discount on provisions | 228 | 188 |
| | 895 | 568 |

## 23 Tax credit

| | Group 2018 $'000 | Group 2017 $'000 |
|---|---|---|
| **Current tax expense** | | |
| Current year | 114 | 120 |
| Over provided in prior years | (71) | – |
| | 43 | 120 |
| **Deferred tax credit** | | |
| Origination and reversal of temporary differences | 86 | (205) |
| Over provided in prior years | (147) | (765) |
| | (61) | (970) |
| Tax credit | (18) | (850) |
| **Reconciliation of effective tax rate** | | |
| Profit/(Loss) before tax | 142 | (6,257) |
| Tax using Singapore tax rate at 17% (2017: 17%) | 24 | (1,064) |
| Effect of tax rates in foreign jurisdictions | (3) | (15) |
| Tax incentives | (408) | (444) |
| Non-taxable income | (49) | – |
| Non-deductible expenses | 611 | 946 |
| Over provided in prior years | (218) | (765) |
| Deferred tax asset not recognised | 25 | 492 |
| | (18) | (850) |

## 24 Profit/(Loss) for the year

The following items have been included in arriving at profit/(loss) for the year:

| | | Group | |
|---|---|---|---|
| | Note | 2018 | 2017 |
| | | $'000 | $'000 |
| Amortisation of deferred revenue | | (1,300) | (1,300) |
| Amortisation of intangible assets | 5 | 264 | 106 |
| Audit fees paid to: | | | |
| - Auditors of the Company | | 194 | 200 |
| - Other auditors | | 23 | 14 |
| Non-audit fees paid to auditors of the Company | | 24 | 25 |
| Depreciation of property, plant and equipment | 4 | 2,291 | 1,912 |
| Operating lease expense | | 6,036 | 6,002 |
| Staff costs | | 16,487 | 16,135 |
| Contributions to defined contribution plans, included in staff costs | | 914 | 908 |
| (Reversal of allowance)/Allowance for inventory obsolescence | | (92) | 217 |
| Foreign exchange loss – net | | 37 | 33 |
| Plant and equipment written-off | | 16 | 3 |
| Impairment loss on intangible assets | | – | 119 |
| Impairment loss on trade receivables and contract assets | | – | 208 |
| Impairment loss on plant and equipment | | – | 1,822 |
| Net change in fair value of zero-coupon convertible bonds | | – | 240 |
| Provisions | 17 | – | 535 |

## 25 Earnings/(Loss) per share

*Basic and diluted earnings/(loss) per share*

The calculation of basic and diluted earnings/(loss) per share has been based on profit/(loss) attributable to ordinary shareholders of $266,000 (2017: loss of $5,315,000) and weighted average number of ordinary shares outstanding of 250,448,000 (2017: 250,448,000). The calculated of weighted-average number of ordinary shares is as follows:

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | '000 | '000 |
| **Group** | | | |
| Issued ordinary shares at 1 January and 31 December, representing weighted-average number of ordinary shares during the year | 12 | 250,448 | 250,448 |

The Group does not have any dilutive potential ordinary shares.

## 26 Operating segments

The Group has three 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 technology and marketing strategies. For each of the strategic business units, the Group's Chief Executive Officer ("CEO") and Group's Chief Corporate Officer ("CCO") review internal management reports on at least a quarterly basis. The following summary describes the operations in each Group's reportable segments:

Air-conditioning : trading of air-conditioning units and spare parts, installation services for commercial air-conditioning systems and mechanical ventilation, and maintenance services such as inspection and cleaning of air-conditioning and ventilation systems.

Investment : property investment holding.

Paint : manufacturing and distribution of paints and chemicals.

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 review by the CEO and CCO. Segment profit before income tax is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

## 26 Operating segments (Continued)

### Information about reportable segments

| | Aircon | Investment | Paint | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **2018** | | | | |
| External revenue | 129,130 | 3,733 | 3,797 | 136,660 |
| Inter-segment revenue | 7,845 | 545 | 2,428 | 10,818 |
| Total revenue of reportable segments | 136,975 | 4,278 | 6,225 | 147,478 |
| Interest income | (18) | (22) | – | (40) |
| Finance costs | 491 | 228 | 208 | 927 |
| Depreciation and amortisation | 2,018 | 357 | 154 | 2,529 |
| Reportable segment profit/(loss) before tax | 3,031 | (1,701) | (323) | 1,007 |
| Other material non-cash items: | | | | |
| - Allowance for inventory obsolescence | (92) | – | – | (92) |
| - Amortisation of deferred revenue | – | (1,300) | – | (1,300) |
| - Reversal of impairment loss on trade receivables and contract assets | (367) | (88) | – | (455) |
| Reportable segment assets | 79,017 | 1,462 | 2,374 | 82,853 |
| Capital expenditure | 4,125 | 183 | 15 | 4,323 |
| Reportable segment liabilities | 53,260 | 5,652 | 7,478 | 66,390 |
| **2017** | | | | |
| External revenue | 110,079 | 3,965 | 3,362 | 117,406 |
| Inter-segment revenue | 43 | 544 | 21 | 608 |
| Total revenue of reportable segments | 110,122 | 4,509 | 3,383 | 118,014 |
| Interest income | (5) | (16) | (9) | (30) |
| Finance costs | 218 | 195 | 178 | 591 |
| Depreciation and amortisation | 1,303 | 275 | 410 | 1,988 |
| Reportable segment profit/(loss) before tax | 2,780 | (2,162) | (3,503) | (2,885) |
| Other material non-cash items: | | | | |
| - Allowance for inventory obsolescence | 110 | – | 107 | 217 |
| - Amortisation of deferred revenue | – | (1,300) | – | (1,300) |
| - Impairment loss on trade receivables and contract assets | 208 | – | – | 208 |
| - Impairment loss on plant and equipment | – | – | 1,822 | 1,822 |
| - Impairment loss on intangible assets | – | – | 119 | 119 |
| - Provisions | – | 535 | – | 535 |
| Reportable segment assets | 67,457 | 6,452 | 6,799 | 80,708 |
| Capital expenditure | 19,585 | 232 | 156 | 19,973 |
| Reportable segment liabilities | 44,873 | 14,951 | 11,606 | 71,430 |

## 26 Operating segments (Continued)

**Reconciliations of reportable segment revenues, profit or loss, assets and liabilities**

| | 2018 | 2017 |
|---|---|---|
| | $'000 | $'000 |
| **Revenue** | | |
| Total revenue for reportable segments | 147,478 | 118,014 |
| Elimination of inter-segment revenue | (10,818) | (608) |
| Consolidated revenue | 136,660 | 117,406 |
| **Profit or loss before tax** | | |
| Total profit/(loss) before tax for reportable segments | 1,007 | (2,885) |
| Losses for other segments | (865) | (3,372) |
| Consolidated profit/(loss) before tax | 142 | (6,257) |
| **Assets** | | |
| Total assets for reportable segments | 82,853 | 80,708 |
| Assets for other segments | 1,389 | 1,746 |
| Elimination of inter-segment assets | (2,981) | (2,460) |
| Consolidated total assets | 81,261 | 79,994 |
| **Liabilities** | | |
| Total liabilities for reportable segments | 66,390 | 71,430 |
| Liabilities for other segments | 241 | 1,527 |
| Elimination of inter-segment liabilities | (6,832) | (13,698) |
| Consolidated total liabilities | 59,799 | 59,259 |

## 26 Operating segments (Continued)

**Reconciliations of reportable segment other material items**

| | Reportable segment totals | Adjustments | Consolidated totals |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **2018** | | | |
| Interest income | (40) | 32 | (8) |
| Finance costs | 927 | (32) | 895 |
| Depreciation and amortisation | 2,529 | 26 | 2,555 |
| Reversal of allowance for inventory obsolescence | (92) | – | (92) |
| Amortisation of deferred revenue | (1,300) | – | (1,300) |
| Reversal of impairment loss on trade receivables and contract assets | (455) | – | (455) |
| Capital expenditure | 4,323 | 4 | 4,327 |
| **2017** | | | |
| Interest income | (30) | 16 | (14) |
| Finance costs | 591 | (23) | 568 |
| Depreciation and amortisation | 1,988 | 30 | 2,018 |
| Allowance for inventory obsolescence | 217 | – | 217 |
| Amortisation of deferred revenue | (1,300) | – | (1,300) |
| Impairment loss on trade receivables and contract assets | 208 | – | 208 |
| Impairment loss on plant and equipment | 1,822 | – | 1,822 |
| Impairment loss on intangible assets | 119 | – | 119 |
| Provisions | 535 | – | 535 |
| Net change in fair value of zero-coupon convertible bonds | – | 240 | 240 |
| Capital expenditure | 19,973 | 15 | 19,988 |

**Geographical information**

The Group operates primarily in Singapore. The reportable revenue is primarily generated from Singapore and the segment assets are based in Singapore.

**Major customer**

Revenue from one customer of the Group's Aircon segment represents approximately $7,100,000 (2017: $6,300,000) of the Group's total revenue.

## 27 Operating leases

**Leases as lessee**

Non-cancellable operating lease rentals are payable as follows:

| | Group | |
|---|---|---|
| | 2018 | 2017 |
| | $'000 | $'000 |
| Within one year | 5,987 | 5,779 |
| Between one and five years | 4,109 | 9,395 |
| | 10,096 | 15,174 |

The Group leases a number of office space and warehouse under operating leases. The leases typically run for a period of 1 to 3 years, with an option to renew the lease after that date. Lease payments are usually increased upon renewal to reflect market rentals. None of the leases include contingent rental.

The Group has recognised a provision of $654,000 (2017: $654,000) in respective of a leased property which has been sublet by the Group (see Note 17).

**Leases as lessor**

The Group's leased properties are sublet to external customers. The leases typically run for a period of 1 year to 3 years, with an option to renew the lease after that date. Subsequent renewals are negotiated with the lessees at market rates. None of the leases include contingent rental.

The future minimum lease receivables under non-cancellable leases are as follows:

| | Group | |
|---|---|---|
| | 2018 | 2017 |
| | $'000 | $'000 |
| Within one year | 1,043 | 842 |

## 28 Contingencies

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | $'000 | $'000 | $'000 | $'000 |
| ***Corporate guarantees*** | | | | |
| Banking facilities for subsidiaries | – | – | 28,972 | 24,972 |

At the reporting date, the Company has issued guarantees to banks in respect of bank facilities granted to its subsidiaries. These intra-group financial guarantees, as disclosed above, will expire when the loans have been paid and discharged and/or when the banking facilities are no longer available to the subsidiaries, delivery of contracts with customers and suppliers. These financial guarantee contracts are accounted for as insurance contracts.

## 28 Contingencies (Continued)

The principal risk to which the Company is exposed is the credit risk in connection with the guarantee contracts it has issued. The credit risk represents the loss that would be recognised upon a default by the subsidiaries to which the guarantees were given on behalf of.

There are no terms and conditions attached to the guarantee contracts that would have a material effect on the amount, timing and uncertainty of the Company's future cash flows.

The intra-group financial guarantees are eliminated in preparing the consolidated financial statements.

Estimates of the Company's obligation arising from the financial guarantee contracts may be affected by future events, which cannot be predicted with certainty. The assumptions made may well vary from actual experience so that the actual liability may vary considerably from the best estimates. As of balance sheet date, there is no provision made in respect of the obligation.

***Continuing financial support***

The Company has given formal undertakings, which are unsecured, to provide financial support to its subsidiaries. As at 31 December 2018, the net current liabilities of these subsidiaries amount to approximately $14,260,000 (2017: $10,824,000).

## 29 Commitment

In 2017, the Group committed to incur a capital expenditure of $1,353,000. This commitment was settled in 2018.

## 30 Related parties

***Key management personnel compensation***

Key management personnel of the Group and the Company are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. The directors and senior management of the Group and the Company are considered as key management personnel.

Key management personnel compensation comprised:

| | Group | |
|---|---|---|
| | **2018** | **2017** |
| | **$'000** | **$'000** |
| Short-term employee benefits | 2,727 | 3,175 |
| Post-employment benefits (including CPF) | 99 | 112 |
| | 2,826 | 3,287 |

Included in the above is the total compensation to directors of the Company which amount to $1,230,000 (2017: $1,413,000).

## 31 Acquisition of subsidiary

On 1 August 2018, the Group acquired 51% of the shares and voting interests in JAD.

For the five months ended 31 December 2018, JAD contributed revenue of $2,878,000 and profit of $21,000 to the Group's results. If the acquisition had occurred on 1 January 2018, management estimates that consolidated revenue would have been $140,472,000, and consolidated profit for the year would have been $205,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2018.

***Acquisition-related costs***

The Group incurred acquisition-related costs of $51,000 on legal fees and due diligence costs. These costs have been included in 'administrative expenses'.

