



Natural Cool
Holdings Limited

**FUTURE FORWARD:
OUR NEW DIRECTION**

ANNUAL REPORT **2016**

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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 Catalyst. 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 Mr Thomas Lam, Associate Director, Continuing Sponsorship, at 16 Collyer Quay, #10-00 Income at Raffles, Singapore 049318, telephone (65) 6229 8088.

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



FOCUSED DIRECTIONS

At Natural Cool, we believe that a sharp vision and focused direction are integral in seizing business opportunities and achieving enduring sustainability. Our commitment towards delivering innovation never ceases, because it is this underlying dynamism that drives us forward. Through the effective optimisation of our core capabilities and development of our comprehensive suite of products, we are able to cultivate growth and progress for tomorrow and beyond.



LETTER TO SHAREHOLDERS

“Our Air Con division continues to perform well and sales revenue reached a new high of S\$ 121.5 million. Moving forward, we want to continue growing and have plans to expand this business to markets outside of Singapore in a significant way. We are also studying how we can harness technology as a digital disruptor in our industry.”

Dear Shareholders,

2016 was a tumultuous year for Natural Cool.

Our Air Con division continues to perform well and sales revenue reached a new high of S\$ 121.5 million. Moving forward, we want to continue growing and have plans to expand this business to markets outside of Singapore in a significant way. We are also studying how we can harness technology as a digital disruptor in our industry.

Meanwhile, our Paint division struggled last year due to stiff market competition and a number of operational changes which has resulted in the division reporting a loss in 2016. With a new management in place at the Paint division, we will work hard to achieve profitability in the coming year. In February 2017, we announced the commencement of an internal investigation into certain irregular transactions and activities pertaining to the Paint division. While this investigation is still on going, we assure you that we will where necessary, spare no effort to enforce our rights under relevant laws to ensure our assets and business are protected. To this end, we have appointed our Independent Non-Executive Chairman as an advisor to the Company to advise us on inter-alia, law enforcement matters arising from amongst other things, the internal investigation review, and other commercial security matters of the Group.

As for our Investment portfolio, we have taken a prudent approach to impair the carrying value of our long term investments (including our interest in HMK Energy Pte Ltd). In this regard, we are currently actively reviewing options as to how best we can unlock shareholder value from these investments.

The Board of Directors were reconstituted in February 2017 amidst much shareholder and public interest in the Company. The new Board wishes to assure shareholders of its belief in the long term prospects of the Company and the new Board has commenced its review of the internal policies of the Group with the aim of improving the Group’s internal processes and systems to realise its potential. Once such review is completed, we will update shareholders duly. The new Board wishes to assure shareholders that it stands committed to steer the Group through this difficult time, uphold principles of good corporate governance, and deliver value to all shareholders.

In order to provide the flexibility to the new Board in executing its growth strategies, we have proposed re-instating the general share issue mandate which was revoked by Shareholders last December. If approved by Shareholders at the upcoming AGM, please be assured the new Board will exercise its discretion judiciously.

With regards to High Court Case No. 1128/2016 which the Company is a party to, the matter is now in the hands of our lawyers, and we will provide Shareholders with an update when there are material developments.

APPRECIATION AND WELCOME

We would like to take this opportunity to thank all our stakeholders, including our customers, management and staff, and our vendors for their unwavering support this past one year. We trust that you will continue supporting all of our businesses for many years to come.

Yours faithfully

Goh Teck Sia

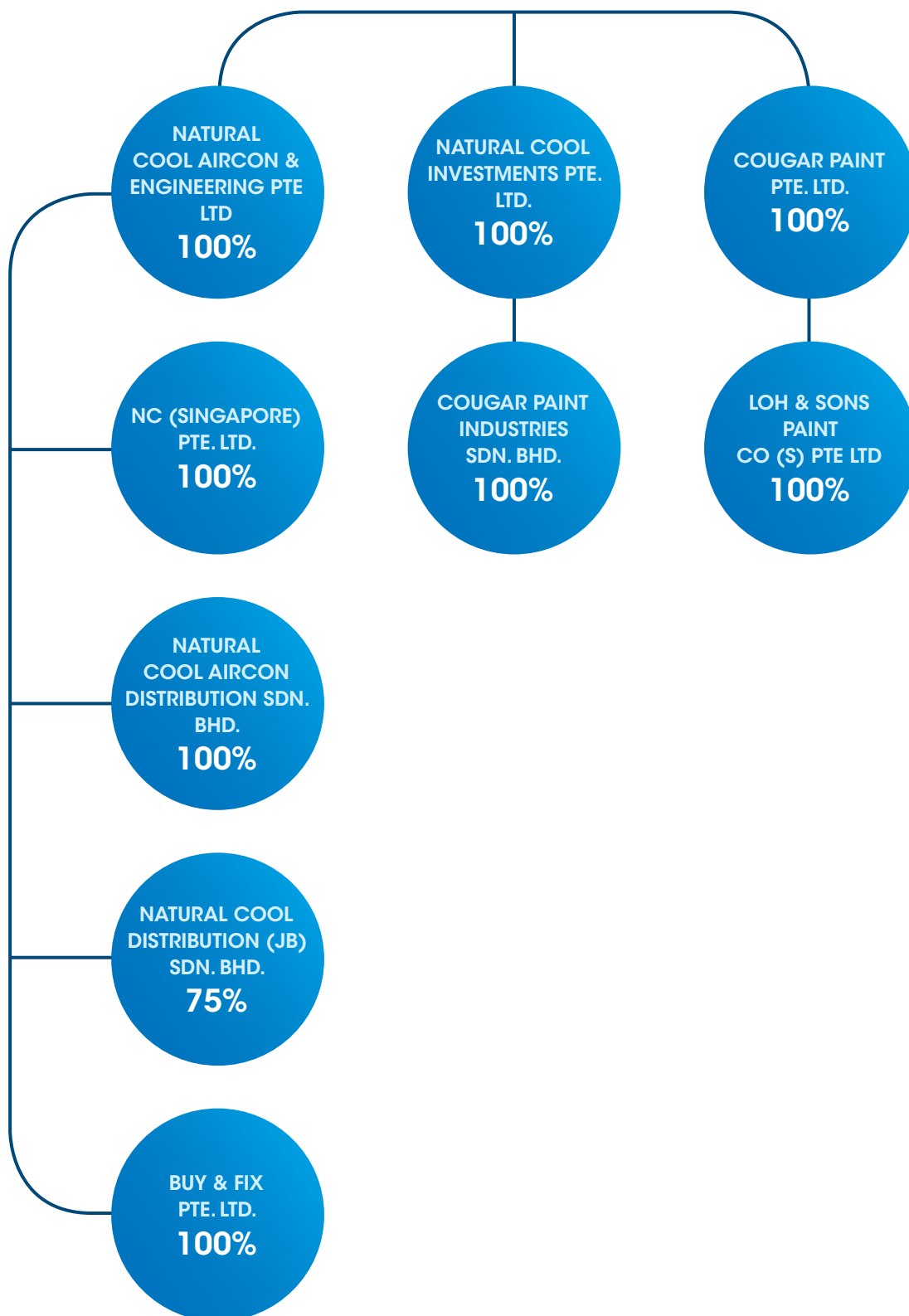
Independent
Non-Executive Director
and Chairman

Tsng Joo Peng

Executive Director and
Chief Executive Officer

CORPORATE STRUCTURE

Natural Cool Holdings Limited



The background of the entire page is an abstract composition of numerous thin, diagonal light streaks in various colors including yellow, green, blue, and pink, radiating from the bottom right corner towards the top left. These streaks create a sense of motion and energy. A white, trapezoidal shape is positioned at the top, containing the main title.

SUSTAINING OUR MOMENTUM

As one of the leading air-conditioning specialists in Singapore, we are motivated by the prospect of creating future value for our shareholders and customers. Amidst an ever-changing operating environment, we constantly strive to develop our technical expertise, efficiently manage our assets and investments, and continuously nurture our diverse human capital. These strategies are essential in sustaining the momentum that we've built in the past as we continue to steer our business towards the future.



OPERATIONS REVIEW

The year in review saw Natural Cool performing well with increased business activities from its air-conditioning systems installed and maintained in both residential and medium commercial sector. This can be attributed to higher service standard achieved as we constantly upgrade the skills of our repair and servicing staff, to proactively respond to all types of air-conditioner service requests and situations. To serve customers well, staff keep themselves abreast of the latest technical knowledge on how air-conditioners perform in different types of premises such as public housing, private residential and landed properties, as well as service apartments.

Natural Cool also has in place a team of in-house air-conditioner 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 specialized 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 air-conditioning mechanical ventilation ("ACMV") systems problems. In addition, our Commercial Service Department is specially trained to provide Facilities Management services such as space planning, assets management and preventive maintenance of air-conditioners for smooth and uninterrupted operation.