***Identifiable assets acquired and liabilities assumed***

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

| | $'000 |
|---|---|
| Plant and equipment | 340 |
| Intangible assets | 188 |
| Cash and cash equivalents | 7 |
| Trade and other receivables | 1,982 |
| Amount due from a director | 441 |
| Trade and other payables | (1,919) |
| Loans and borrowings | (863) |
| Deferred tax liabilities | (32) |
| Total identifiable net assets | 144 |

***Measurement of fair values***

The valuation techniques used for measuring the fair value of material assets acquired are as follows:

| Assets acquired | Valuation technique |
|---|---|
| Intangible assets<br>- Order backlogs | Multi-period excess earnings methods |

***Goodwill***

Goodwill arising from the acquisition has been recognised as follows:

| | $'000 |
|---|---|
| Total consideration transferred in cash | 1,500 |
| NCI, based on their proportionate interest in the recognised amounts of the assets and liabilities of the acquiree | 71 |
| Fair value of identifiable net assets | (144) |
| Goodwill | 1,427 |

The goodwill is attributable mainly to the synergies expected to be achieved from integrating JAD into the Group's existing air-conditioning installation business. None of the goodwill recognised is expected to be deductible for tax purposes.

## 32 Subsequent event

On 18 February 2019, the Group and an external party incorporated a company, SFB Holdings Pte. Ltd., of which the Group has 80% of interests. Subsequently, SFB Holdings Pte. Ltd. entered into a conditional business transfer agreement to acquire certain assets and business from several external parties. As at the date of this report, the proposed acquisition has not been completed.

## 33 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 periods beginning on 1 January 2018. Singapore-incorporated companies that have issued, or are in the process of issuing, equity or debt instruments for trading in a public market in Singapore, will apply SFRS(I) with effect from annual periods beginning on or after 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 are set out in Note 3 have been applied in preparing 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 and the Company have adjusted amounts reported previously in the financial statements prepared in accordance with previous SFRS(I).

In addition to the adoption of the new framework, the Group will also concurrently apply 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; and
- SFRS(I) 9 *Financial Instruments* which includes amendments arising from IFRS 4 *Insurance Contracts* issued by the IASB in September 2016.

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, SFRS(I) 15 and SFRS(I) 9 on the Group's consolidated financial position as at 1 January 2017, 31 December 2017 and 1 January 2018. There were no material adjustments to the Group's consolidated income statement and consolidated comprehensive income for the year ended 31 December 2017 and the Group's statement of cash flows for the year ended 31 December 2017 arising on transition to SFRS(I).

There was no adjustment to the Company's financial position as at 1 January 2017, 31 December 2017 and 1 January 2018 and the Company's statement of cash flows for the year ended 31 December 2017 arising on transition to SFRS(I).

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

**Reconciliation of the Group's equity**

**Consolidated statement of financial position**

| | | 31 December 2017 | | | | 1 January 2018 | |
|---|---|---|---|---|---|---|---|
| | Note | FRS framework | SFRS(I) 1 | SFRS(I) 15 | SFRS(I) framework | SFRS(I) 9 | SFRS(I) framework |
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Assets** | | | | | | | |
| Property, plant and equipment | | 34,126 | – | – | 34,126 | – | 34,126 |
| Intangible assets and goodwill | | 604 | – | – | 604 | – | 604 |
| Deferred tax assets | | 581 | – | – | 581 | – | 581 |
| **Non-current assets** | | 35,311 | – | – | 35,311 | – | 35,311 |
| Asset held for sale | | 4,148 | – | – | 4,148 | – | 4,148 |
| Inventories | B(i) | 12,023 | – | (428) | 11,595 | – | 11,595 |
| Contract assets | B(i) | – | – | 428 | 428 | – | 428 |
| Other investments | | 688 | – | – | 688 | – | 688 |
| Trade and other receivables | B(i) | 21,463 | – | (5,324) | 16,139 | – | 16,139 |
| Cash and cash equivalents | | 11,685 | – | – | 11,685 | – | 11,685 |
| **Current assets** | | 50,007 | – | (5,324) | 44,683 | – | 44,683 |
| **Total assets** | | 85,318 | – | (5,324) | 79,994 | – | 79,994 |
| **Equity** | | | | | | | |
| Share capital | | 36,412 | – | – | 36,412 | – | 36,412 |
| Reserves | A(i) | (3,439) | 398 | – | (3,041) | – | (3,041) |
| Accumulated losses | A(i) | (12,290) | (398) | – | (12,688) | – | (12,688) |
| Non-controlling interests | | 52 | – | – | 52 | – | 52 |
| **Total equity** | | 20,735 | – | – | 20,735 | – | 20,735 |
| **Liabilities** | | | | | | | |
| Loans and borrowings | | 19,512 | – | – | 19,512 | – | 19,512 |
| Deferred tax liabilities | | 457 | – | – | 457 | – | 457 |
| Provisions | | 2,234 | – | – | 2,234 | – | 2,234 |
| **Non-current liabilities** | | 22,203 | – | – | 22,203 | – | 22,203 |
| Loans and borrowings | | 5,915 | – | – | 5,915 | – | 5,915 |
| Contract liabilities | B(i) | – | – | 12,661 | 12,661 | – | 12,661 |
| Trade and other payables | B(i) | 35,052 | – | (17,985) | 17,067 | – | 17,067 |
| Provisions | | 714 | – | – | 714 | – | 714 |
| Current tax liabilities | | 699 | – | – | 699 | – | 699 |
| **Current liabilities** | | 42,380 | – | (5,324) | 37,056 | – | 37,056 |
| **Total liabilities** | | 64,583 | – | (5,324) | 59,259 | – | 59,259 |
| **Total equity and liabilities** | | 85,318 | – | (5,324) | 79,994 | – | 79,994 |

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

**Reconciliation of the Group's equity (Continued)**

**Consolidated statement of financial position (Continued)**

| | Note | 1 January 2017 FRS framework | SFRS(I) 1 | SFRS(I) 15 | SFRS(I) framework |
|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 |
| **Assets** | | | | | |
| Property, plant and equipment | | 21,512 | – | – | 21,512 |
| Intangible assets and goodwill | | 690 | – | – | 690 |
| Other investments | | 928 | – | – | 928 |
| Deferred tax assets | | 802 | – | – | 802 |
| **Non-current assets** | | 23,932 | – | – | 23,932 |
| Inventories | B(i) | 11,711 | – | (208) | 11,503 |
| Contract assets | B(i) | – | – | 208 | 208 |
| Trade and other receivables | B(i) | 19,427 | – | (6,073) | 13,354 |
| Cash and cash equivalents | | 25,028 | – | – | 25,028 |
| **Current assets** | | 56,166 | – | (6,073) | 50,093 |
| **Total assets** | | 80,098 | – | (6,073) | 74,025 |
| **Equity** | | | | | |
| Share capital | | 36,412 | – | – | 36,412 |
| Reserves | A(i) | (3,476) | 398 | – | (3,078) |
| Accumulated losses | A(i) | (6,975) | (398) | – | (7,373) |
| Non-controlling interests | | (1) | – | – | (1) |
| **Total equity** | | 25,960 | – | – | 25,960 |
| **Liabilities** | | | | | |
| Loans and borrowings | | 12,097 | – | – | 12,097 |
| Deferred tax liabilities | | 1,427 | – | – | 1,427 |
| Provisions | | 1,570 | – | – | 1,570 |
| **Non-current liabilities** | | 15,094 | – | – | 15,094 |
| Loans and borrowings | | 1,582 | – | – | 1,582 |
| Contract liabilities | B(i) | – | – | 14,712 | 14,712 |
| Trade and other payables | B(i) | 36,224 | – | (20,785) | 15,439 |
| Provisions | | 423 | – | – | 423 |
| Current tax liabilities | | 815 | – | – | 815 |
| **Current liabilities** | | 39,044 | – | (6,073) | 32,971 |
| **Total liabilities** | | 54,138 | – | (6,073) | 48,065 |
| **Total equity and liabilities** | | 80,098 | – | (6,073) | 74,025 |

## 33 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 except ions 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 considers that restating FCTR to comply with current SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates* may not be practicable as certain acquisitions and disposals were transacted at dates that preceded the statutory record keeping periods.

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, and reclassified the cumulative FCTR of $398,000 as at 1 January 2017 determined in accordance with FRS to retained earnings. 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 increased by $398,000 and accumulated losses increased by the same amount as at 31 December 2017.

**B SFRS(I) 15**

SFRS(I) 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It also introduces new cost guidance which requires certain costs of obtaining and fulfilling contracts to be recognised as separate assets when specified criteria are met.

The Group adopted SFRS(I) 15 in its financial statements using the retrospective approach. All requirements of SFRS(I) 15 have been applied retrospectively, except for the application of the practical expedients as described below, and the information presented for 2017 has been restated.

The Group has applied the following practical expedients as allowed under SFRS(I).

- Completed contracts that began and ended in the same annual reporting period in 2017 and contracts completed at 1 January 2017 are not restated.
- For completed contracts that have variable consideration, the Group used the transaction price at the date the contract was completed to restate comparative information.
- For contracts modified before 1 January 2017, the Group has reflected the aggregate effect of all of the modifications that occurred before 1 January 2017 when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations. Had the Group elected not to apply this practical expedient, the amount of revenue recorded for the prior year would have been higher.
- For the year ended 31 December 2017, the Group did not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the Group expects to recognise that amount as revenue.

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

**Notes to the reconciliations (Continued)**

**B SFRS(I) 15 (Continued)**

The impact upon the adoption of SFRS(I) 15, including the corresponding tax effects, are described below.

**(i) Presentation of contract assets and liabilities**

On adopting SFRS(I) 15, the Group has changed the presentation of the following amounts:

- 'Construction contracts in progress' classified as 'Inventories' of $428,000 as at 31 December 2017 and $208,000 as at 1 January 2017 were reclassified to 'Contract assets';
- 'Accrued revenue' classified as 'Trade and other receivables' of $5,324,000 as at 31 December 2017 and $6,073,000 as at 1 January 2017 were netted off against 'Excess of progress billings over construction contracts in progress' classified as 'Trade and other payables' of $17,351,000 as at 31 December 2017 and $20,117,000 as at 1 January 2017 on a contract-by-contract basis and presented as 'Contract liabilities'; and
- 'Deferred revenue' classified as 'Trade and other payables' of $634,000 as at 31 December 2017 and $668,000 as at 1 January 2017 were reclassified to 'Contract liabilities'.

**C 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 and a new general hedge accounting 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 retained earnings 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 generally 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;
  - 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;
  - The designation of an equity investment that is not held-for-trading as at FVOCI; and
  - The designation and revocation of previous designations of certain financial assets and financial liabilities measured at FVTPL.

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

**Notes to the reconciliations (Continued)**

**C SFRS(I) 9 (Continued)**

The impact upon adoption of SFRS(I) 9, including the corresponding tax effects, are described below.

**(i) Classification of financial assets and financial liabilities**

Under SFRS(I) 9, financial assets are classified in the following categories: measured at amortised cost, FVOCI - debt instrument, FVOCI - equity instrument; or FVTPL. 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.

For an explanation of how the Group classifies and measures financial assets and related gains and losses under SFRS(I) 9, see Note 18.

The adoption of SFRS(I) 9 has not had a significant effect on the Group's accounting policies for financial liabilities.

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 and Company's financial assets as at 1 January 2018.

| | | | | 1 January 2018 | |
|---|---|---|---|---|---|
| **Group** | **Note** | **Original classification under FRS 39** | **New classification under SFRS(I) 9** | **Original carrying amount under FRS 39** | **New carrying amount under SFRS(I) 9** |
| **Financial assets** | | | | | |
| Other investments | | | | | |
| *Debt investments* | (a) | FVTPL | Mandatorily at FVTPL | 688 | 688 |
| Trade and other receivables | (b) | Loans and receivables | Amortised cost | 14,536 | 14,536 |
| Cash and cash equivalents | (c) | Loans and receivables | Amortised cost | 11,685 | 11,685 |
| **Total financial assets** | | | | 26,909 | 26,909 |
| **Company** | | | | | |
| **Financial assets** | | | | | |
| Other investments | | | | | |
| *Debt investments* | (a) | FVTPL | Mandatorily at FVTPL | 688 | 688 |
| Trade and other receivables | (b) | Loans and receivables | Amortised cost | 652 | 652 |
| Cash and cash equivalents | (c) | Loans and receivables | Amortised cost | 208 | 208 |
| **Total financial assets** | | | | 1,548 | 1,548 |

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

**Notes to the reconciliations (Continued)**

**C SFRS(I) 9 (Continued)**

**(i) Classification of financial assets and financial liabilities (Continued)**

(a) Debt investments that were previously classified as fair value through profit or loss continues to be classified at fair value through profit or loss. The Group and the Company intend to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

(b) Trade and receivables that were classified as loans and receivables under FRS 39 are now classified at amortised cost. There is no allowance for impairment was recognised in opening retained earnings of the Group and of the Company at 1 January 2018 respectively on transition to SFRS(I) 9.

(c) Cash and cash equivalents that were classified as loans and receivables under FRS 39 are now classified at amortised cost. There is no allowance for impairment was recognised in opening retained earnings of the Group and of the Company at 1 January 2018 respectively on transition to SFRS(I) 9.

**(ii) 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, debt investments at FVOCI and intra-group financial guarantee contracts, but not to equity investments.

As a result of the adoption of SFRS(I) 9, the Group presented impairment loss related to trade receivables and contract assets, separately in the statement of profit or loss. As a result, the Group reclassified impairment loss amounting to $208,000, recognised under FRS 39, from 'other expenses' to 'impairment loss on trade receivables and contract assets' in the consolidated statement profit or loss for the year ended 31 December 2017.

There is no impact on the application of SFRS(I) 9.

Additional information about how the Group measure the allowance for impairment is described in Note 18.

## BOARD MATTERS

The Board of Directors (the "Board") of Natural Cool Holdings Limited (the "Company" and together with its subsidiaries, the "Group") are committed to maintaining high standards of corporate governance and places importance on its corporate governance processes and systems so as to ensure greater transparency, accountability and maximisation of long-term shareholder value.

This report outlines the Company's corporate governance practices that were in place during the financial year ended 31 December 2018 ("FY2018"), with specific reference made to the principles of the Code of Corporate Governance 2012 (the "Code") issued in May 2012.

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

The Board is pleased to confirm that the Company has generally adhered to the framework as outlined in the Code and deviations from any guideline of the Code and/or the Guide are explained in this report.

### The Board's Conduct of Affairs

### Principle 1: Effective Board to Lead and Control the Company

The Code advocates that every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with management to achieve this objective and management remains accountable to the Board.

***Guideline 1.1 Roles of Board***

As at the date of this Annual Report, the Board comprises of five Directors, three of whom are independent. The Board is entrusted to lead and oversee the Company, with the fundamental principle to act in the best interests of the Company. In addition to its statutory duties, the Board's principle functions are:

a) protect and enhance long-term shareholder value;

b) review management's performance;

c) identify key stakeholder groups and recognise that their perceptions affect the Company's reputation;

d) set the Company's values and standards and ensure that obligations to shareholders and other stakeholders are understood and met;

e) develops the overall strategy for the Group and supervises its management; and

f) providing leadership, developing its strategic direction, establishing risk policy and goals for the management as well as monitoring the achievement of these goals.

As at the date of this Annual Report, the Board comprises the following members:

| Name of Director | | Designation |
|---|---|---|
| 1 | Goh Teck Sia | Independent Non-Executive Chairman |
| 2 | Tsng Joo Peng | Executive Director and Chief Executive Officer |
| 3 | Wong Leon Keat | Executive Director, Chief Corporate Officer and Managing Director |
| 4 | Lau Lee Hua | Independent Director |
| 5 | Ronnie Tan Siew Bin (1) | Independent Director |
| 6 | Mahtani Bhagwandas (2) | Independent Director |

Notes:-
(1) Mr Ronnie Tan Siew Bin ceased as Independent Director with effect from 10 September 2018.
(2) Mr Mahtani Bhagwandas was appointed as Independent Director with effect from 9 December 2018.

***Guideline 1.2 Objective Decision Making***

The Board exercise due diligence and independent judgment in dealing with the business affairs of the Group and are obliged to act in good faith and to take objective decisions in the interest of the Group.

***Guideline 1.3 Delegation of Authority to Board Committees***

The Board has delegated certain responsibilities to the Audit Committee (the "AC"), the Remuneration Committee (the "RC") and the Nominating Committee (the "NC") (collectively, the "Board Committees"). As at the date of this Annual Report, the composition of the Board Committees are as follows:

| | **AC** (1) | **NC** (2) | **RC** (3) |
|---|---|---|---|
| Chairman | Lau Lee Hua | Mahtani Bhagwandas (4) | Goh Teck Sia |
| Member | Goh Teck Sia | Goh Teck Sia | Lau Lee Hua |
| Member | Mahtani Bhagwandas (4) | Lau Lee Hua | Mahtani Bhagwandas (4) |

Notes:-
(1) The AC comprises 3 members, all of whom, including the Chairman, are independent.
(2) The NC comprises 3 members, all of whom, including the Chairman, are independent.
(3) The RC comprises 3 members, all of whom, including the Chairman, are independent.
(4) Following the cessation of Mr Ronnie Tan Siew Bin as Independent Director on 10 September 2018, Mr Ronnie Tan had also ceased as the Chairman of the NC and members of the AC and RC. Mr Mahtani Bhagwandas was appointed as Chairman of the NC and members of the AC and RC following his appointment as Independent Director on 9 December 2018.

***Guideline 1.4 Meetings of Board and Board Committees***

The Board meets on a half yearly basis and as and when circumstances require. The number of the Board and Board Committee meetings held and the attendance of each new Board member in FY2018 are as follows:

| | **Board** | **AC** | **NC** | **RC** |
|---|---|---|---|---|
| Number of Meetings Held | 2 | 2 | 2 | 1 |
| **Name of Director** | **Number of Meetings Attended** | | | |
| Goh Teck Sia | 2 | 2 | 2 | 1 |
| Tsng Joo Peng | 2 | 2* | 2* | 1* |
| Wong Leon Keat | 2 | 2* | 1* | 1* |
| Lau Lee Hua | 2 | 2 | 2 | 1 |
| Ronnie Tan Siew Bin (1) | 2 | 2 | 1 | 1 |
| Mahtani Bhagwandas (2) | 0 | 0 | 1* | 0 |

Notes:-
* By Invitation
(1) Mr Ronnie Tan Siew Bin ceased as an Independent Director with effect from 10 September 2018.
(2) Mr Mahtani Bhagwandas appointed as an Independent Director with effect from 9 December 2018.

The Company's Constitution allow for meetings to be held through audio visual communication equipment. When a physical meeting is not possible, timely communication with members of the Board can be achieved through electronic means. The Board and Board Committees may also make decisions by way of passing resolutions in writing in accordance with the Company's Constitution.

***Guideline 1.5 Internal Guidelines on Matters Requiring Board Approval***

Specifically, matters that require the Board's approval include, amongst others, the following:

- approval of the Group's strategic objectives;
- approval of the annual operating and capital expenditure budgets and any material changes to them;
- changes relating to the Group's capital structure including reduction of capital, share issuance and share buy backs;
- major changes to the Group's corporate structure, including, but not limited to acquisitions and disposals;
- changes to the Group's Management and control structure;
- approval of the half-yearly/full year's results announcements; annual reports and accounts, including the corporate governance report;
- approval of the dividend policy, declaration of the interim dividend and recommendation of the final dividend;
- approval of any significant changes in accounting policies or practices;
- approval of major capital projects;
- contracts regarding acquisitions or disposals of fixed assets (including intangible assets such as intellectual property) and substantial bank borrowings;
- approval of resolutions and corresponding documentation to be put forward to shareholders at a general meeting including approval of all circulars, prospectuses;
- approval of press releases concerning matters decided by the Board;
- approval of policies, including code of conduct, share dealing code, whistle blowing policy, environment and sustainability policy, and corporate social responsibility policy; and
- any decision likely to have a material impact on the Group from any perspective, including, but not limited to, financial, operational, strategic or reputational.

***Guideline 1.6 Continuous Training & Development of Directors***

All newly appointed directors will undergo an orientation programme where the director would be briefed on the Group's structure, business and governance policies as well as the expected duties of a director of a listed company. To get a better understanding of the Group's business, the director will also be given the opportunity to visit the Group's operational facilities and meet with key management personnel.

Briefings, updates and trainings for the directors in FY2018 include:

- The External Auditors had briefed the AC on changes or amendments to the financial reporting standards during AC meetings;
- The Company Secretary had briefed the Board on updates on relevant regulations issued by the SGX-ST and the Accounting and Corporate Regulatory Authority ("ACRA");
- The Chief Executive Officer ("CEO") updates the Board at each board meeting on business and strategic developments of the Group; and
- The ACRA-SGX-SID Audit Committee Seminar in January 2018.

The Company is also responsible for arranging and funding the trainings of directors. During FY2018, the Board has received appropriate training for the necessary discharge of their duties. All directors are encouraged to constantly keep abreast of developments in regulatory, legal and accounting frameworks that are of relevance to the Group through the extension of opportunities for participation in the relevant training courses, seminars and workshops.

***Guideline 1.7 Letter to Directors on Appointment***

Every newly-appointed director will be furnished a formal letter setting out the roles, duties, obligation and responsibilities as a member of the Board. A copy of the respective terms of reference will also be provided to directors who are appointed to the Board Committees.

**Board Composition and Guidance**

**Principle 2: Independent Element on the Board**

The Code advocates that there should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from management and 10% shareholders[(1)]. No individual or small group of individuals should be allowed to dominate the Board's decision making.

***Guideline 2.1 Independent Element of the Board***

Guideline 2.1 of the Code is met as the Independent Directors make up 3/5 of the Board.

***Guidance 2.2 Composition of Independent Director on the Board***

The Board believes there is a strong element of independence and that no individual or small group of individuals dominates the Board's decision making. The Board exercises independent judgment on corporate affairs and provides Management with a diverse, professional and objective perspective on issues.

The Chairman of the Board is an Independent Director and Independent Directors make up a majority of the Board.

***Guideline 2.3 Independence of Directors***

The NC has reviewed and confirmed the independence of the Independent Directors in accordance with the Code and the Catalist Rules. The Independent Directors have also confirmed their independence in accordance with the Code and the Catalist Rules.

***Guideline 2.4 Independence of Directors Who Have Served on the Board beyond Nine Years***

There are no Independent Directors that had served the Board for more than nine years.

***Guideline 2.5 Composition and Size of the Board***

The Board is of the opinion that it would be most effective to draw on the wealth of experience from the longer serving director while concurrently taking progressive steps to review and consider opportunities to refresh the Board as and when deemed required.

The Board would conduct regular reviews on its existing Board members' competencies which includes considering factors such as the expertise, skills and experiences so as to ensure that the Board dynamics remain optimal to meet ongoing challenges in the industry and in key countries such as Singapore and Malaysia which the Group operates in.

***Guideline 2.6 Competency of the Board***

The Board's policy in identifying director nominees is primarily to have an appropriate mix of members with complementary skills, gender, core competencies and experiences for the Group.

Note:

(1) 10% shareholder shall refer to a person who has an interests in one or more voting share in the company and the total votes attached to that share, or those shares, is not less than 10% of the total votes attached to all the voting shares in the company voting shares exclude treasury shares.

The following table shows the diversity of skills, experiences and knowledge possessed by the current Board members:

| | Number of Directors | Proportion of Board (%) |
|---|---|---|
| **Core Competencies** | | |
| Accounting or finance | 2 | 40 |
| Business management | 4 | 80 |
| Legal or corporate governance | 4 | 80 |
| Relevant industry knowledge or experience | 1 | 20 |
| Strategic planning experience | 5 | 100 |
| Customer based experience or knowledge | 2 | 40 |

The Board has taken the following steps to maintain or enhance its balance and diversity:

- Annual review by the NC to assess if the existing attributes and core competencies of the Board are complementary and to enhance the efficacy of the Board; and
- Annual evaluation of the skill sets of each director, with a view to understand the type of expertise which is lacking by the Board.

The NC will consider the results of these reviews in its recommendation for appointment of new directors, re-election and/or the re-appointment of incumbent directors.

***Guideline 2.7 Role of Non-Executive Directors***

Non-Executive Directors, whom currently are all independent, constructively challenge and help develop the Group's proposals on business strategies. Management's progress in implementing the agreed business strategies are monitored by the Non-Executive Directors through regular updates by the Management via emails as well as at the Board and Board Committees' meetings.

***Guideline 2.8 Regular Meetings of Non-Executive Directors***

The Independent Non-Executive Directors have met informally at least once in absence of the key management personnel during FY2018.

**Chairman and CEO**

**Principle 3: Clear Division of Responsibilities and Balance of Power and Authority**

The Code advocates that there should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the Group's business and no one individual should represent a considerable concentration of power.

***Guideline 3.1 Common Role of Chairman and CEO***

The roles of the Independent Non-Executive Chairman and CEO are separate to ensure clear division of their responsibilities, increase accountability and greater capacity of the Board for independent decision making. As Non-Executive Chairman of the Board, Mr. Goh Teck Sia ("Mr Goh") bears responsibility for the function of the Board. Mr. Tsng Joo Peng ("Mr Tsng"), as CEO, bears the responsibilities for running the daily operations of the Group's business. There is no familial relationship between the Chairman, Mr. Goh and the CEO, Mr. Tsng.

As Managing Director ("MD") and Chief Corporate Office, Mr Wong Leon Keat ("Mr Wong") works with the CEO, Mr Tsng to oversee financial, administrative, human resource, regulatory and compliance functions of the Group.