OPERATIONS REVIEW

COMMERCIAL INSTALLATION

The Commercial Installation Department provide air-conditioning systems and mechanical ventilation system installation services for commercial projects. Our commercial projects may relate to public sector such as campus, bus depot, substations and nursing homes as well as private sector which include factories, offices, shopping malls, condominiums and landed properties.

Our commercial projects may be invited 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 air-conditioning systems.

Apart from "Direct Expand System" installation, our Commercial Installation Department also carry on projects with "Chilled Water System" Installation and "Cooling Tower System" Installation for shopping mall such as One Raffles Place and commercial building such as Vision Exchange.

RETAIL & TRADING

Launched in 2013, the Natural Cool's Penguin Aircon Force ("PAF") has proven successful and is still operating actively to provide quality service to customers within the 10 km radius from our main showroom at Defu Lane and Toh Guan. Essentially, it is time specific location based marketing campaign, to demonstrate our product and service commitments to both new and existing customers. Since then, advertising campaigns have been carried out in nearby housing estates like Ang Mo Kio, Bedok and Tampines using feeder bus advertisements and specially designed brochures. The PAF marketing campaign has been so popular that we have begun to reach out to the younger generation living in relatively newer estates such as, Punggol, Sengkang, Upper Serangoon and Pasir Ris.

Apart from direct sales and marketing to end consumers, Natural Cool also helps its business associates compete effectively by helping them perform best sourcing of building and air conditioner equipment and accessories.



OPERATIONS REVIEW

Such equipment are all types of air-conditioners catered for the entire industrial, commercial and residential, brands included Daikin, Mitsubishi, Panasonic, York, LG and many more.

Accessories included air-conditioning supporting brackets, insulation, all types of pipes and ducts, as well as industrial goods like electrical drills, drain pumps, screws, bolts & nuts, fasteners, silicon applicators, etc. Contractors find it useful and convenient as these items are housed under one roof and strategically located at our corporate outlets in Defu Lane and Toh Guan.

MECHANICAL & ELECTRICAL

Over the years, Natural Cool has trained a group of specialised people to provides solutions for the whole of Building Management and secure a place as a Managing Agent (“MA”) for Commercial Buildings or estate. Now, Natural Cool provides full spectrum of skills required for the further expansion to acquire more MA Contracts.

For greater customer convenience though Social Media Marketing and software integration, Natural Cool will continue to offer best sourcing for both Residential housing and Commercial building of its flagship Service and Maintenance Contract business. Customised sitemap and wireframe allows 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” for both Customer and Company.

With the support of all the above components, Natural Cool will be able to acquire more “Market Share” in a shorter time to come and to obtain rapid growth as a result. Hence, to exhibit our strength as a “Market Leader” in the air-conditioning and mechanical ventilation system.

With the vision to enhance local retail business in Singapore, Natural Cool will in time, introduce more affordable household products to complement our Aicon retail service as part of our continue effort to expand our Retail Market place.



FINANCIAL REVIEW



REVIEW OF INCOME STATEMENT

The Group achieved revenue of S\$128.97 million for the full year ended 31 December 2016 ("FY2016"), an increase of S\$19.99 million, or 18.34% as compared to S\$108.98 million in the full year ended 31 December 2015 ("FY2015"). This was due mainly to higher revenue earned by the Group's Aircon division.

Gross profit increased by S\$1.67 million to S\$14.75 million in FY2016. Gross profit margin decreased from 12.01% in FY2015 to 11.44% in FY2016 due mainly to higher subcontractors' costs.

Other income increased by S\$1.06 million or 169.17% to S\$1.69 million due mainly to reversal of payables in Cambodia, interest income from fixed deposits and gain on disposal of motor vehicles.

Distribution expenses increased by S\$0.12 million or 8.29% to S\$1.53 million due mainly to higher salaries and entertainment expenses.

Administrative expenses increased by S\$0.90 million or 6.24% to S\$15.27 million due mainly to higher salaries and ex-gratia payments to former Independent Directors in FY2016.

Other expenses increased by S\$9.74 million or 1,787.34% to S\$10.29 million due mainly to impairment of goodwill in the Paint division, impairment of available-for-sale investments, impairment of zero-coupon convertible bonds, impairment of plant and equipment and provision of onerous contract in FY2016.

Finance costs decreased by S\$0.29 million or 32.96% to S\$0.59 million due mainly to lower trade facilities utilisation in FY2016.

Tax credit was due mainly to refunds of taxes paid by the Aircon division for prior year of assessments.

Arising from the above, the Group reported a loss from continuing operation of S\$11.23 million in FY2016.

FINANCIAL REVIEW

REVIEW OF STATEMENTS OF FINANCIAL POSITION

Intangible assets decreased by S\$1.48 million to S\$0.69 million as at 31 December 2016 due mainly to the write-off of goodwill in the Paint division.

Other investments decreased by S\$5.09 million to S\$0.93 million as at 31 December 2016 due mainly to the impairment of investment in HMK Energy Pte Ltd ("HMKE") as well as change in fair value of the zero-coupon convertible bonds due from HMKE.

Inventories decreased by S\$2.94 million to S\$11.71 million as at 31 December 2016 due mainly to utilisation of existing built-up inventory in the Group's Aircon division during the year.

Trade and other receivables decreased by S\$4.85 million to S\$19.43 million as at 31 December 2016 due mainly to the refund of security deposit from the landlord of Natural Cool Lifestyle Hub.

Trade and other payables decreased by S\$1.26 million to S\$36.81 million as at 31 December 2016 due mainly to lower trade facilities utilisation, lower accrued expenses and the amortisation of deferred revenue from the sale and lease-back of Natural Cool Lifestyle Hub. The decrease is offset by the higher advances received from customers of the Aircon division.

The Group made a S\$1.99 million provision as at 31 December 2016 due to a non-cancellable sales and leaseback transaction for its Natural Cool Lifestyle Hub building 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 and the discounted future losses have been provided for as onerous contract.

Total loans and borrowings decreased by S\$3.93 million to S\$13.10 million due mainly to repayment of finance lease liabilities, bank loans and conversion of outstanding loan notes by Mr. Lim Teck Chuan as announced on 25 May 2016.

REVIEW OF STATEMENT OF CASH FLOWS

Cash flows from operating activities were an inflow of S\$7.27 million. This was due mainly to higher advances received from customers of Aircon division, refund of security deposit by from the landlord of Natural Cool Lifestyle Hub and selling of existing built-up inventory in the Group's Aircon division.

Cash flows from investing activities were an outflow of S\$2.04 million. This was due mainly to payments for property, plant & equipment in Aircon and Paint divisions.

Cash flows from financing activities were an outflow of S\$17.12 million. This was due mainly to the payment of dividend and repayments of finance lease liabilities and bank loans.

BOARD OF DIRECTORS

Mr Goh Teck Sia (Richard)

Independent Non-Executive Director and Chairman of the Board

Mr Goh was appointed 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

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

None

Mr Tsng Joo Peng

Executive Director and Chief Executive Officer

Mr Tsng was appointed to our Board on August 1, 2005 (Date of last re-appointment as Director: 26 April, 2016) and he was appointed as our Group Chief Executive Officer ("CEO") on October 31, 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)
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None

None

Mr Wong Leon Keat

Executive Director and Chief Corporate Officer

Mr Wong was appointed an Executive Director of the Company on 8 February 2017. As an executive director, he is responsible for the financial, administrative and human resource matters of the Group. He is also responsible for corporate and investor relations of the Company.

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 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)
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None

None

BOARD OF DIRECTORS

Mr Tan Siew Bin, Ronnie

Independent Non-Executive Director

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

Mr Tan is one of the founding Directors of Central Chambers Law Corporation in Singapore with 26 years of post-qualification experience. He is a Notary Public, Commissioner for Oaths and heads of the Civil and Criminal practice. Mr Tan began his legal practice as a litigator and moved into areas of corporate and commercial advice. Mr Tan holds a Bachelor of Laws from University of London and admitted to the English and Singapore Bar in 1989 and 1991 respectively.

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

Ms Lau Lee Hua

Independent Non-Executive Director

Ms Lau was appointed 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. 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)	Present directorships in listed companies (Other than the Company)
None	Gaylin Holdings Limited

KEY MANAGEMENT

Mr Sean Leaw Wei Siang

Group Chief Financial Officer

As the Chief Financial Officer, Mr Leaw oversees all various functions of accounting, financial reporting, cost management accounting, foreign exchange management, credit control, management information system, tax, cash flow planning and financial systems of our Group. He possesses more than 20 years of working experience in accounting and financial management. Mr Leaw joined the Group in 2008, as Chief Financial Officer in of one of the Group's wholly-owned subsidiaries. Prior to that, Mr Leaw worked at SMB Electric Pte Ltd and multinational company, Oiltools Pte Ltd, as Senior Finance Manager and Accountant respectively. Prior to that, Mr Leaw has also worked at Deloitte & Touche. Mr. Leaw is a member of both Institute of Singapore Chartered Accountants and CPA Australia, and holds a Bachelor of Commerce degree majoring in Accounting and Finance from University of Western Australia.

Mr Neo Han Cheng

*Executive Director and Chief Operating Officer,
Natural Cool Airconditioning & Engineering Pte Ltd*

Mr Neo was appointed on July 19, 2007 and is primarily responsible for the overall management, business planning and daily operations of Natural Cool Airconditioning & Engineering. Mr Neo joined our Group in 1997 and was promoted to assistant general manager in 2005 where he is 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 M&E building services. Mr Neo graduated with a Diploma in Manufacture Engineering from Singapore Polytechnic in 1990.

CORPORATE INFORMATION

Board of Directors:

Mr Goh Teck Sia

Independent Non-Executive Chairman

Mr Tsng Joo Peng

Executive Director and Chief Executive Officer

Mr Wong Leon Keat

Executive Director and Chief Corporate Officer

Ms Lau Lee Hua

Independent Non-Executive Director

Mr Ronnie Tan Siew Bin

Independent Non-Executive Director

Audit Committee:

Ms Lau Lee Hua

Chairman

Mr Ronnie Tan Siew Bin

Member

Mr Goh Teck Sia

Member

Nominating Committee:

Mr Ronnie Tan Siew Bin

Chairman

Ms Lau Lee Hua

Member

Mr Goh Teck Sia

Member

Remuneration Committee:

Mr Goh Teck Sia

Chairman

Ms Lau Lee Hua

Member

Mr Ronnie Tan Siew Bin

Member

Company Secretaries:

Mr Leaw Wei Siang

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

Share Registrar:

M & C Services Private Limited

112 Robinson Road #05-01

Singapore 069802

Principal Bankers:

United Overseas Bank

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 2016.

In our opinion, and taking into consideration the current status of the internal investigation as disclosed in Note 32 to the financial statements:

- (a) the financial statements set out on pages 24 to 83 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 2016 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; 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	(Appointed on 8 February 2017)
Tsng Joo Peng	Chief Executive Officer	
Wong Leon Keat	Chief Corporate Officer	(Appointed on 8 February 2017)
Lau Lee Hua	Independent Director	(Appointed on 8 February 2017)
Ronnie Tan Siew Bin	Independent Director	(Appointed on 8 February 2017)

Directors' interests

According to the register kept by the Company for the purposes of Section 164 of the Companies Act, Chapter 50 (the Act), particulars of interests of Directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares, debentures, warrants 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		
<i>Ordinary shares</i>		
Tsng Joo Peng		
- interest held	5,000,000	16,300,000
- deemed interest	12,348,426	1,048,426
Joseph Ang Choon Cheng		
- interest held	25,549,385	863,885
- deemed interest	3,150,001	1
Eric Ang Choon Beng		
- interest held	352	352
- deemed interest	7,832,000	1,000

DIRECTORS' STATEMENT

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 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 2017.

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 | (Appointed on 8 February 2017) |
| • Goh Teck Sia, Independent Director | (Appointed on 8 February 2017) |
| • Ronnie Tan Siew Bin, Independent Director | (Appointed on 8 February 2017) |
| • Lim Siang Kai (Chairman), Lead Independent Director | (Removed on 8 February 2017) |
| • Dr. Wu Chiaw Ching, Independent Director | (Removed on 8 February 2017) |
| • William da Silva, Independent Director | (Removed on 8 February 2017) |

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;
- interested person transactions (as defined in Chapter 9 of the SGX Listing Manual); and
- investigation findings by the investigation committee as disclosed in Note 32 to the financial statements.

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

DIRECTORS' STATEMENT

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
Director

Wong Leon Keat
Director

31 March 2017

INDEPENDENT AUDITORS' REPORT

To the members of Natural Cool Holdings Limited

Report on the audit of the financial statements

Opinion

We have audited the accompanying 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 2016, 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 24 to 83.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ('the Act') and Financial Reporting Standards in Singapore ('FRSs') so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for opinion

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

Key audit matters

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

INDEPENDENT AUDITORS' REPORT

To the members of Natural Cool Holdings Limited

Valuation of non-financial assets **(Refer to Notes 4 and 5 to the financial statements)**

The key audit matter

As at 31 December 2016, 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 two cash generating units ('CGUs') - Aircon CGU and Paint CGU. The recoverable amount of each CGU has been derived using their 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.

How the matter was addressed in our audit

We assessed the Group's process of setting budgets on which the cash flow forecasts are based.

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.

We assessed the discount rates used by reference to comparable companies' weighted average cost of capital.

We performed sensitivity analysis around the key drivers of the cash flow forecasts, in particular the revenue growth, gross profit margin and operating expenses.

We assessed whether the disclosures were appropriate.

Our findings

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.

Valuation of other investments **(Refer to Note 7 to the financial statements)**

The key audit matter

The Group holds investments consisting of equity investment and convertible bonds totalling S\$6.2 million, in a company ('investee') which is in the business of exploration and production of oil and gas. An impairment loss of S\$5.3 million has been recognised in 2016.

The investee operates under a Production Sharing Contract ('PSC') granted by the Government of Indonesia to carry on its exploration activities in its designated contract area in Lampung III Contract Area in South Sumatra, Indonesia. The company has up to FY2019 to complete its exploration activities. This period can be extended.

As of date of this report, the investee is currently still in the stage of exploration.

There is a risk that the carrying amounts of the Group's investment may not be recoverable. Management assessed the recoverable amount based on fair value less cost to sell. Determination of the recoverable amount, in particular the potential selling price of the PSC involves judgement.

How the matter was addressed in our audit

We obtained the latest financial statements of the investee and reviewed management's valuation model of the investment.

We updated our understanding of the current exploration progress based on inquiry of management and available public information.

We assessed management's valuation of the Group's investment in the investee based on the investee's continuing involvement in the designated contract area for the next three years up to the end of the concession period in FY2019 and the potential value of the PSC.

Our findings

We found the total impairment of S\$5.3 million to be consistent with management's basis of assessment.

INDEPENDENT AUDITORS' REPORT

To the members of Natural Cool Holdings Limited

Emphasis of Matter

We draw attention to Note 32 to the financial statements. The Group has recently formed an internal investigation committee to review the alleged irregular transactions relating to certain subsidiaries in the Paint business. The ultimate outcome of the matter cannot presently be determined as the internal investigation is still in progress. The financial statements for the year ended 31 December 2016 has not been adjusted for the findings from the internal investigation. However, as the contributions from the Paint business are not material to the Group for the year ended 31 December 2016, our opinion on the financial statements is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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 FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets 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.

Auditors' responsibilities for the audit of the financial statements

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

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

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

INDEPENDENT AUDITORS' REPORT

To the members of Natural Cool Holdings Limited

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

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

The engagement partner on the audit resulting in this independent auditors' report is Phuoc Tran.

KPMG LLP

Public Accountants and
Chartered Accountants

Singapore

31 March 2017

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2016

		Group		Company	
	Note	2016	2015	2016	2015
		\$'000	\$'000	\$'000	\$'000
		Restated*			
Assets					
Property, plant and equipment	4	21,512	22,067	23	16
Intangible assets	5	690	2,171	33	45
Subsidiaries	6	–	–	6,899	6,899
Other investments	7	928	6,018	928	6,018
Deferred tax assets	15	802	1,023	–	–
Non-current assets		23,932	31,279	7,883	12,978
Inventories	8	11,711	14,650	–	–
Trade and other receivables	10	19,427	24,277	11,434	7,188
Cash and cash equivalents	11	25,028	36,900	3,080	28,364
Current assets		56,166	75,827	14,514	35,552
Total assets		80,098	107,106	22,397	48,530
Equity					
Share capital	12	36,412	31,957	36,412	31,957
Reserves	13	(3,476)	(3,445)	300	300
Accumulated (losses)/profits		(6,975)	20,977	(14,833)	8,107
Equity attributable to owners of the Company		25,961	49,489	21,879	40,364
Non-controlling interests		(1)	9	–	–
Total equity		25,960	49,498	21,879	40,364
Liabilities					
Loans and borrowings	14	12,097	8,554	–	–
Deferred tax liabilities	15	1,427	1,405	–	–
Provision	17	1,570	–	–	–
Non-current liabilities		15,094	9,959	–	–
Loans and borrowings	14	1,000	8,473	–	2,700
Trade and other payables	16	36,806	38,062	518	5,466
Provision	17	423	–	–	–
Current tax payable		815	1,114	–	–
Current liabilities		39,044	47,649	518	8,166
Total liabilities		54,138	57,608	518	8,166
Total equity and liabilities		80,098	107,106	22,397	48,530