***Guideline 3.2 Role and Responsibilities of Chairman***

The Independent Non-Executive Chairman, leads the Board to ensure effectiveness on all aspects of its role. With assistance from the Company Secretary who co-ordinates with Management and CEO, the Independent Non-Executive Chairman sets the meeting agenda and ensures that the Directors are provided with complete, adequate and timely information. Board papers are sent to the Directors at least five days in advance in order for Directors to be adequately prepared for the meetings. The Independent Non-Executive Chairman ensures effective communication with shareholders and encourages constructive relations within the Board and between the Board and Management by promoting a culture of transparency and openness. Key personnel who can provide additional insight into matters to be discussed at the Board and/or Board Committees' meetings are invited to carry out presentations or attend the Board and/or Board Committees' meetings at the relevant time. The Independent Non-Executive Chairman also facilitates the effective contribution of Non-Executive Directors and promotes high standards of corporate governance within the Group.

The CEO and the MD work with the Board to determine the strategy for the Group and is responsible for the Group's business performance. The CEO and the MD also work with the Management of the Group to ensure that the Group operates in accordance with its strategic and operational objectives.

***Guideline 3.3 Appointment of Lead Independent Director***

Mr Goh is an Independent Non-Executive Director who is also the Chairman of the Board. Hence, the Board is of the view that there is no need to appoint a lead independent director for the time being.

***Guideline 3.4 Independent Directors to Meet Periodically***

The Independent Directors have met up informally at least once in the absence of other Directors in FY2018.

**Board Membership**

**Principle 4: Formal and Transparent Process for the Appointment and Re-appointment of Directors to the Board**

The Code advocates that there should be a formal and transparent process for the appointment and re-appointment of directors to the Board.

***Guideline 4.1 NC Membership and Key Terms of Reference***

The NC is guided by key terms of reference as follows:

(a) evaluate and review nominations for appointment and re-appointment to the Board and the various Board Committees;

(b) nominate director(s) for re-election at the Annual General Meeting ("AGM"), having regard to the directors' contribution and performance;

(c) determine annually whether or not a director is independent as set out in the Code;

(d) recommend to the Board the process of evaluating the performance of the Board, the Board Committees and individual directors and propose objective performance criteria to assess the effectiveness of the Board as a whole and the contribution of each director and annual assessment of the effectiveness of the Board;

(e) decide whether a director who has multiple board representations is able to and has been adequately carrying out his/her duties as a director of the Company;

(f) review and make recommendations to the Board on relevant matters relating to the succession plans of the Board (in particular, the Non-Executive Chairman/CEO) and senior management personnel; and

(g) review of training and professional development programmes for the Board.

The NC holds at least one (1) meeting during FY2018 and in each financial year.

***Guideline 4.2 Responsibilities of NC***

The responsibilities of the NC include making recommendations to the Board on succession planning, all Board appointments, re-election and/or re-appointments of directors, taking into consideration the composition of the Board and progressive renewal of the Board, how the director fits into the overall competency matrix of the Board as well as the directors' contribution and performance at Board and/or Board Committees' meetings, including attendance, preparedness and participation at the Board and/or Board Committees' meetings and training and professional development programmes for the Board.

***Guideline 4.3 NC to Determine Directors' Independence***

The NC has reviewed the independence of Independent Directors and considered them to be independent based on their declaration of their independence, which are in accordance with Guidelines 2.3 of the Code and Rule 406(3)(d) of the Catalist Rules.

***Guideline 4.4 Commitments of Directors with Multiple Board Representations***

The Board has not capped the maximum number of listed company board representations that each director may hold.

The NC is of the view that directors which serves on multiple boards are able to devote sufficient time and attention to the Company's affairs in light of other commitments held by them. However, a director who holds more than six board representations should be rigorously assessed by the Board to ensure that sufficient time and attention is given to the affairs of each company and he/she is able to and has been adequately carrying his/her duties as a director of the Company.

The considerations in assessing the adequacy of the directors' commitments include the following:

- Expected and/or competing time commitments of directors;
- Geographical location of directors;
- Size and composition of the Board; and
- Nature and scope of the Group's operations and size.

The measure and evaluation tools put in place to assess the performance time commitments of the directors include the following:

- Declarations by individual directors of board directorships and principal commitments in other company(ies);
- Annual confirmations by each director on his/her ability to devote sufficient time and attention to the Company's affairs, having regard to his/her other commitments; and
- Assessment of the individual directors' performance based on the criteria as set out in page 111 of this Annual Report.

The NC has reviewed and is of the view that each of the directors have given sufficient time and attention to the Company's affairs and is satisfied that all directors have discharged their duties adequately in FY2018.

***Guideline 4.5 Appointment of Alternate Director***

Alternate directors will be appointed as and when the Board deems necessary. Circumstances which warrant such appointments may include health, age related concerns as well as Management's succession plans.

As of the date of this Annual Report, the Company does not have any alternate directors.

*Guideline 4.6 Process for the Selection and Appointment and Re-appointment of Directors to the Board*

The Board assess and evaluates whether new Directors and/or retiring Directors to be re-appointed are properly qualified for appointment by virtue of their skills, experience and contributions, in line with the following process:

| | | |
|---|---|---|
| ***Process for the Selection and Appointment of New Directors*** | | |
| 1. | Determination of selection criteria | The NC, in consultation with the Board, would identify the current needs of the Board in terms of skills, experience and knowledge to complement and strengthen the Board. |
| 2. | Search for suitable candidates | The NC would consider candidates proposed by the directors, key management personnel or substantial shareholders, and may engage external search consultants where necessary. |
| 3. | Assessment of shortlisted candidates | The NC would meet and interview the shortlisted candidates to assess their suitability. |
| 4. | Appointment of Director | The NC would recommend the selected candidate to the Board for consideration and approval. |
| ***Process for the Re-electing Incumbent Directors*** | | |
| 1. | Assessment of Director | The NC reviews and ensures that the director to be re-nominated or appointed is able to contribute to the on-going effectiveness of the Board, has the ability to exercise sound business judgment, and has demonstrated leadership experience, high levels of professional skills and appropriate personal qualities. |
| 2. | Re-appointment of Director | Subject to the NC's satisfactory assessment, the NC would recommend the proposed re-appointment of the Director to the Board for its consideration and approval. Each NC member shall abstain from voting on any resolutions in respect of his/her re-nomination and re-election.<br><br>The directors to be re-elected and re-appointed at the forthcoming AGM has been listed hereunder. |

Pursuant to Regulation 101 of the Company's Constitution, at least one-third of the directors for the time being (or if their number is not multiple of three, the nearest to but not less than one-third) shall retire from office by rotation at each AGM of the Company and all directors shall retire from office once every three years. The Company's Constitution further states that a retiring director shall be eligible for re-election at the AGM of the Company. Regulation 105 of the Company's Constitution provides that any director appointed to fulfil a casual vacancy shall hold office until the next AGM and shall then be eligible for re-election but shall not be taken into account in determining the number of directors who are to retire by rotation at the next AGM.

The NC has reviewed and recommended the re-nomination and re-election of Mr Wong and Mr Mahtani Bhagwandas who will be retiring as Directors at the forthcoming AGM pursuant to Regulation 101 and 105 respectively of the Constitution. The two Directors have offered themselves for re-election. The Board has accepted the recommendation of the NC.

Mr Wong will upon re-election as a Director of the Company, remain as an Executive Director and MD of the Company. Mr Wong is a substantial shareholder of the Company holding 9.26% interest in the Company's Shares.

Mr Mahtani Bhagwandas will upon re-election as a Director of the Company, remain as an Independent Director of the Company, Chairman of the NC and a member of the AC and RC. The Board considers Mr Mahtani Bhagwandas to be independent in accordance with Guidelines 2.3 of the Code as well as for the purposes of Rule 704(7) of the Catalist Rules.

The information as required under Rule 720(5) of the Catalist Rule relating to Mr Wong and Mr Mahtani Bhagwandas, who will be retiring at the forthcoming annual general meeting have been listed under pages 125 to 130 of this Annual Report.

*Guideline 4.7 Key Information of Directors*

The key information of the Directors, including their appointment dates and directorships held in the past 3 years, are set out on pages 17 to 18 of this Annual Report.

**Board Performance**

**Principle 5: Assessment of the Effectiveness of the Board**

The Code advocates that there should be a formal annual assessment of the effectiveness of the Board as a whole and its Board Committees and the contribution by each director to the effectiveness of the Board.

*Guideline 5.1 Board Performance*
*Guideline 5.2 Performance Criteria for Board Evaluation*

The following table sets out the performance assessment criteria as recommended by the NC and approved by the Board, to be relied upon to assess the effectiveness of the Board and its Board Committees as a whole on an annual basis and the contribution by each Director to the effectiveness of the Board.

Each Director completes a board assessment questionnaire and the responses are presented to the NC for review, following which the NC will recommend to the Board key areas for improvement and follow-up actions.

| Performance Criteria | Board and Board Committees | Individual Directors |
|---|---|---|
| **Qualitative** | 1. Size and composition<br>2. Board processes and conduct of meetings<br>3. Access to information<br>4. Board processes<br>5. CEO and succession planning<br>6. Board accountability<br>7. Risk management and internal control<br>8. Remuneration<br>9. Financial Reporting<br>10. Communication with shareholders<br>11. Standard of conduct | 1. Commitment of time<br>2. Knowledge and abilities<br>3. Teamwork<br>4. Independence<br>5. Overall effectiveness |
| **Quantitative** | 1. Measuring and monitoring performance | Attendance at Board and Board Committee meetings |

The NC would review the criteria on a periodic basis to ensure that the criteria is able to provide an accurate and effective performance assessment taking into consideration industry standards and the economic climate with the objective to enhance long term shareholders' value and thereafter, to propose amendments, if any, to the Board for approval.

No changes have been proposed by the NC on the criteria for FY2018 as compared to the previous financial year as the economic climate and the Group's principal business activities remained the same since FY2017.

For FY2018, the NC is of the view that the Board has fared well against the performance criteria and the NC is satisfied with the performance of the Board. No external facilitator was used in the evaluation process for FY2018.

*Guideline 5.3 Evaluation of Individual Directors*

The review of the performance of each director is conducted annually in accordance with the performance criteria as set out in the table under Guideline 5.2. The performance of each director will be taken into account during re- nomination and re-election.

For FY2018, the NC is of the view that the performance of each individual Director is satisfactory.

**Access to Information**

**Principle 6: Access to Complete, Adequate and Timely Information**

The Code advocates that in order for directors to fulfil their responsibilities, they should be provided with complete, adequate and timely information prior to Board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

***Guideline 6.1 Board's Access to Information***
***Guideline 6.2 Provision of Information to the Board***
***Guideline 6.5 Access to Independent Professional Advice***

It is the aim of the Board to provide shareholders with a balanced and understandable assessment of the Company's performance, position and prospects.

The Management supports the Board and Board Committees by providing complete and adequate information of the Group, including but not limited to operational and financial performance of the Group, which aids the directors in identifying challenges and opportunities for the Group.

The Management recognises the importance of circulating information on a timely basis to ensure that the Board and Board Committees have adequate time to review the meeting materials to facilitate constructive and effective discussions during the scheduled meetings.

The Management further endeavours to circulate information for the Board and/or Board Committees' meetings at least five days prior to these meetings to allow sufficient time for the directors' review.

Key management personnel will also provide any additional material(s) or information that are requested by directors or that is necessary to enable the Board and/or Board Committees to make a balanced and informed assessment of the Group's performance, position and prospects.

The types of information which are provided by Management to the Directors are set out in the table below:

| | **Information** | **Frequency** |
|---|---|---|
| 1. | Board papers (with background or explanatory information relating to the matters brought before the Board, where necessary) | Half yearly |
| 2. | Updates to the Group's operations and the markets in which the Group operates in | Half yearly |
| 3. | Management accounts (with financial ratios analysis) | Half yearly |
| 4. | Reports on on-going or planned corporate actions | Ad hoc |
| 5. | Enterprise risk framework and assessment | Yearly |
| 6. | Financial results announcements | Half yearly |
| 7. | Shareholding statistics | Yearly |

The Group practices open communication where the Board and Board Committees have access to independent professional advice as and when required, at the expenses of the Company.

***Guideline 6.3 Board's Access to the Company Secretary***
***Guideline 6.4 Appointment and Removal of the Company Secretary***

The key roles of the Company Secretary are as follows:

- assist the Chairman and the Chairman of each Board committees in the development of the agendas for the various Board and Board Committees' meetings;

- administers and attends all Board and Board Committees' meetings of the Company and prepares minutes of meetings;

- ensuring that Board procedures are observed and that relevant rules and regulations, including requirements of the Company's Constitution, Companies Act ("Companies Act"), Securities and Futures Act (Chapter 289) of Singapore and the SGX-ST Listing Manual Section B: Rules of Catalist (Chapter 50) of Singapore ("Catalist Rules") are complied with; and

- advising the Board on all governance matters as well as facilitating orientation and assisting with professional developments as directed by the Chairman.

The appointment and removal of the Company Secretary is subject to the approval of the Board.

Directors have separate and independent access to the Company Secretary through email, telephone and face-to-face meetings. In FY2018, the Company Secretary attended all meetings of the Board and Board Committees and the minutes of such meetings were promptly circulated to all Board and Board Committees as appropriate.