* refer to Note 28 for details

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

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2016

		Group	
	Note	2016 \$'000	2015 \$'000
Continuing operations			
Revenue	20	128,970	108,978
Cost of sales		(114,219)	(95,894)
Gross profit		14,751	13,084
Other income	21	1,685	626
Distribution expenses		(1,528)	(1,411)
Administrative expenses		(15,266)	(14,369)
Other expenses	24	(10,286)	(545)
Results from operating activities		(10,644)	(2,615)
Finance costs	22	(594)	(886)
Loss before tax		(11,238)	(3,501)
Tax credit/(expense)	23	8	(16)
Loss from continuing operations	24	(11,230)	(3,517)
Discontinued operation			
Profit from discontinued operation (net of income tax)	25	-	9,988
(Loss)/Profit for the year		(11,230)	6,471
(Loss)/Profit attributable to:			
Owners of the Company		(11,194)	6,495
Non-controlling interests		(36)	(24)
(Loss)/Profit for the year		(11,230)	6,471
(Loss)/Earnings per share			
Basic and diluted earnings per share (cents)	26	(5.11)	3.16
(Loss)/Earnings per share - Continuing operations			
Basic and diluted earnings per share (cents)	26	(5.11)	(1.70)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	Note	Group 2016 \$'000	2015 \$'000
(Loss)/Profit for the year		(11,230)	6,471
Other comprehensive income			
<i>Item that is or may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation differences from translation of foreign operations		8	(430)
Exchange differences on monetary items forming part of net investment in foreign operations		(24)	(220)
Exchange differences realised from discontinued operation	25	-	636
Exchange differences realised from de-registration of a subsidiary		11	-
Other comprehensive income for the year		(5)	(14)
Total comprehensive income for the year		(11,235)	6,457
Total comprehensive income attributable to:			
Owners of the Company		(11,225)	6,482
Non-controlling interests		(10)	(25)
Total comprehensive income for the year		(11,235)	6,457

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Note	Share capital \$'000	Capital reserve \$'000	Translation reserve \$'000	Accumulated profits \$'000	Total attributable to owners of the Company \$'000	Non-controlling interests \$'000	Total equity \$'000
Group								
At 1 January 2015		31,957	(3,078)	(354)	14,482	43,007	228	43,235
Total comprehensive income for the year								
Profit/(loss) for the year		-	-	-	6,495	6,495	(24)	6,471
Other comprehensive income								
Foreign currency translation differences from translation of foreign operations		-	-	(429)	-	(429)	(1)	(430)
Exchange differences on monetary items forming part of net investment in foreign operations		-	-	(220)	-	(220)	-	(220)
Exchange differences realised from discontinued operation	25	-	-	636	-	636	-	636
Total comprehensive income for the year		-	-	(13)	6,495	6,482	(25)	6,457
Changes in ownership interests in subsidiaries								
Sale of discontinued operation	25	-	-	-	-	-	(194)	(194)
At 31 December 2015		31,957	(3,078)	(367)	20,977	49,489	9	49,498
Total comprehensive income for the year								
Loss for the year		-	-	-	(11,194)	(11,194)	(36)	(11,230)
Other comprehensive income								
Foreign currency translation differences from translation of foreign operations		-	-	(18)	-	(18)	26	8
Exchange differences on monetary items forming part of net investment in foreign operations		-	-	(24)	-	(24)	-	(24)
Exchange differences realised from de-registration of a subsidiary		-	-	11	-	11	-	11
Total comprehensive income for the year		-	-	(31)	(11,194)	(11,225)	(10)	(11,235)
Transactions with owners, recognised directly in equity								
Issuance of new shares	12	4,455	-	-	-	4,455	-	4,455
Dividends declared	12	-	-	-	(16,758)	(16,758)	-	(16,758)
		4,455	-	-	(16,758)	(12,303)	-	(12,303)
At 31 December 2016		36,412	(3,078)	(398)	(6,975)	25,961	(1)	25,960

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Note	Group 2016 \$'000	2015 \$'000
Cash flows from operating activities			
(Loss)/profit for the year		(11,230)	6,471
Adjustments for:			
Amortisation of deferred revenue		(1,300)	(1,300)
Amortisation of intangible assets		86	668
Depreciation of property, plant and equipment		1,633	2,837
Gain on de-registration of a subsidiary		(11)	-
Gain on sale of discontinued operation	25	-	(15,517)
(Gain)/Loss on disposal of property, plant and equipment		(173)	443
Impairment loss on available-for-sale investment		3,750	-
Impairment loss on goodwill		1,580	-
Impairment loss on trade and other receivables		288	362
Impairment loss on plant and equipment		955	-
Interest expenses		594	1,405
Interest income		(160)	(25)
Plant and equipment written-off		9	34
Provision for onerous contract		1,993	-
Tax (credit)/expense on continuing operations		(8)	16
Tax credit from discontinued operation	25	-	(180)
Net change in fair value of zero-coupon convertible bonds		1,341	(120)
		(653)	(4,906)
Changes in working capital:			
Inventories		3,054	(5,289)
Trade and other receivables		4,564	4,448
Trade and other payables		348	5,643
Cash generated from/(used in) operations		7,313	(104)
Income tax paid		(48)	(74)
Net cash from/(used in) operating activities		7,265	(178)
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		130	(7,317)
Interest received		160	25
Proceeds from disposal of property, plant and equipment		228	301
Purchase of computer software		(107)	(103)
Purchase of industrial certificates		-	(1,331)
Purchase of property, plant and equipment		(2,455)	(1,383)
Sale of discontinued operation, net of cash disposed	25	-	31,846
Net cash (used in)/from investing activities		(2,044)	22,038

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

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2016

	Note	Group 2016 \$'000	2015 \$'000
Cash flows from financing activities			
Fixed deposits released		-	250
Interest paid		(594)	(1,105)
Non-trade amount due from a related party		28	7
Payment of dividend	12	(16,758)	-
Proceeds from issue of share capital	12	1,755	-
Redemption of convertible loan notes	14	-	(3,750)
Proceeds from issue of convertible loan notes	14	-	2,700
Proceeds from borrowings		5,620	6,000
Repayment of bank borrowings		(6,402)	(3,329)
Repayment of finance lease liabilities		(771)	(236)
Net cash (used in)/from financing activities		(17,122)	537
Net (decrease)/increase in cash and cash equivalents		(11,901)	22,397
Effect of changes in foreign exchange rate		29	263
Cash and cash equivalents at beginning of year		36,900	14,240
Cash and cash equivalents at end of year	10	25,028	36,900

Significant non-cash transactions

During the financial year, the Group acquired plant and equipment amounting to \$2,090,000 (2015: \$2,545,000), of which \$323,000 (2015: \$217,000) was acquired under finance lease (see Note 4) and \$51,000 (2015: \$755,000) remained unpaid as at year end (see Note 16).

During the financial year, the Group acquired computer software amounting to \$158,000 (2015: \$77,000), of which \$88,000 (2015: \$37,000) remained unpaid as at year end (see Note 16).

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 31 March 2017.

1 Domicile and activities

Natural Cool Holdings Limited (the 'Company') is incorporated in the Republic of Singapore and has its registered office at 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 during the year are as follows:

- Air-conditioning: trading of air-conditioners, air-condition components, systems and units, air-condition installation, servicing and re-conditioning;
- Investment: properties investment holding; and
- Paint: manufacturing and trading of paint and basic chemicals.

The consolidated financial statements relate to 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 the Singapore Financial Reporting Standards ('FRS').

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.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with FRSs 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.

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 other major sources of estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 4 – estimated useful lives and impairment loss of property, plant and equipment
- Note 5 – measurement of recoverable amounts of goodwill
- Note 7 – measurement of recoverable amounts of other investments

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

2 Basis of preparation (Continued)

2.4 Use of estimates and judgements (Continued)

Information about other judgements made and estimates applied are included in the following notes:

- Note 6 – measurement of recoverable amounts of investments in subsidiaries
- Note 8 – valuation of carrying amount of inventories
- Note 10 – impairment losses on trade and other receivables
- Note 17 – provision for onerous contract
- Note 20 – revenue and profit recognition from construction contracts
- Note 28 – acquisition of subsidiary: determine of purchase price allocation

2.5 Changes in accounting policies

In the current financial year, the Group has adopted all the new and revised FRSs and Interpretations of FRSs ('INT FRSs') that are relevant to its operations and effective for annual periods beginning on 1 January 2016. The adoption of these new and revised FRSs and INT FRSs did not result in substantial changes to the Group's accounting policies and has no material effect on the amounts reported for the current and prior periods.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

3.1 Basis of consolidation

(i) *Business combinations*

Business combinations are accounted for using the acquisition method in accordance with FRS 103 Business Combination as at the acquisition date, which is the date on which control is transferred to the Group.

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

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 acquisition date 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, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 Significant accounting policies (Continued)

3.1 Basis of consolidation (Continued)

(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 the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) *Acquisition 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*

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(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.

(vi) *Accounting for subsidiaries*

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 retranslated 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 Significant accounting policies (Continued)

3.2 Foreign currency (Continued)

(i) Foreign currency transactions (Continued)

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated 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 retranslation are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations, excluding 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. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operation and are translated at the exchange rates at the reporting date. For acquisitions prior to 1 January 2005, the exchange rates at the date of acquisition were used.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the foreign operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, 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 reattributed to non-controlling interests.

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

3.3 Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 Significant accounting policies (Continued)

3.3 Financial instruments (Continued)

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

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on the fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognised in profit or loss.

Financial assets designated at fair value through profit or loss comprise investment in zero-coupon convertible bonds.

Loans and receivables

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

Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

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, pledged deposits are excluded whilst 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.

Available-for-sale financial assets

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

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

(ii) *Non-derivative financial liabilities*

All financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 Significant accounting policies (Continued)

3.3 Financial instruments (Continued)

(ii) *Non-derivative financial liabilities (Continued)*

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

(iii) *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.

(iv) *Compound financial instruments*

Compound financial instruments issued by the Group comprise convertible loan notes denominated in Singapore dollars that can be converted to share capital at the option of the holder, where the number of shares to be issued is fixed.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest and gains and losses related to the financial liability component are recognised in profit or loss. On conversion, the financial liability is reclassified to equity; no gain or loss is recognised on conversion.

(v) *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.

3.4 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 Significant accounting policies (Continued)

3.4 Measurement of fair values (Continued)

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 FRS, 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).

If the inputs used to measure the fair value of an asset or a liability might be categorised in 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.

3.5 Property, plant and equipment

(i) *Recognition and measurement*

Items of property, plant and equipment are measured at 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 assets to a working condition for their intended use, when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

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 determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 Significant accounting policies (Continued)

3.5 Property, plant and equipment (Continued)

(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. Freehold land is not depreciated.

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

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

Freehold properties	50 years
Leasehold properties	over the lease terms, ranging from 34 – 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 years

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

3.6 Intangible assets

(i) *Goodwill*

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. The Group measures goodwill at acquisition date as:

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

over the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. Any goodwill that arises is tested annually for impairment.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 Significant accounting policies (Continued)

3.6 Intangible assets (Continued)

(i) *Goodwill (Continued)*

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.

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

(iv) *Industrial certificates*

Industrial certificates represent costs incurred by the Group to obtain Association of Short Circuit Testing Authority ("ASTA") certificates for developed capabilities to design, construct and develop low-voltage switchboards to meet international standards. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of 25 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.

Amortisation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

(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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 Significant accounting policies (Continued)

3.7 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.

3.8 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 and work-in-progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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

Construction contracts-in-progress

Construction contracts-in-progress represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date (see Note 3.13) less progress billings. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction contracts-in-progress is presented as part of inventories in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed the costs incurred plus recognised profits, then the difference is presented as excess of progress billings over construction contracts-in-progress as part of trade and other payables in the statement of financial position.

3.9 Impairment

(i) Non-derivative financial assets

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, and economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its costs is objective evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 Significant accounting policies (Continued)

3.9 Impairment (Continued)

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

Loans and receivables

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

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss recognised previously in profit or loss. The amount of the reversal is recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 Significant accounting policies (Continued)

3.9 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.

3.10 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.

(i) *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 Provision

A provision is recognised if, as a result of a past event, the Company 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 Significant accounting policies (Continued)

3.12 Deferred revenue

(i) *Advance payments received from customers*

Deferred revenue relates to advance payments received from customers in respect of servicing of air-conditioners. Deferred revenue is amortised on a straight-line basis over the period stipulated in the respective customer contract commencing from date of supply and upon rendering of services.

(ii) *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.

3.3 Revenue

(i) *Sale of goods*

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. Transfer usually occurs when the product is received at the customer's warehouse; however, for some international shipments, transfer occurs upon loading of the goods on to the relevant carrier at the port. Generally, for such products, the customer has no right of return.

(ii) *Construction contracts*

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. When the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to the proportion of contract costs incurred for work performed to date to the estimated total contract costs. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

(iii) *Rendering of services*

Revenue from rendering of services is recognised in profit or loss when the services are rendered.

(iv) *Rental income*

Rental income is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from subleased property is recognised as other income.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 Significant accounting policies (Continued)

3.14 Government grants

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 assets.

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 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. 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 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 Significant accounting policies (Continued)

3.17 Tax (Continued)

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. 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.

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 Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations;
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of profit or loss is re-presented as if the operation had been discontinued from the start of the comparative year.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 Significant accounting policies (Continued)

3.19 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, which comprises convertible loan notes.

3.20 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 Executive Directors ('GED') 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 GED 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.

3.21 New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the Group has not early applied the following new or amended standards in preparing these financial statements.

Applicable to 2018 financial statements

FRS 115 *Revenue from Contracts with Customers*

FRS 115 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.

When effective, FRS 115 replaces existing revenue recognition guidance, including FRS 18 *Revenue*, FRS 11 *Construction Contracts*, INT FRS 113 *Customer Loyalty Programmes*, INT FRS 115 *Agreements for the Construction of Real Estate*, INT FRS 118 *Transfers of Assets from Customers* and INT FRS 31 *Revenue – Barter Transactions Involving Advertising Services*.

FRS 115 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

Potential impact on the financial statements

Under FRS 115, revenue is recognised over time if certain conditions are met including that the asset created has no alternative use to the Group and the Group has the enforceable right to payment for performance completed to date. The Group is currently performing a detailed analysis of its construction contracts to quantify the impact on its financial statements, however based on initial assessment, the Group does not expect the impact on the financial statements to be significant.

Transition – The Group plans to adopt the standard when it becomes effective in 2018.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 Significant accounting policies (Continued)

FRS 109 Financial Instruments

FRS 109 replaces most of the existing guidance in FRS 39 *Financial Instruments: Recognition and Measurement*. It includes revised guidance on classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from FRS 39.

FRS 109 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

Potential impact on the financial statements

Overall, the Group does not expect a significant impact on its opening equity. The Group's initial assessment of FRS 109 is as described below.

Classification and measurement

The Group does not expect a significant change to the measurement basis arising from adopting the new classification and measurement model under FRS 109.

Loans and receivables that are currently accounted for at amortised cost will continue to be accounted for using amortised cost model under FRS 109.

For financial assets currently held at fair value, the Group expects to continue measuring most of these assets at fair value under FRS 109.

Impairment

The Group plans to apply the simplified approach and record lifetime expected impairment losses on all trade receivables and any contract assets arising from the application of FRS 115. In view of the historical doubtful debts of the Aircon business, the Group presently does not expect a significant increase in the impairment loss allowance upon adoption of FRS 109. The Group will continue to assess the impact of FRS 109 adoption on other businesses of the Group.

Transition – The Group plans to adopt the standard when it becomes effective in 2018 without restating comparative information.

Convergence with International Financial Reporting Standards (IFRS)

In addition, the Accounting Standards Council (ASC) announced on 29 May 2014 that Singapore-incorporated companies listed on the Singapore Exchange (SGX) will apply a new financial reporting framework identical to the International Financial Reporting Standards (referred to as SG-IFRS in these financial statements) for the financial year ending 31 December 2018 onwards.

The Group has performed a preliminary assessment of the impact of SG-IFRS 1 *First-time adoption of International Financial Reporting Standards* for the transition to the new reporting framework. Based on the Group's preliminary assessment, the Group expects that the impact on adoption of SG-IFRS 15 *Revenue from Contracts with Customers* and SG-IFRS 9 *Financial Instruments* will be similar to adopting FRS 115 and FRS 109 as described in this Note.

Other than arising from the adoption of new and revised standards, the Group does not expect to change its existing accounting policies on adoption of the new framework.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 Significant accounting policies (Continued)

Applicable to 2019 financial statements

FRS 116 Leases

FRS 116 eliminates the lessee's classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. Applying the new model, a lessee is required to recognise right-of-use ('ROU') assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

FRS 116 substantially carries forward the lessor accounting requirements in FRS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases using the FRS 17 operating lease and finance lease accounting models respectively. However, FRS 116 requires more extensive disclosures to be provided by a lessor.