## REMUNERATION MATTERS

**Principle 7: Procedures for Developing Remuneration Policies**

The Code advocates that 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/her own remuneration.

***Guideline 7.1 RC***
***Guideline 7.3 RC Access to Advice on Remuneration Matters***

The RC primary function is to develop a formal and transparent policies for remuneration of the Board, key management personnel and employees who are related to the controlling shareholders, directors and CEO. The RC also reviews and ensures that the Company's remuneration system is appropriate to attract, retain and motivate the required talent to run the Company successfully. The overriding principle is that no directors should be involved in deciding his/her own remuneration.

The RC is guided by key terms of reference as follows:

(a) reviews and recommend to the Board a framework of remuneration for Board members and key management personnel, and the specific remuneration packages for each director (executive and independent) as well as for the key management personnel;

(b) ensuring that a formal and transparent procedure is in place for developing policy on executive remuneration and for determining the remuneration packages of individual directors and key management personnel; and

(c) reviews the performance of the Group's key management personnel taking into consideration the CEO's assessment and recommending for remuneration and bonus.

***Guideline 7.2 Remuneration Framework***
***Guideline 7.4 Employment Contracts of Executive Directors and Key Management Personnel***

The RC ensures that a formal and transparent procedure is in place for fixing the remuneration packages of individual directors and key management personnel. All respects of the remuneration framework, including but not limited to directors' fees, salaries, allowances, bonuses, the awards to be granted under the performance share plan, options to be issued under the employee share option scheme as well as other benefits-in-kinds are reviewed by the RC. The recommendations of the RC are recommended to the Board for approval. The procedure is reviewed periodically to ensure they remain competitive and relevant.

The remuneration of employees who have any familial relationships with the directors, key personnel management, CEO and controlling shareholders, will also be reviewed annually by the RC to ensure that their remuneration packages are in line with the employees' remuneration guidelines and commensurate with their respective job scopes and level of responsibilities. Any bonuses, pay increments and/or promotions for these related employees will also be subject to the review and approval of the RC. In the event that a member of the RC is related to the employee(s) under review, he/she will abstain from participating in the review, discussion and approval.

The framework for Non-Executive Directors and Board Committees' fees (per annum basis unless otherwise indicated) are as follows:

| Role | Member | Chairman |
|---|---|---|
| Board of Directors | S$ 20,000 | Additional S$ 10,000 |
| Audit Committee | S$ 10,000 | Additional S$ 10,000 |
| Remuneration Committee | S$ 5,000 | Additional S$ 5,000 |
| Nominating Committee | S$ 5,000 | Additional S$ 5,000 |

No remuneration consultants were engaged by the Company in FY2018.

The Executive Directors and key management personnel each have an employment contract with the Company which can be terminated by the Company without prejudice to and in addition to any other remedy by giving not less than three (3) months' notice of termination and vice versa. The appointments of Executive Directors do not have onerous removal clauses contained in their respective employment contracts and will be reviewed to reflect their strategic importance to the Group.

**Principle 8: Level and Mix of Remuneration**

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

***Guideline 8.1 Remuneration of Executive Directors and Key Management Personnel***

The Company's remuneration structure for its Executive Directors and key management personnel comprises both fixed and variable components. The variable component is performance related and is linked to the Company's performance as well as individual performance. It is designed to align remuneration with the shareholders' interest and to link rewards with corporate and individual performance to promote long term success of the Group.

For the purpose of assessing the performance of the Executive Directors and key management personnel, specific performance indicators are agreed for each financial year and such indicators comprise both quantitative and qualitative factors.

Executive Directors and key management personnel do not receive directors' fees from the Company or its subsidiaries/associated companies if they are appointed to the Board as stipulated in the Group's remuneration policy.

***Guideline 8.2 Long-term Incentive Scheme***

The Company has adopted a performance share option plan known as the "Natural Cool Employee Share Option Scheme" ("ESOS"). ESOS provides an opportunity for employees and directors who have contributed significantly to the growth and performance of the Group to participate in the equity of the Company to motivate them to greater dedication, loyalty and higher standards of performance and to give recognition for past contributions and services.

As at the date of this Annual Report, no options have been granted under ESOS.

***Guideline 8.3 Remuneration of Non-Executive Directors***

The RC and the Board are of the view that the remuneration of the Non-Executive Directors are appropriate, without compromising their independence, in accordance with the market condition and taking into account factors such as effort and time spent and the increasingly onerous responsibilities of the directors.

***Guideline 8.4 Contractual Provision to Reclaim Incentive Components of Remuneration***

The Company currently does not have any contractual provisions which allow it to reclaim incentives from the Executive Directors and key management personnel in certain circumstances. The Board is of the view that as the Group pays performance bonuses based on the actual performance of the Group and/or Company (and not on forward-looking results) as well as the actual results of its Executive Directors and key management personnel, "claw-back" provisions in the service agreements may not be relevant or appropriate.

**Principle 9: Disclosure on Remuneration**

The Code advocates that every company should provide clear disclosure of its remuneration policies, level and mix of remuneration and the procedure for setting remuneration in the company's annual report. Every company should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel and performance.

***Guideline 9.1 Remuneration Report***

The Management has confirmed that the Group's remuneration policy has been set to align remuneration with the interests of shareholders and link rewards with corporate and individual performance to promote the long-term sustainability of the Group.

***Guideline 9.2 Remuneration of Directors***

The breakdown for the remuneration of the Directors for FY2018 is as follows:

| | **Directors' Remuneration** | | | | | |
|---|---|---|---|---|---|---|
| **Name** | **Remuneration Band** | **Salary (%)** | **Bonus (%)** | **Benefits -in-kind (%)** | **Directors Fees (%)[3]** | **Total (%)** |
| Wong Leon Keat | S$500,000 to S$749,999 | 86 | 7 | 7 | – | 100 |
| Tsng Joo Peng | S$500,000 to S$749,999 | 85 | 8 | 7 | – | 100 |
| Goh Teck Sia | Below S$250,000 | – | – | – | 100 | 100 |
| Lau Lee Hua | Below S$250,000 | – | – | – | 100 | 100 |
| Ronnie Tan Siew Bin [1] | Below S$250,000 | – | – | – | 100 | 100 |
| Mahtani Bhagwandas [2] | Below S$250,000 | – | – | – | 100 | 100 |

Notes:-
(1) Mr Ronnie Tan Siew Bin ceased as Independent Director with effect from 10 September 2018.
(2) Mr Mahtani Bhagwandas was appointed as Independent Director with effect from 9 December 2018.
(3) The Director's fees for FY2018 has been approved by shareholders at the AGM held on 26 April 2018.

After reviewing the industry practice and analysing the advantages and disadvantages in relation to the disclosure of specific remuneration of each director and key management personnel, the Company is of the view that such disclosure would be prejudicial to its business interest given the highly competitive environment, commercial sensitivity and confidential nature of remuneration matters.

The Management has confirmed that there are no termination, retirement, post-employment benefits that may be granted to the Directors, CEO and key management personnel.

***Guideline 9.3 Remuneration of Key Management Personnel (Other than Directors)***

Management has confirmed the breakdown for the remuneration of the Company's key management personnel (who are not Directors/CEO) for FY2018 are as follows:

| Name | Salary (%) | Bonus (%) | Benefits-in-kind (%) | Total (%) |
|---|---|---|---|---|
| **S$250,000 to S$499,999** | | | | |
| Choy Bing Choong | 87 | 13 | – | 100 |
| Neo Han Cheng | 72 | 26 | 2 | 100 |
| Tan Kian Yong | 75 | 25 | – | 100 |
| Lee Wan Kah | 74 | 26 | – | 100 |

The Company has 4 key management personnel. The total remuneration paid to the top four key management personnel for FY2018 was S$1,585,307.

***Guideline 9.4 Remuneration of Employee(s) Related to Directors/CEO***

The Group does not have any employee who is an immediate family member of a Director/CEO of the Company and whose remuneration exceeds S$50,000 during FY2018.

***Guideline 9.5 Employee Share Option Scheme***

The Company has adopted a performance share option plan known as the "Natural Cool Employee Share Option Scheme" ("ESOS"). Please refer to Guideline 8.2 for details. For FY2018, no options have been granted under the ESOS.

***Guideline 9.6 Link between Remuneration and Performance***

The remuneration received by the Executive Directors and key management personnel takes into consideration his/her individual performance and contribution towards the overall performance of the Group for FY2018. Their remuneration is made up of fixed and variable compensations. The fixed compensation consists of an annual base salary, fixed allowance and annual wage supplement. The variable compensation is determined based on the level of achievement of corporate and individual performance objectives.

The following performance evaluation criteria are set for the Group to remain competitive and to motivate the Executive Directors and key management personnel to work in alignment with the goals of all stakeholders:

| Performance Conditions | Short-term Incentives (such as performance bonus) | Long-term Incentives (such as the ESOS) |
|---|---|---|
| Qualitative | 1. Leadership<br>2. People development<br>3. Commitment<br>4. Teamwork<br>5. Current market and industry practices<br>6. Macro-economic factors | 1. Leadership<br>2. People development<br>3. Commitment<br>4. Teamwork<br>5. Current market and industry practices<br>6. Macro-economic factors |
| Quantitative | 1. PBT* of at least S$3.5m | 1. Relative financial performance of the Group over a 5 years period to its industry peer. |

* PBT means the Group's audited consolidated profit before tax before payment of any bonus. This criteria is pursuant to the service agreements signed between the Executive Directors and the Company and excluding any gains earned from extraordinary and exceptional items.

The RC has reviewed and is satisfied that the performance evaluation criteria were met by the Executive Directors and key management personnel for FY2018.

## ACCOUNTABILITY AND AUDIT

The Board recognises the importance of providing accurate and relevant information on a timely basis. The AC reviews all financial statements and recommends them to the Board for approval. The AC ensures that the Company maintains a sound system of internal controls to safeguard the shareholders' investments and the Group's assets as well as to manage potential risks.

**Principle 10: Presentation of a Balanced and Understandable Assessment of the Company's Performance, Position and Prospects**

The Code advocates the Board should present a balanced and understandable assessment of the company's performance, position and prospects.

***Guideline 10.1 Responsibility to Provide a Balanced and Understandable Assessment***

The objectives of the presentation of the annual audited financial statements, half-yearly and full year results to its shareholders are to provide the shareholders with a balanced and understandable assessment of the Group's performance, position and prospects.

The Board reviews and approves the half-yearly and full year financial results announcements as well as any announcements before the release of the same on SGXNet. Shareholders are provided with the half-year and full year results on a timely manner.

***Guideline 10.2 Compliance with Legislative and Regulatory Requirements***

The Board takes steps to ensure compliance with the Group's policies, operational practices and relevant legislative and regulatory requirements, including but not limited to requirements under the Catalist Rules, where appropriate.

***Guideline 10.3 Management Accounts***

The Management updates the Board on the Group's business activities and financial performance by providing updates on operational and financial related matters. The Management also highlights key business indicators and major issues that are relevant to the Group's performance from time to time in order for the Board to make a balanced and informed assessment of the Group's performance, position and prospects.

The Management will present the Group's financial performance together with notes explaining in detail the operations and trends to the AC, where AC will review and recommend the same to the Board for approval prior to the release of the financial results announcements to the shareholders on SGXNet.

**Principle 11: Risk Management and Internal Controls**

***Guideline 11.1 Risk Management and Internal Controls System***

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

The Board recognises the importance of maintaining a sound system of risk management and internal controls to safeguard shareholders' interests and the Group's assets. The AC oversees and ensures that such system has been appropriately implemented and monitored.

A summary of the Company's risk management and internal controls system is appended below:

**Risk Management**

The Group recognises risk management as a collective effort beginning with each business units followed by the operating segments and ultimately the Management and the Board, working as a team. The CEO and Management of the Company assume responsibilities of the risk management function where they regularly assess and review the Group's business and operational environments to identify areas of significant financial, operational, compliance and information technology risks.

The Board has approved the Enterprise Risk Management ("ERM") framework for the identification of key risks of the Group. Key risks of the Group are tabled to the AC and Board for review and undertaking of the necessary actions.

**Internal Controls**

The Group has implemented policies and procedures to enhance the Group's internal control function in areas such as finance, operations, compliance and information technology. The internal control measures aim to ensure that the Group's assets are safeguarded, proper accounting records are maintained, financial information are used within the business and information to be published are reliable.

The internal controls and risk management systems established by the Group provides reasonable but not absolute assurance that the Group will not be adversely affected by any event that can reasonably be foreseen as it strives to achieve its business objectives. However, the Board also notes that no system of internal controls and risk management can provide absolute assurance against the occurrence of material errors, poor judgement in decision making, human errors, losses, fraud or other irregularities.

***Guideline 11.2 Adequacy and Effectiveness of Risk Management and Internal Control Systems***

The risk management and internal control systems have been integrated throughout the Group and have been an essential part of the Group's business planning and monitoring process.