When effective, FRS 116 replaces existing lease accounting guidance, including FRS 17, INT FRS 104 *Determining whether an Arrangement contains a Lease*, INT FRS 15 *Operating Leases – Incentives*, and INT FRS 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

FRS 116 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted if FRS 115 is also applied.

Potential impact on the financial statements

The Group has performed a preliminary high-level assessment of the new standard on its existing operating lease arrangements as a lessee (refer to Note 29). Based on the preliminary assessment, the Group expects these operating leases to be recognised as ROU assets with corresponding lease liabilities under the new standard. The operating lease commitments on an undiscounted basis amount to approximately 26% of the total assets and 39% of total liabilities of the Group. Assuming no additional new operating leases in future years until the effective date, the Group expects the amount of ROU asset and lease liability to be lower due to discounting and as the lease terms run down.

Transition – The Group plans to adopt the standard when it becomes effective in 2019.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

4 Property, plant and equipment

Group Cost	Note	Freehold land \$'000	Freehold properties \$'000	Leasehold properties \$'000	Computers \$'000	Furniture, fittings and office equipment \$'000	Motor vehicles \$'000	Tools and machineries \$'000	Renovation \$'000	Total \$'000
At 1 January 2015		1,605	3,805	12,348	1,139	1,974	4,889	7,548	6,112	39,420
Acquisition through business combinations	28	-	-	6,000	-	-	1	22	1	6,024
Additions		-	-	-	130	175	219	1,177	844	2,545
Discontinued operation	25	(1,407)	(3,245)	-	(545)	(1,289)	(980)	(5,199)	(3,077)	(15,742)
Disposals/write-offs		-	-	-	(64)	(46)	(196)	(1,625)	(381)	(2,312)
Translation differences on consolidation		(198)	(560)	-	(22)	(50)	(241)	(252)	(208)	(1,531)
At 31 December 2015		-	-	18,348	638	764	3,692	1,671	3,291	28,404
Additions		-	-	-	90	223	666	555	556	2,090
Disposals/write-offs		-	-	-	-	-	(872)	(62)	-	(934)
Translation differences on consolidation		-	-	-	-	(4)	(1)	(4)	(3)	(12)
At 31 December 2016		-	-	18,348	728	983	3,485	2,160	3,844	29,548
Accumulated depreciation and impairment losses										
At 1 January 2015		-	426	431	853	1,562	2,204	4,193	4,159	13,828
Depreciation for the year		-	64	314	190	158	471	796	844	2,837
Discontinued operation	25	-	(329)	-	(522)	(1,143)	(340)	(3,077)	(2,584)	(7,995)
Disposals/write-offs		-	-	-	(64)	(43)	(140)	(906)	(381)	(1,534)
Translation differences on consolidation		-	(161)	-	(21)	(36)	(235)	(196)	(150)	(799)
At 31 December 2015		-	-	745	436	498	1,960	810	1,888	6,337
Depreciation for the year		-	-	549	116	91	125	174	578	1,633
Disposals/write-offs		-	-	-	-	-	(872)	(7)	-	(879)
Impairment loss		-	-	-	-	102	42	40	771	955
Translation differences on consolidation		-	-	-	-	(4)	(1)	(2)	(3)	(10)
At 31 December 2016		-	-	1,294	552	687	1,254	1,015	3,234	8,036
Carrying amounts										
At 1 January 2015		1,605	3,379	11,917	286	412	2,685	3,355	1,953	25,592
At 31 December 2015		-	-	17,603	202	266	1,732	861	1,403	22,067
At 31 December 2016		-	-	17,054	176	296	2,231	1,145	610	21,512

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

4 Property, plant and equipment (Continued)

	Computers \$'000
Company	
Cost	
At 1 January 2015	6
Additions	14
At 31 December 2015	20
Additions	15
At 31 December 2016	35
Accumulated depreciation	
At 1 January 2015	1
Depreciation for the year	3
At 31 December 2015	4
Depreciation for the year	8
At 31 December 2016	12
Carrying amounts	
At 1 January 2015	5
At 31 December 2015	16
At 31 December 2016	23

Impairment loss

Majority of the impairment loss for the year relates to the renovation of Natural Cool Lifestyle hub building (See Note 17). The impairment loss is recorded in other expenses in profit or loss.

Leased assets

During the financial year, the Group acquired plant and equipment under finance leases amounting to \$323,000 (2015: \$217,000). As at the reporting date, net book value of plant and equipment which were held under finance leases is as follows:

	2016 \$'000	2015 \$'000
Motor vehicles	257	1,004

Securities

As at the reporting date, the leasehold properties are pledged as security to secure banking facilities as set out in Note 14.

Sources of estimation uncertainty

The Group and Company reviews the useful lives of the property, plant and equipment at each reporting date in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's and Company's historical experience with similar assets and taking into account anticipated technological changes and market conditions. Changes in the expected level of usage and market developments could impact the economic useful lives of these assets, therefore future depreciation charges could be revised.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

5 Intangible assets

	Note	Goodwill on consolidation \$'000	Customer relationships \$'000	Trademark \$'000	Computer software \$'000	Industrial certificates \$'000	Total \$'000
Group							
Cost							
At 1 January 2015		1,879	-	-	2,154	5,889	9,922
Acquisition through business combinations	28	1,580	118	383	-	-	2,081
Additions		-	-	-	77	1,331	1,408
Write-offs		-	-	-	(37)	-	(37)
Discontinued operation	25	(1,879)	-	-	(1,914)	(7,219)	(11,012)
Translation differences on consolidation		-	-	-	(3)	(1)	(4)
At 31 December 2015 (Restated)		1,580	118	383	277	-	2,358
Additions		27	-	-	158	-	185
Write-offs		-	-	-	(4)	-	(4)
At 31 December 2016		1,607	118	383	431	-	2,539
Accumulated amortisation and impairment losses							
At 1 January 2015		-	-	-	1,415	429	1,844
Amortisation for the year		-	-	-	465	203	668
Write-offs		-	-	-	(37)	-	(37)
Discontinued operation	25	-	-	-	(1,653)	(632)	(2,285)
Translation differences on consolidation		-	-	-	(3)	-	(3)
At 31 December 2015 (Restated)		-	-	-	187	-	187
Amortisation for the year		-	6	19	61	-	86
Impairment loss		1,580	-	-	-	-	1,580
Write-offs		-	-	-	(4)	-	(4)
At 31 December 2016		1,580	6	19	244	-	1,849
Carrying amounts							
At 1 January 2015		1,879	-	-	739	5,460	8,078
At 31 December 2015 (Restated)		1,580	118	383	90	-	2,171
At 31 December 2016		27	112	364	187	-	690

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

5 Intangible assets (Continued)

	Computer software \$'000
Company	
Cost	
At 1 January 2015	-
Additions	49
At 31 December 2015	49
Additions	4
At 31 December 2016	53
Accumulated amortisation	
At 1 January 2015	-
Amortisation for the year	4
At 31 December 2015	4
Amortisation for the year	16
At 31 December 2016	20
Carrying amounts	
At 1 January 2015	-
At 31 December 2015	45
At 31 December 2016	33

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

Goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes, which is not higher than the Group's operating segments as reported in Note 27.

Goodwill of \$1,580,000 was recognised from the acquisition of 100% equity interest in Loh & Sons Paints Co (S) Pte Ltd in 2015 and was allocated to the Paint CGU.

The Group reviews its goodwill annually for impairment, or more frequently if there are indications that the goodwill might be impaired.

The recoverable amount of the goodwill is determined based on the value-in-use from the operation of Paint CGU. The key assumptions for the value-in-use calculations cover discount rates, growth rates, expected gross margin and expected changes to direct costs. These assumptions are based on past practices and expectations of future changes in the market. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Group.

The Group prepares 5-year cash flows forecast derived from the most recent financial budgets approved by the Directors of the Group.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

5 Intangible assets (Continued)

Key assumptions used in the value-in-use calculation for the year ended 31 December 2016 are as follows:

- Revenue growth of 10.5% in the year ending 31 December 2017 and with 2.0% annual growth assumed for the subsequent years;
- Pre-tax discount rate of 10.9% has been applied to the pre-tax cash flow projections; and
- The terminal value was estimated using the cash flows forecast at the fifth year with a perpetual growth rate of 2.0%

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

Based on the above, the Paint CGU has been impaired to their value-in-use and impairment loss on goodwill of \$1,580,000 has been recognised in other expenses in profit or loss.

In 2015, the recoverable amount of the goodwill was determined based on fair value less costs of disposal of Paint CGU which was derived from the recent purchase consideration. The fair value measurement was categorised as a Level 2 fair value based on the inputs in the valuation techniques used (see Note 3.4).