On an annual basis, the Management provides updates to the Board and/or Board Committees on the Group's risk profile, risk treatments and results of assurance activities to provide assurance that the processes are operating effectively as planned.

***Guideline 11.3 Board's Comment on Adequacy and Effectiveness of Internal Controls***

Based on the ERM framework and internal controls established and maintained by the Group, work performed by the Internal Auditors, statutory audit performed by the External Auditors and the written representation from the CEO and Group Finance Manager ("GFM") providing assurance on effectiveness of the Group's risk management and internal control systems and that the financial records have been properly maintained and financial statements give true and fair view of the Company's operations and finances, the Board, with the concurrence of the AC, is of the view that, the Group's risk management and internal control systems (including the financial, operational, compliance and information technology controls) were effective and adequate for FY2018.

The CEO and GFM of the Company have provided a written confirmation or assurance to the AC and the Board on the integrity of the Company's financial statements and on the adequacy and effectiveness of the Company's risk management and internal control systems addressing financial, operational and compliance risks including information technology risk.

***Guideline 11.4 Risk Committee***

The responsibilities of overseeing the Group's ERM framework and Assurance Framework and policies are undertaken by the AC with the assistance of the internal and external auditors.

Having considered the Group's business operations as well as its existing internal control and risk management systems, the Board is of the view that a separate risk committee is not required for the time being.

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

The Code advocates that the Board should establish an AC with written terms of reference which clearly set out its authority and duties.

***Guideline 12.1 AC Membership***

All members of the AC are Independent Non-Executive Directors who do not have any management and significant business relationships with the Company or any substantial shareholders of the Company. None of the AC members were previous partners or directors of the Company's external audit firm within the last 12 months and none of the AC members hold any financial interest in the Company's external audit firm.

***Guideline 12.2 Expertise of AC members***

The AC members bring with them invaluable professional expertise in the accounting and financial management field. The Board has ensured that majority of the AC members, having the necessary accounting and/or related financial management experience and expertise, are appropriately qualified to discharge their responsibilities.

***Guideline 12.3 Authorities of AC***
***Guideline 12.4 Roles and Responsibilities of AC***

The duties and roles of the AC is guided by the following key terms of reference:

(a) review with the External Auditors and Internal Auditors the audit plans, evaluation of the system of internal accounting controls, and their audit report including the scope and results of the external audit, independence and objectivity of the external auditors;

(b) review the financial statements including significant financial reporting issues and judgments to ensure the integrity of the financial statements of the Group and any announcements relating to the Company's financial performance, before recommending the same to the Board for approval;

(c) review the internal control procedures, its scope and results and to ensure co-ordination between the External/ Internal Auditors and the Management, review the assistance given by the Management to the External Auditors and discuss problems and concerns, if any, arising from the interim and final audit;

(d) review and report to the Board the effectiveness of the Group's material internal controls, including finance, operational, compliance controls, risk management policies and information technology at least annually;

(e) recommend to the Board the adequacy and effectiveness of the Company's risk management and internal controls systems for disclosure in the Annual Report in accordance with SGX-ST and the Code;

(f) review the effectiveness of the Group's internal audit function;

(g) review and discuss with the External Auditors on 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 the Group's operating results and/or financial position and the Management's response;

(h) make recommendations to the Board on proposals to shareholders relating to the appointment, re-appointment and removal of the External Auditors;

(i) review interested person transactions (if any) falling within the scope of Chapter 9 of SGX-ST;

(j) review potential conflicts of interest, if any;

(k) undertake such other review and projects as may be requested by the Board, and report to the Board its findings from time to time on matters arising and which requires the attention of the AC; and

(l) generally undertake such other functions and duties as may be required by statute or SGX-ST or by such amendments as may be made from time to time.

***Guideline 12.5 Meeting with the External and Internal Auditors***

The AC has met up with the Internal and External Auditors at least once in absence of key management personnel in FY2018.

***Guideline 12.6 Independence of External Auditors***

The AC has reviewed the non-audit services provided by the External Auditors and is satisfied that the nature and extent of such services would not prejudice the independence of the External Auditors and has recommended the re-appointment of the External Auditors at the forthcoming AGM.

| ***Fees Paid/Payable to the External Auditors for FY2018*** | | |
|---|---|---|
| | **S$** | **% of total** |
| **Audit fees** | | |
| - Auditor of the Company | 194,146 | 81 |
| - Other auditors (for certain subsidiaries) | 23,021 | 9 |
| **Non-audit fees** | | |
| - Auditor of the Company | 23,750 | 10 |
| **Total** | **240,917** | **100** |

The AC reviews the independence of the External Auditors annually. The AC has conducted an annual review of the volume of non-audit services provided by the External Auditors to ensure that the nature and extent of such services will not prejudice the independence of the External Auditors. The AC is satisfied with the External Auditors' confirmation of their independence and is of the view that the non-audit services rendered in FY2018 in relation to tax compliance were not substantial.

***Guideline 12.7 Whistle Blowing Policy***

The Company has put in place a whistle blowing policy which has been reviewed, endorsed by the AC and approved by the Board. Under the whistle blowing policy, employees and external parties can, in confidence, raise concerns about improper conduct for investigation. The procedures for whistle blowing policy are made known not just to the employees of the Group but also external parties. In addition, a dedicated secured e-mail address (report.nch@natcool.com) allows whistle blowers to contact the AC Chairman and AC members directly.

There were no reported incidents pertaining to whistle blowing in FY2018.

***Guideline 12.8 AC to Keep Abreast of Changes to Accounting Standards***

All the AC members receive updates from the External Auditors on updates to accounting standards and issues which have a direct impact on financial statements.

AC has reviewed the Key Audit Matters set out in the Independent Auditors' Report on valuation of non-financial assets under page 24 of this Annual Report.

In ascertaining the value of these non-financial assets, Management had made certain assumption and estimates in the assessments which were subject to uncertainties that may result in material adjustments in the recoverable amount in future periods.

AC concurs with the issues raised and the manner by which they were addressed by the Management. AC further notes that the External Auditors are satisfied with the Management's assessment.

***Guideline 12.9 Cooling-Off Period for Partners or Directors of the Company's Auditing Firm***

No former partner or director of the Company's existing auditing firm or auditing corporation is a member of the AC.

**Principle 13: Internal Audit**

The Code advocates that the company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

***Guidelines 13.1, 13.2, 13.3 and 13.4 Internal Audit Function***

The AC oversees the Group's internal controls and risk management and its responsibilities are complemented by the work of the internal auditors.

The Group's internal audit function is outsourced to Messrs Mazars LLP that reports directly to the AC Chairman. The AC reviews and approves the internal audit plan to ensure the adequacy of the scope of audit and is responsible for the hiring, removal, evaluation and compensation of the accounting or auditing firm or corporation which the internal audit function of the Group are outsourced to.

The Group's internal audit function is independent of the activities it audits. The Internal Auditor is staffed with professionals with relevant experience and qualifications such as the Certified Internal Auditor qualification with the Institute of Internal Auditors. The Group's engagement with the Internal Auditors as stipulate that its work shall be guided by the International Standards for the Professional Practice of Internal Auditing (IIA Standards) issued by the Institute of Internal Auditors.

At the beginning of each year, an annual Internal Audit plan which entails the review of the selected functions or business units of the Group is developed and agreed by the AC. The AC is satisfied that the Company's internal audit function is adequately resourced to perform the work for the Group.

***Guideline 13.5 Adequacy and Effectiveness of Internal Audit Function***

The AC is satisfied that Internal Auditors are independent, effective, and adequately resourced and qualified (given, inter alia, its adherence to standards set by internationally recognised professional bodies) and has the appropriate standing in the Company to discharge its duties effectively.

## SHAREHOLDERS' RIGHTS AND RESPONSIBILITY

**Principle 14: Shareholder Rights**

The Code advocates that companies should treat all shareholders fairly and equitably, recognise, protect and facilitate the exercise of shareholders' rights and continually review and update such governance arrangements.

***Guideline 14.1 Sufficient Information to Shareholders***

The Company believes in providing sufficient and regular information to its shareholders. In this respect, the Board adopts a comprehensive policy to provide clear, timely and fair disclosure of information about the Company's business developments and financial performance to aid the shareholders in their investment decisions.

The Company also releases timely disclosures of any new material information, where applicable, to the shareholders on SGXNet.

***Guideline 14.2 Opportunity to Participate and Vote at General Meetings***

Shareholders are entitled to attend the general meetings of the Company and are afforded the opportunity to participate effectively in and vote at general meetings. An independent polling agent is appointed by the Company who will explain the rules, including the voting procedures, that governs the general meetings of the Company to be held.

***Guideline 14.3 Proxies for Nominee Companies***

Currently, the Constitution of the Company allows all shareholders to appoint up to two proxies to attend the general meetings of the Company and to vote on behalf of the shareholders provided that proxy form(s) are deposited within the stipulated timeline in accordance with the Company's Constitution and Companies Act.

The Companies Act allows shareholders who is a relevant intermediary to appoint more than two proxies to attend, participate and vote in general meetings of companies. Relevant intermediary includes corporations holding licenses in providing nominee and custodial services and Central Provident Fund ("CPF") Board which purchase shares on behalf of CPF investors.

**Principle 15: Communication with Shareholders**

The Code advocates that companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

***Guideline 15.1 Communication with Shareholders***

The Company currently does not have an investor relations policy but considers advice from its corporate lawyers and professionals on appropriate disclosure requirements before announcing material information to shareholders via SGXNet. The Company will consider the appointment of a professional investor relations officer to manage the function should the need arises.

***Guideline 15.2 Timely Information to Shareholders***

The Company does not practice selective disclosure of information. In line with the Company's continuous disclosure obligations pursuant to the Catalist Rules and the Companies Act, the Board adopts the policy that all shareholders should be equally and timely informed of all major developments that impact the Group.

Information will first be disseminated to the shareholders through SGXNet and where relevant, followed by press release(s) and the uploading to the Company's website. The Company will also make announcements from time to time to update investors and shareholders on developments that are of interest to them. The Company strives to supply shareholders with reliable and timely information to strengthen the relationship with its shareholders based on trust and accessibility.

*Guideline 15.3 Regular Dialogue with Shareholders*

The Company has an internal investor relations function to facilitate the communications with the stakeholders on a regular basis, attend to their queries or concerns as well as to keep the investors apprised of the Group's corporate developments and financial performance.

To enable the stakeholders to contact the Company easily, the contact details of the investor relations have been set out in page 20 of this Annual Report as well as on the Company's website. The Company have put in place procedures to respond to investors' queries.

*Guideline 15.4 Soliciting and Understanding Views of Shareholders*

To promote a better understanding of shareholders' views, the Board has actively encourage shareholders to participate in the Company's general meetings. These meetings provide excellent platform for the Company to obtain shareholders' feedbacks on value creation.

*Guideline 15.5 Dividend Policy*

The Company does not have a fixed dividend policy. Nonetheless, Management will review, inter alia, the Group's performance in the relevant financial period, projected capital needs and working capital requirements and make appropriate recommendations to the Board on dividend declaration.

No dividend has been declared for FY2018 as the profits were retained for business use.

**Principle 16: Conduct of Shareholder Meetings**

The Code advocates that companies should encourage greater shareholder participation at general meetings and allow shareholders the opportunity to communicate their views on various matters affecting the company.

*Guideline 16.1 Shareholders' Participation at General Meetings*

The Company encourages its shareholders to participate at its general meetings and allow shareholders to express their views on various matters affecting the Group.

*Guideline 16.2 Proceedings of General Meetings*

The Board ensures that separate resolutions are proposed for approval on each distinct issue at general meetings. These meetings provide excellent opportunities to build shareholders' understanding of the Group's businesses, and obtain shareholders' feedbacks on value creation.

A shareholder who is entitled to attend and vote at the general meetings of the Company may either vote in person or through the appointment of up to two proxies. Voting in absentia and by electronic mail may only be possible following careful study to ensure that the integrity of the information and authentication of the identity of shareholder via the internet is not compromised. Separate resolutions are proposed on each separate issue at general meetings. Shareholders are encouraged to meet and communicate with the Board and to vote on all resolutions.

*Guideline 16.3 Attendees at General Meetings*

The Company requires all Directors (including the respective Chairman of the Board Committees) to be present at all general meetings of the Company, except in cases of exigencies. The External Auditors are also required to be present at the AGM to address shareholders' queries about the conduct of audit and the preparation and content of the independent auditor's report. Relevant key management personnel will also be present at the general meetings of the Company to respond, if necessary, to operational questions from shareholders.

*Guideline 16.4 Minutes of General Meetings*

The minutes of general meetings, which include substantial comments or queries from shareholders and responses from the Board are available to shareholders upon written request.

*Guideline 16.5 Voting by Poll at General Meetings*

In line with the Catalist Rules, resolutions tabled at general meetings of the Company will be passed through a process of voting by poll which procedures will be clearly explained by the scrutineers at the Company's general meetings.

## OTHER CORPORATE GOVERNANCE MATTERS

*Appointment of Auditors (Rules 712 and 715 or 716 of the Catalist Rules)*

The Company confirms its compliance with Rules 712 and 716 of the Catalist Rules. As required by Rule 716 of the Catalist Rule, the AC and the Board have satisfied themselves that the appointment of different auditors for its subsidiaries would not compromise the standard and effectiveness of the audit of the Group.

*Material Contracts (Rule 1204(8) of the Catalist Rules)*

There were no material contracts entered into by the Group involving the interest of the CEO, Directors or controlling shareholder(s), which are either still subsisting at the end of FY2018, if not then subsisting, entered into since the end of the previous financial year.

*Interested Person Transactions ("IPT") (Rule 1204(17) of the Catalist Rules)*

The Company has established procedures to ensure that all transactions with interested party(ies) are reported on a timely manner to the AC and Board and the transactions are carried out on normal commercial terms and will not be prejudicial to the interest of the Company and its minority shareholders.

The Company confirms that there are no IPTs of S$100,000 or more entered into for FY2018.

*Dealing in Securities (Rule 1204(19) of the Catalist Rules)*

The Company has adopted an internal policy which prohibits the directors and officers of the Company from dealing in the securities of the Company while in possession of price-sensitive information.

The Company, its directors and officers are also discouraged from dealing in the Company's securities on short term considerations and are prohibited from dealing in the Company's securities during the period beginning one month before the announcement of the Company's half-year and full-year financial statements respectively, and ending on the date of the announcements of the financial results via SGXNet.

*Non-Sponsor Fees (Rule 1204(21) of the Catalist Rules)*

No non-sponsor fees were paid to the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. in FY2018.

*Sustainability Report*

The Sustainability Report of the Company will be released via SGXNET and a copy will be made available not later than 31 May 2019 on the Company's website at "http://naturalcool.listedcompany.com/newsroom.html".

**Additional information on Directors seeking re-election pursuant to Rule 720(5) of the Catalist Rules**

Mr Wong Leon Keat and Mr Mahtani Bhagwandas are the Directors seeking re-election at the forthcoming annual general meeting of the Company to be convened on 29 April 2019 ("**AGM**") under Ordinary Resolutions 2 and 3 as set out in the Notice of AGM dated 12 April 2019 (collectively, the "**Retiring Directors**" and each a "**Retiring Director**").

Pursuant to Rule 720(5) of the Catalist Rules of the SGX-ST, the information relating to the Retiring Directors as set out in Appendix 7F to the Catalist Rules of the SGX-ST is set out below:

| Name of Director | Wong Leon Keat | Mahtani Bhagwandas |
|---|---|---|
| Date of Appointment | 8 February 2017 | 9 December 2018 |
| Date of Last Re-Appointment | 28 April 2017 | N.A. |
| Age | 45 | 51 |
| Country of principal residence | Singapore | Singapore |
| The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process) | The Board, having considered the recommendation of the Nominating Committee and having assessed Mr Wong Leon Keat's working experiences and leaderships in the Group, is of the view that Mr Wong Leon Keat has the requisite experiences to assume the responsibilities as Managing Director and Chief Corporate Officer of the Company. | The Board, having considered the recommendation of the Nominating Committee and having assessed the qualifications and working experience of Mr Mahtani Bhagwandas, is of the view that Mr Mahtani Bhagwandas possesses the requisite qualifications and experience to assume the position as an Independent Non-executive Director of the Company. |
| Whether appointment is executive, and if so, the area of responsibility | Executive<br><br>As Managing Director, Mr Wong is responsible for execution of the Company's business strategies and plans, overseeing financial, administrative, human resources, investor relations, regulatory and compliance functions. | Non-executive |
| Job Title<br>(e.g. Lead ID, AC Chairman, AC Member etc.) | Executive Director<br><br>Managing Director<br><br>Chief Corporate Officer | Independent Non-Executive Director<br><br>Nominating Committee Chairman<br><br>Audit Committee Member<br><br>Remuneration Committee Member |

| Name of Director | Wong Leon Keat | Mahtani Bhagwandas |
|---|---|---|
| Working experience and occupation(s) during the past 10 years | (1) 2001 – 2010 Partner of Wong, Lee & Associates LLP<br>(2) 2010 – 2014 Managing Partner of Wong, Lee & Associates LLP<br>(3) 2014 – 14 Feb 2017 Director of WLA Regnum Pte. Ltd.<br>(4) 8 Feb 2017 – Present Managing Director of Natural Cool Holdings Limited | (1) 1 May 2009 – 1 May 2013 Partner of law firm, Harpal Mahtani Partnership<br>(2) 20 May 2011 – Present Partner of law firm, LegalStandard LLP |
| Shareholding interest in the listed issuer and its subsidiaries | Yes | No |
| Shareholding details | Deemed interested in 23,200,000 ordinary shares (9.26%) held in the name of UOB Nominees (Pte) Limited. | Nil |
| 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 | Nil | Nil |
| Conflict of interest (including any competing business) | Nil | Nil |
| Undertaking (in the format set out in Appendix 7H) under Rule 720(1) has been submitted to the listed issuer | Yes | Yes |
| **Other Principal Commitments Including Directorships** | | |
| Past (for the last 5 years) | Director of:<br>1. Weiboh Investment Pte. Ltd.<br>2. ABLK Services Pte. Ltd. (Struck off)<br>3. TLC Engineering Pte. Ltd.<br>4. WLA Regnum Pte. Ltd.<br>5. Acctimus Solutions Pte. Ltd. | Director of:<br>1. GKE Corporation Limited<br>2. Rock Solid S'pore Pte Ltd.<br>3. Solution Focused Pte Ltd.<br>4. SBI Offshore Limited<br>5. Vertic Hydro Pte. Ltd.<br>6. LegalStandard-Acies LLC<br>7. Agrasol Pte Ltd.<br>8. Good Lord Pte. Ltd. (Struck off)<br>9. Alliance Mineral Assets Limited (Resigned since 14 December 2018)<br>10. Elsmore Maritime Singapore Pte. Ltd. (Struck off) |

| Name of Director | Wong Leon Keat | Mahtani Bhagwandas |
|---|---|---|
| Present | Director of:<br>1. DJ Coating Services (S) Pte. Ltd.<br>2. Drilling Solutions Pte. Ltd.<br>3. Karlkol Holdings Pte. Ltd.<br>4. Rhodus Capital Limited<br>5. HT Holdings (HK) Limited<br>6. NC Precision Pte. Ltd.<br>7. Hyper World Limited<br>8. Lead World Limited<br>9. Royal World Limited<br>10. Wonder Word Limited<br>11. Ultimate World Limited<br>12. Grandeur Consultancy Limited<br>13. Fabulous World Limited<br><br>Partner under Section 18(3)(c) of the Accountant Act:<br>14. LKW & Associates | Director of<br>1. Agro Commtrade Pte. Ltd.<br>2. Agrogo Logistics Pte. Ltd.<br>3. Agrogo Secure Pte. Ltd.<br>4. Agrogo Inspections Pte. Ltd.<br>5. Agrogo Market Pte. Ltd.<br>6. Agrogo Trades Pte. Ltd.<br>7. AP2KP Worldwide Pte. Ltd.<br>8. Arcus Carriers Pte. Ltd.<br>9. Azee Communications Pte. Ltd.<br>10. Evergreen Global QSR Pte. Ltd.<br>11. Filago Pte. Ltd.<br>12. Fortis Bulkers Pte. Ltd.<br>13. FVG Singapore Pte. Ltd.<br>14. Ginger Pte. Ltd.<br>15. GRP Limited<br>16. Kraainem Holdings Pte. Ltd.<br>17. Kundanmals' Holdings Pte. Ltd.<br>18. Mikat Trading & Investment Pte. Ltd.<br>19. Misha Pte. Ltd.<br>20. Phoenix Solar Pte. Ltd.<br>21. Quantum Impex Pte. Ltd.<br>22. Repsol Singapore Pte. Ltd.<br>23. Superbound Investment Inc. Pte. Ltd.<br>24. TBT Pte. Ltd.<br>25. Homing Fu International Pte Ltd.<br><br>Partner of:<br>26. LegalStandard LLP |
| **Information required pursuant to Catalist Rule 704(6)** | | |
| (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 |

| Name of Director | Wong Leon Keat | Mahtani Bhagwandas |
|---|---|---|
| (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 judgement against him? | No | No |
| (d) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose? | No | No |
| (e) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach? | No | No |

| Name of Director | Wong Leon Keat | Mahtani Bhagwandas |
|---|---|---|
| (f) Whether at any time during the last 10 years, judgement 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, judgement or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity? | No | No |
| (j) Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:- | | |
| (i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or | No | Yes |
| (ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or | No | No |

| Name of Director | Wong Leon Keat | Mahtani Bhagwandas |
|---|---|---|
| (iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or | No | No |
| (iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust? | No | No |
| (k) Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere? | No | Yes |
| Disclosure applicable to appointment of Director only | | |
| Any prior experience as a director of an issuer listed on the Exchange? If yes, please provide details of prior experience. 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. 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). | N.A. | N.A. |

# SHAREHOLDINGS STATISTICS

As at 22 March 2019

**CLASS OF SHARES**
Ordinary Shares

**NUMBER OF SHARES**
250,447,985

**NUMBER OF ORDINARY SHAREHOLDERS**
The number of ordinary shareholders as at 22 March 2019 is 1,069

**VOTING RIGHTS**
1 vote for each Ordinary Share held

**TREASURY SHARES**
Nil

**SUBSIDIARY HOLDINGS**
Nil

## SHAREHOLDINGS HELD IN HANDS OF PUBLIC

Based on information provided and to the best knowledge of the Directors, approximately 49.20% of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company are held in the hands of the public as at 22 March 2019. Rule 723 of the Listing Manual (Section B: Rules of Catalist) of the Singapore Exchange Securities Trading Limited has therefore been complied with.

## ANALYSIS OF SHAREHOLDINGS BY RANGE AS AT 22 MARCH 2019

| Size of shareholdings | No. of shareholders | % | No. of Shares | % |
|---|---|---|---|---|
| 1 - 99 | 87 | 8.14 | 1,146 | 0.00 |
| 100 - 1,000 | 438 | 40.97 | 259,179 | 0.10 |
| 1,001 - 10,000 | 160 | 14.97 | 1,039,702 | 0.42 |
| 10,001 - 1,000,000 | 361 | 33.77 | 36,949,286 | 14.75 |
| 1,000,001 AND ABOVE | 23 | 2.15 | 212,198,672 | 84.73 |
| Total | 1,069 | 100.00 | 250,447,985 | 100.00 |

# SHAREHOLDINGS STATISTICS

As at 22 March 2019

## SUBSTANTIAL SHAREHOLDERS AS AT 22 MARCH 2019

| Substantial Shareholder | Shareholdings registered in the name of the substantial shareholder (Direct) | Shareholdings in which the substantial shareholder are deemed to be interested | Total | Percentage of issued shares |
|---|---|---|---|---|
| Tsng Joo Peng (1) | 16,300,000 | 1,048,426 | 17,348,426 | 6.93% |
| Wong Leon Keat (2) | – | 23,200,000 | 23,200,000 | 9.26% |
| Ong Mun Wah | 27,523,000 | – | 27,523,000 | 10.99% |
| Ng Quek Peng | 27,000,000 | – | 27,000,000 | 10.78% |
| Khwaja Asif Rahman(3) | 10,000,000 | 27,100,000 | 37,100,000 | 14.81% |
| Chrysses Engineering Singapore Pte Ltd(3) | 27,000,000 | – | 27,100,000 | 10.82% |
| Chryses Holdings Pte. Ltd.(3) | – | 27,100,000 | 27,100,000 | 10.82% |

**Notes:**

(1) Mr Tsng Joo Peng is deemed interested in the 1,048,426 shares held by him in Citibank Nominees Singapore Pte. Ltd..

(2) Mr Wong Leon Keat is deemed interested in the 23,200,000 shares held by him and his spouse, Mdm Edi Ng in UOB Nominees (Pte) Limited

(3) Chrysses Engineering Pte. Ltd. is wholly-owned by Chrysses Holdings Pte Ltd which in turn is wholly-owned by Khwaja Asif Rahman. By virtue of Section 4 of the Securities and Futures Act (Cap. 289), Chrysses Holdings Pte Ltd and Khwaja Asif Rahman are deemed interested in the 27,100,000 shares held by Chrysses Engineering Pte. Ltd.