6 Subsidiaries

	Company	
	2016	2015
	\$'000	\$'000
Unquoted equity investments, at cost	6,899	6,899

Details of significant subsidiaries are as follows:

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Effective equity held by the Group	
			2016	2015
			%	%
Held by the Company				
Natural Cool Airconditioning & Engineering Pte Ltd	Trading and supplying airconditioners and parts including the manufacturing of air-conditioner ducts and the installation, repair and maintenance of air-conditioners	Singapore	100	100
Natural Cool Investments Pte. Ltd.	Investment holding company and holding of investment property	Singapore	100	100

KPMG LLP, Singapore is the auditor of all significant Singapore incorporated subsidiaries listed above.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

6 Subsidiaries (Continued)

Sources of estimation uncertainty

When a subsidiary is in net liability position and/or has suffered operating losses, the Company's management would undertake an impairment assessment to determine the estimated recoverable amount. This determination requires significant judgement. An estimate is made of the future profitability of the subsidiary, the financial health of and near-term business outlook for the subsidiary, including factors such as industry and sector performance, and operational and financing cash flows. The recoverable amount of the subsidiary could 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	
	2016	2015
	\$'000	\$'000
Available-for-sale financial assets:		
- Unquoted equity securities	3,750	3,750
Impairment loss	(3,750)	-
	-	3,750
Financial assets designated at fair value through profit or loss:		
- Zero-coupon convertible bonds	928	2,268
	<u>928</u>	<u>6,018</u>

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. Unconverted bonds will be redeemed and repayable by the issuer at the initial principal amount in August 2017. The bonds have been designated at fair value through profit or loss because the embedded derivative in the instrument is equity instrument whose fair value does not have a quoted market price and cannot be reliably measured.

The Group and Company's exposures to credit risks is disclosed in Note 18.

Sources of estimation uncertainty

When an investment has suffered operating losses and/or is operating in an industry which is facing challenging conditions, the Company's management would undertake an impairment assessment to determine the estimated recoverable amount. This determination requires significant judgement. An estimate is made of the future profitability of the investee, the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash flows. During the year, an impairment loss of \$3,750,000 was recognised in other expenses in profit or loss. The recoverable amount of the investment could change significantly as a result of changes in market conditions and the assumptions used in determining the recoverable amount. Recoverable amount is determined using fair value less costs to sell method.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

8 Inventories

		Group	
	Note	2016	2015
		\$'000	\$'000
Finished goods		11,503	13,216
Construction contracts-in-progress	9	208	1,434
		<u>11,711</u>	<u>14,650</u>

The cost of inventories recognised as an expense and included in the cost of sales of the Group amounting to \$77,703,000 (2015: \$67,201,000).

Sources of estimation uncertainty

Management reviews an ageing analysis at each reporting date, and makes allowance for obsolete and slow-moving inventory items that are identified as obsolete and slow-moving, if any. Management estimates the net realisable value for goods for resale based primarily on the latest selling prices and current market conditions. As at 31 December 2016, the inventories are stated after allowance for inventory obsolescence of \$35,000 (2015: \$413,000). Adjustments to the carrying amount of inventories may be made in future periods in the event that their carrying amounts may not be recoverable resulting from future loss events.

9 Construction contracts-in-progress

		Group	
	Note	2016	2015
		\$'000	\$'000
Contract costs incurred		102,980	76,203
Attributable profits		11,520	9,102
		<u>114,500</u>	<u>85,305</u>
Progress billings		(128,336)	(88,132)
		<u>(13,836)</u>	<u>(2,827)</u>
Comprising:			
Construction contracts-in-progress	8	208	1,433
Retention sum included in accrued revenue	10	6,073	4,483
Excess of progress billings over construction contracts-in-progress	16	(20,117)	(8,743)
		<u>(13,836)</u>	<u>(2,827)</u>

Advances for which the related work has not started, and billings in excess of costs incurred and recognised profits, are presented as excess of progress billings over construction contracts-in-progress (see Note 16).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

10 Trade and other receivables

	Group		Company	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Trade receivables – third parties	11,185	9,737	–	–
Amounts due from subsidiaries:				
- trade	–	–	1,751	742
- non-trade	–	–	9,635	6,348
Amounts due from related parties:				
- trade	–	86	–	–
- non-trade	–	28	–	–
Accrued discounts receivable	854	1,874	–	–
Deposits	455	6,880	–	–
Other receivables	450	129	11	43
	12,944	18,734	11,397	7,133
Impairment losses	(467)	(181)	–	–
Loans and receivables	12,477	18,553	11,397	7,133
Accrued revenue	6,368	5,538	–	–
Prepayments	582	186	37	55
	19,427	24,277	11,434	7,188

Outstanding balances due from subsidiaries and related parties are unsecured, interest-free and repayable on demand. There is no allowance for doubtful debts arising from the outstanding balances.

Accrued revenue for the Group includes retention sum relating to construction contracts-in-progress of \$6,073,000 (2015: \$4,483,000) and completed projects of \$3,000 (2015: \$281,000).

The Group and Company's exposures to credit and currency risks, and impairment losses related to loans and receivables are disclosed in Note 18.

Sources of estimation uncertainty

The Group evaluates whether there is any objective evidence that loans and receivables are impaired, and determines the amount of impairment losses as a result of the customer's inability to make the required payments. The Group determines the estimates based on the ageing of the loans and receivables balance, credit-worthiness and historical write-off experience. If, however, the financial conditions of the customers were to deteriorate, actual write-offs or additional allowance for impairment losses would be higher than estimated.

11 Cash and cash equivalents

	Group		Company	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Cash at bank and in hand	24,516	21,889	3,080	13,364
Fixed deposits	512	15,011	–	15,000
	25,028	36,900	3,080	28,364

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

12 Share capital

	Ordinary shares			
	2016		2015	
	'000	\$'000	'000	\$'000
Company				
In issue at 1 January	205,448	31,957	205,448	31,957
Exercise of convertible loan notes	18,000	2,700	-	-
Issued for cash	27,000	1,755	-	-
In issue at 31 December	250,448	36,412	205,448	31,957

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.

Issue of ordinary shares

In May 2016, 18,000,000 ordinary shares were issued as a result of the exercise of conversion option of the convertible loan notes. Option was exercised at a price of \$0.15 per share.

In November 2016, the general meeting of shareholders approved the issue of 27,000,000 ordinary shares at an exercise price of \$0.065 per share.

Dividends

The following exempt (one-tier) dividends were declared and paid by the Group and Company:

For the year ended 31 December

	Group and Company	
	2016	2015
	\$'000	\$'000
Paid by the Company to owners of the Company		
\$0.075 per qualifying ordinary share	16,758	-

13 Reserves

	Group		Company	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Capital reserve	(3,078)	(3,078)	300	300
Translation reserve	(398)	(367)	-	-
	(3,476)	(3,445)	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 foreign currency differences arising from the translation of the financial statements of foreign operations.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

14 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and liquidity risks, see Note 18.

	Group		Company	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Non-current liabilities				
<i>Unsecured</i>				
Term loans	574	765	-	-
<i>Secured</i>				
Bank loans	11,286	7,233	-	-
Finance lease liabilities	237	556	-	-
	11,523	7,789	-	-
Total non-current liabilities	12,097	8,554	-	-
Current liabilities				
<i>Unsecured</i>				
Convertible loan notes	-	2,700	-	2,700
Term loans	191	178	-	-
	191	2,878	-	2,700
<i>Secured</i>				
Bank loans	763	420	-	-
Term loan	-	5,000	-	-
Finance lease liabilities	46	175	-	-
	809	5,595	-	-
Total current liabilities	1,000	8,473	-	2,700
Total loans and borrowings	13,097	17,027	-	2,700

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

			2016		2015	
	Nominal interest rate per annum	Year of maturity	Face Value	Carrying amount	Face value	Carrying amount
	%		\$'000	\$'000	\$'000	\$'000
Group						
S\$ floating rate loans	From 0.25% to 3.00% above prime rate	2017-2035	12,049	12,049	12,653	12,653
S\$ fixed rate term loan	3.50%	2017-2019	765	765	943	943
Finance lease liabilities	1.88% - 4.25%	2017-2022	340	283	807	731
Convertible loan notes	5.00%	2016	-	-	2,700	2,700
Company						
Convertible loan notes	5.00%	2016	-	-	2,700	2,700

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

14 Loans and borrowings (Continued)

As at the reporting date, certain banking facilities are secured with the Group's leasehold properties with net carrying amount of \$17,054,000 (2015: \$17,603,000).

The Group's banking facilities are subject to the fulfilment of covenants relating to certain financial ratios, minimum paid-up capital of its subsidiaries and minimum level of net worth by the Group and its subsidiaries, as are commonly found in lending arrangements with financial institutions. If the Group and its subsidiaries were to breach the covenants, the drawn down facilities would become repayable on demand. The Group regularly monitors its compliance with these covenants. As at the reporting date, none of the covenants relating to drawn down facilities had been breached.