## TOP 20 SHAREHOLDERS AS AT 22 MARCH 2019

| NO. | NAME | NO. OF SHARES HELD | % |
|---|---|---|---|
| 1 | UNITED OVERSEAS BANK NOMINEES PTE LTD | 27,633,110 | 11.03 |
| 2 | ONG MUN WAH | 27,523,000 | 10.99 |
| 3 | CHRYSSES ENGINEERING SINGAPORE PTE LTD | 27,100,000 | 10.82 |
| 4 | NG QUEK PENG | 27,000,000 | 10.78 |
| 5 | DBS NOMINEES PTE LTD | 18,326,139 | 7.32 |
| 6 | TSNG JOO PENG | 16,300,000 | 6.51 |
| 7 | KHWAJA ASIF RAHMAN | 10,000,000 | 3.99 |
| 8 | CHIA PUAY HWEE | 9,859,000 | 3.94 |
| 9 | CITIBANK NOMINEES SINGAPORE PTE LTD | 8,857,326 | 3.54 |
| 10 | RAFFLES NOMINEES (PTE) LIMITED | 5,822,277 | 2.32 |
| 11 | ANG JUI KHOON | 5,049,300 | 2.02 |
| 12 | VINCENT TAY WEI SIONG (ZHENG WEIXIONG) | 4,989,100 | 1.99 |
| 13 | TAN AIK KWONG | 4,525,500 | 1.81 |
| 14 | TAN TEONG HOO | 2,478,000 | 0.99 |
| 15 | TAN LIH LIH | 2,440,000 | 0.97 |
| 16 | CHUA KENG HWEE | 2,300,000 | 0.92 |
| 17 | MAYBANK KIM ENG SECURITIES PTE. LTD. | 2,026,620 | 0.81 |
| 18 | TAN MEOW NOI | 1,865,300 | 0.74 |
| 19 | HONG BOON YOON | 1,800,000 | 0.72 |
| 20 | LEE BOON SIONG | 1,724,000 | 0.69 |
| | | 207,618,672 | 82.90 |

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the Company will be held at 10 Eunos Road 8, SingPost Centre #13-07, Singapore 408600 on Monday, 29 April 2019 at 10.00 a.m. for the purpose of considering and if thought fit, passing with or without amendment, the ordinary resolutions as set out below:-

**Ordinary Business**

1 To receive and adopt the Directors' Statements and Audited Financial Statements for the financial year ended 31 December 2018 and the Independent Auditors' Report thereon. **[Resolution 1]**

2 To re-elect Mr Wong Leon Keat who is retiring by rotation pursuant to Regulation 101 of the Company's Constitution as Director of the Company. **[Resolution 2]**

3 To re-elect Mr Mahtani Bhagwandas who is retiring by rotation pursuant to Regulation 105 of the Company's Constitution as Director of the Company. **[Resolution 3]**
*[See Explanatory Note (a)]*

4 To approve Directors' fees of S$165,000 for the financial year ending 31 December 2019 to be paid quarterly in arrears. (2018: S$165,000) **[Resolution 4]**

5 To re-appoint Messrs KPMG LLP as Auditors of the Company and to authorise the Directors to fix their remuneration. **[Resolution 5]**

6 To transact any other business that may be transacted at an Annual General Meeting.

**Special Business**

To consider and, if thought fit, to pass the following as an Ordinary Resolution, with or without modifications:-

**General mandate to allot and issue new shares**

7 "That pursuant to Section 161 of the Companies Act, Chapter 50 ("**Act**") and Rule 806 of the Listing Manual (Section B : Rules of Catalist) of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") and the Constitution of the Company, authority be and is hereby given to the Directors of the Company to:-

(A) (i) allot and issue shares in the capital of the Company ("**Shares**") (whether by way of rights, bonus or otherwise); and/or

(ii) make or grant offers, agreements, or options (collectively, "**Instruments**") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible or exchangeable into Shares,

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

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

provided that:

(1) 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 100 per cent of the total number of issued Shares excluding treasury shares and subsidiary holdings (as calculated in accordance with sub-paragraph (2) below), and provided further that where shareholders of the Company are not given the opportunity to participate in the same on a pro-rata basis, then the aggregate number of Shares to be issued under such circumstances (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 50 per cent of the total number of issued Shares excluding treasury shares and subsidiary holdings (as calculated in accordance with sub-paragraph (2) below); and

(2) (subject to such manner of calculation and adjustments as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (1) above:-

(a) the total number of issued Shares excluding treasury shares and subsidiary holdings shall be calculated based on the total number of issued Shares excluding treasury shares and subsidiary holdings at the time of this Resolution is passed, after adjusting for:

(aa) new Shares arising from the conversion or exercise of convertible securities;

(bb) new Shares arising from the exercise of share options or vesting of share awards which are outstanding or subsisting at the time this Resolution is passed; and

(cc) any subsequent bonus issue, consolidation or subdivision of Shares;

(b) in relation to an Instrument, the number of Shares shall be taken to be that number as would have been issued had the rights therein been fully exercised or effected on the date of the making or granting of the Instrument;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the listing rules of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution for the time being of the Company; and

(4) (unless revoked or varied by the Company in general meeting) the authority conferred by this Resolution shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is the earlier." **[Resolution 6]**
*[See Explanatory Note (b)]*

**General mandate to issue shares under the Natural Cool Employee Share Option Scheme 2017**

8 "That pursuant to Section 161 of the Act, the Directors of the Company be authorised and empowered to grant options in accordance with the provisions of the Natural Cool Employee Share Option Scheme 2017 ("**Scheme**") to allot and issue from time to time such number of Shares in the capital of the Company as may be required to be issued pursuant to the exercise of the options granted by the Company under the Scheme, whether granted during the subsistence of this authority or otherwise, provided always that:

(i) the aggregate number of additional ordinary shares to be allotted and issued pursuant to the Scheme shall not exceed fifteen per cent (15%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company from time to time;

(ii) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is earlier."
*[See Explanatory Note (c)]* **[Resolution 7]**

By Order of the Board

Sharon Yeoh
Company Secretary
12 April 2019

Singapore

**Explanatory Notes:**

(a) Mr Mahtani Bhagwandas ("Mr Mahtani"), if re-elected, will remain as a member of the Audit Committee and Remuneration Committee and will also continue to remain as the Chairman of the Nominating Committee. Mr Mahtani will be considered Independent, pursuant to Rule 704(7) of the Catalist Rules.

(b) The ordinary resolution 6 set out in item 7 above, if passed, will empower the Directors from the date of this annual general meeting until the date of the next annual general meeting or the date by which the next annual general meeting is required by law to be held or such authority is revoked or varied by the Company in general meeting, whichever is earlier, to allot and issue Shares, make or grant instruments convertible into Shares and to issue Shares pursuant to such instruments up to an aggregate number not exceeding 100% of the total number of issued Shares excluding treasury shares and subsidiary holdings in the capital of the Company, with a sub-limit of 50% for issues other than on a pro-rata basis. For determining the aggregate number of Shares that may be issued the total number of issued Shares excluding treasury shares and subsidiary holdings shall be calculated based on the total number of issued Shares excluding treasury shares and subsidiary holdings at the time of this ordinary resolution 6 above is passed after adjusting for new Shares arising from the conversion or exercise of convertible securities, share options or vesting of share awards which are outstanding or subsisting at the time this ordinary resolution 6 above is passed and any subsequent bonus issue, consolidation or subdivision of Shares.

(c) The ordinary resolution 7 set out in item 8 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue from time to time such number of fully-paid Shares in the capital of the Company as may be required to be issued pursuant to the exercise of options granted or to be granted under the Scheme. The aggregate number of shares which may be issued pursuant to the Scheme shall not exceed fifteen per cent (15%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) in the capital of the Company from time to time.

**Notes:**

1. A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote on his behalf at the annual general meeting. Where a member appoints more than one proxy, he shall specify the proportion of his shares to be represented by each such proxy, failing which the nomination shall be deemed to be alternative.

2. Pursuant to Section 181 of the Act, any member who is a relevant intermediary is entitled to appoint one or more proxies to attend and vote at the annual general meeting. Relevant intermediary is either:

   (a) a banking corporation licensed under the Banking Act (Cap. 19) or its wholly-owned subsidiary which provides nominee services and holds shares in that capacity; or

   (b) a capital markets services licence holder which provides custodial services for securities under the Securities and Future Act (Cap. 289) and holds shares in that capacity; or

   (c) the Central Provident Fund ("CPF") Board established by the Central Provident Fund (Cap. 36), in respect of shares purchased on behalf of CPF investors.

3. A proxy need not be a member of the Company.

4. The instrument appointing a proxy or proxies, duly executed, must be deposited together with the power of attorney (if any) under which it is signed or a notarially certified or office copy thereof at the office of the Company's Share Registrar, B.A.C.S. Private Limited at 8 Robinson Road #03-00, ASO Building, Singapore 048544 not less than seventy-two (72) hours before the time set for holding the annual general meeting.

**PERSONAL DATA PRIVACY**

Where a member of the Company submits 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) of proxies and representatives appointed for the annual general meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, proxy lists, minutes and other documents relating to the annual general meeting (including any adjournment thereof), and in order for the Company (or its agents) 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.

# NATURAL COOL HOLDINGS LIMITED

(Company Registration No. 200509967G)
(Incorporated in the Republic of Singapore)

**IMPORTANT:**
1. An investor who holds shares under the Central Provident Fund Investment Scheme ("CPF Investor") and/or the Supplementary Retirement Scheme ("SRS Investors") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting, but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.
2. This Proxy Form is not valid for use by CPF and SRS Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

***PROXY FORM***

(Please see notes overleaf before completing this Form.)

I/We* ______________________________ NRIC/Passport/Co. Registration No.* ______________

of ________________________________________________________________

being a member/members* of NATURAL COOL HOLDINGS LIMITED (the "Company") hereby appoint:

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

and/or*

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

or failing him/her *, the Chairman of the Meeting, as my/our* proxy/proxies* to attend and vote for me/us* on my/our* behalf at the Annual General Meeting (the "**Meeting**") of the Company to be held at 10 Eunos Road 8, SingPost Centre #13-07, Singapore 408600 on Monday, 29 April 2019 at 10.00 a.m. and at any adjournment thereof. I/We* direct my/our* proxy/proxies* to vote "for" or "against" the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies* will vote or abstain from voting at his/her* discretion.

**(Voting will be conducted by poll. Please indicate your vote "For" or "Against" with a tick [√] within the box provided. Alternatively, please indicate the number of votes as appropriate.)**

| **No.** | **ORDINARY RESOLUTIONS** | **For** | **Against** |
|---|---|---|---|
| | **Ordinary Business:** | | |
| 1 | Adoption of Directors' Statement and Audited Financial Statements for the financial year ended 31 December 2018 | | |
| 2 | Re-election of Mr Wong Leon Keat as Director pursuant to Regulation 101 of the Company's Constitution. | | |
| 3 | Re-election of Mr Mahtani Bhagwandas as Director pursuant to Regulation 105 of the Company's Constitution. | | |
| 4 | Approval of Directors' fees amounting to S$165,000 for the financial year ending 31 December 2019 to be paid quarterly in arrears. | | |
| 5 | Re-appointment of KPMG LLP as auditors | | |
| | **Special Business:** | | |
| 6 | Authority to allot and issue new shares pursuant to Section 161 of the Companies Act, Chapter 50 and Rule 806 of the Listing Manual (Section B: Rules of Catalist) | | |
| 7 | Authority to allot and issue shares under the Natural Cool Employee Share Option Scheme | | |

* Delete where inapplicable

Dated this __________ day of ____________________ 2019

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

________________________________________

Signature(s) of Member(s) or
Common Seal of Corporate Member

**IMPORTANT : PLEASE READ NOTES ON THE REVERSE**

**Notes:**

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members of the Company, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. A member of the Company (other than a Relevant Intermediary*), entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

3. Where a member (other than a Relevant Intermediary*) appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.

4. A Relevant Intermediary may appoint more than two proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number or class of shares shall be specified).

5. Subject to note 9, completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.

6. The instrument appointing a proxy or proxies must be deposited at the Company's office of the Company's Share Registrar, B.A.C.S. Private Limited at **8 Robinson Road, #03-00 ASO Building, Singapore 048544 not less than Seventy-Two (72) hours** before the time appointed for the Meeting.

7. The instrument appointing a proxy or proxies must be under the hand of the appointer or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

8. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore, and the person so authorised shall upon production of a copy of such resolution certified by a director of the corporation to be a true copy, be entitled to exercise the powers on behalf of the corporation so represented as the corporation could exercise in person if it were an individual.

9. An investor who holds shares under the Central Provident Fund Investment Scheme ("**CPF Investor**") and/or the Supplementary Retirement Scheme ("**SRS Investors**") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.

* A Relevant Intermediary is:

(a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or

(b) a person holding a capital markets services license to provide custodial services for securities under the Securities Futures Act (Cap. 289) and who holds shares in that capacity; or

(c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

## PERSONAL DATA PRIVACY

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 12 April 2019.

## GENERAL

The Company shall be entitled to reject the instrument of proxy or proxies if it is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instruments contained in the instrument. The Company may also reject any instrument of proxy or proxies where the appointor is not shown to have shares in the Company entered against his/her name in the Depository Register as at seventy-two (72) hours before the time appointed for holding the Meeting, as certified by the Central Depository (Pte) Limited to the Company.

Natural Cool
Holdings Limited
Company Registration No.: 200509967G

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