Convertible loan notes

	Group and Company	
	2016	2015
	\$'000	\$'000
At 1 January	2,700	3,450
Unwinding of discount	-	300
Redemption of convertible loan notes	(2,700)	(3,750)
Proceeds from issue of convertible loan notes	-	2,700
At 31 December	-	2,700

Finance lease liabilities

Finance lease liabilities are payable as follows:

	2016			2015		
	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
Group						
Within 1 year	68	22	46	191	16	175
Between 1 year and 5 years	272	35	237	612	60	552
More than 5 years	-	-	-	4	-	4
	340	57	283	807	76	731

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

15 Deferred tax assets and liabilities

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

Group	At 1/1/2015		Recognised in profit or loss for continuing operations (Note 23)		Recognised in profit or loss for continuing operations (Note 23)		At 31/12/2015		At 31/12/2016	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
			Other	Acquisition through business combination (Note 28)	Discontinued operation (Note 25)	Foreign currency translation difference		Restated		
Deferred tax assets										
Deferred revenue (Note 16(i))	(1,244)	-	221	-	-	-	(1,023)	-	221	(802)
Unutilised tax losses	(143)	-	-	-	260	(8)	-	-	-	-
Other items	(17)	-	-	-	2	1	-	-	-	-
	(1,404)	-	221	-	262	(7)	(1,023)	-	221	(802)
Deferred tax liabilities										
Property, plant and equipment	371	(47)	(2)	1,105	(22)	-	1,405	22	-	1,427

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

15 Deferred tax assets and liabilities (Continued)

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

	Assets		Liabilities	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
				Restated
Group				
Property, plant and equipment	-	-	1,427	1,405
Deferred revenue	(802)	(1,023)	-	-
Net deferred tax (assets)/ liabilities	(802)	(1,023)	1,427	1,405

Unrecognised deferred tax assets

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

	Group		Company	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Unabsorbed capital allowances	4	4	4	4
Unutilised tax losses	7,212	6,657	7,212	6,657
	7,216	6,661	7,216	6,661

The tax losses are subject to agreement by the tax authorities and compliance with tax regulations including satisfactory outcome over changes in shareholders and the shareholding test. The tax losses and unabsorbed capital allowances do not expire under current tax legislation. Deferred tax assets have not been recognised by the Group and the Company in respect of these items because it is uncertain that future taxable profits will be available against which the Group and the Company can utilise the benefits therefrom.

16 Trade and other payables

	Note	Group		Company	
		2016	2015	2016	2015
		\$'000	\$'000	\$'000	\$'000
Trade payables:					
- third parties		7,832	7,139	226	1,001
- subsidiaries		-	-	-	2
Bills payable		582	5,414	-	-
Excess of progress billings over construction contracts-in-progress	9	20,117	8,743	-	-
Deposits received		647	581	-	-
Deferred revenue	(i)	5,441	6,913	-	-
Accrued expenses	(ii)	1,726	8,600	292	4,375
Other payables	(ii)	461	672	-	88
		36,806	38,062	518	5,466

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

16 Trade and other payables (Continued)

- (i) Includes deferred revenue of \$4.7 million (2015: \$6.0 million) 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 \$802,000 (2015: \$1,023,000) in respect of the deferred revenue have been recognised.
- (ii) Includes unpaid invoices for acquisition of plant and equipment of \$51,000 (2015: \$755,000) and computer software of \$88,000 (2015: \$37,000).

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

The weighted average effective interest rate of bills payable of the Group at the end of the financial year is 2.65% (2015: 3.07%) per annum.

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

17 Provision

	Onerous contract \$'000
Group	
At 1 January 2016	–
Provision made	1,993
At 31 December 2016	<u>1,993</u>
Non-current	1,570
Current	<u>423</u>
	<u>1,993</u>

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 discounted future losses have been provided for as onerous contract.

Sources of estimation uncertainty

Determining the estimated rental income and future related property expenses involve making assumptions on increase in future rental income and expenses, and changes in occupancy rates. Any adverse changes in the assumptions could result in the revision of the provision.

18 Financial instruments

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

18 Financial instruments (Continued)

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.

The carrying amounts of financial assets in the statements of financial position represent the Group and the Company's respective maximum exposures 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 maximum exposure to credit risk at the reporting date was as follows:

	Note	Group		Company	
		2016	2015	2016	2015
		\$'000	\$'000	\$'000	\$'000
Other investments	7	928	6,018	928	6,018
Loans and receivables	10	12,477	18,553	11,397	7,133
Cash and cash equivalents	11	25,028	36,900	3,080	28,364
Recognised financial assets		38,433	61,471	15,405	41,515
Intra-group financial guarantees	30	-	-	13,396	21,710
		38,433	61,471	28,801	63,225

Intra-group financial guarantees

The Group's policy is to provide financial guarantees only to subsidiaries. The maximum exposure of the Company in respect of the intra-group financial guarantee at the reporting date is \$13,396,000 (2015: \$21,710,000). 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

18 Financial instruments (Continued)

Risk management framework (Continued)

(i) Credit risk (Continued)

Loans and receivables

Risk management policy

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk.

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.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of loans and receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Exposure to credit risk

The maximum exposure to credit risk for loans and receivables at the reporting date by type of counterparty was:

	2016 \$'000	2015 \$'000
Group		
Commercial	3,805	10,242
Retail	291	251
Trading	8,381	7,635
Others	-	425
	<u>12,477</u>	<u>18,553</u>
Company		
Commercial	11,397	7,095
Others	-	38
	<u>11,397</u>	<u>7,133</u>

The Group's most significant receivable accounted for approximately \$1,083,000 (2015: \$1,021,000) of the loans and receivables carrying amount as at 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

18 Financial instruments (Continued)

Risk management framework (Continued)

(i) Credit risk (Continued)

Loans and receivables (Continued)

Exposure to credit risk (Continued)

The ageing of loans and receivables at the reporting date was:

	Gross 2016 \$'000	Impairment losses 2016 \$'000	Gross 2015 \$'000	Impairment losses 2015 \$'000
Group				
Not past due	7,336	-	8,431	-
Past due 0 – 30 days	2,841	-	7,387	-
Past due 31 – 120 days	1,833	(138)	2,175	-
Past due 121 – 365 days	640	(126)	310	(51)
More than one year	294	(203)	431	(130)
	<u>12,944</u>	<u>(467)</u>	<u>18,734</u>	<u>(181)</u>
Company				
Not past due	9,513	-	6,723	-
Past due 0 – 30 days	97	-	64	-
Past due 31 – 120 days	192	-	115	-
Past due 121 – 365 days	857	-	231	-
More than one year	738	-	-	-
	<u>11,397</u>	<u>-</u>	<u>7,133</u>	<u>-</u>

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

	Group	
	2016 \$'000	2015 \$'000
At 1 January	181	1,154
Impairment loss recognised in profit or loss	288	362
Impairment loss utilised	(2)	(383)
Discontinued operation	-	(942)
Translation differences	-	(10)
At 31 December	<u>467</u>	<u>181</u>

Based on historic default rates, the Group believes that, apart from the above, no other significant impairment allowance is necessary. The loans and receivables are mainly from customers that have a good record with the Group.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

18 Financial instruments (Continued)

Risk management framework (Continued)

(i) Credit risk (Continued)

Loans and receivables (Continued)

Exposure to credit risk (Continued)

The allowance accounts in respect of loans and receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written-off against the financial assets directly. At 31 December 2016, the Group and the Company do not have any collective impairment on its loans and receivables (2015: nil).

Cash and cash equivalents

Cash and cash equivalents are held with banks and financial institutions which are regulated.

(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 \$4.0 million (2015: \$12.4 million) of uncommitted credit facilities that can be drawn down to meet short-term financing needs. The ability of the Group to renew these facilities is dependent on the Group complying with the various financial covenants, continued support from its bankers and the operation of the Group's key bankers not being adversely affected by economic uncertainties and unfavourable business developments.

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:

	Carrying amount	Contractual undiscounted cash flows			
		Total	Within 1 year	Within 2 to 5 years	More than 5 years
	\$'000	\$'000	\$'000	\$'000	\$'000
Group					
2016					
Non-derivative financial liabilities					
Variable interest rate loans	12,049	(15,987)	(1,036)	(6,647)	(8,304)
Fixed interest rate loans	765	(862)	(235)	(627)	-
Finance lease liabilities	283	(340)	(68)	(272)	-
Trade and other payables*	11,248	(11,248)	(11,248)	-	-
	<u>24,345</u>	<u>(28,437)</u>	<u>(12,587)</u>	<u>(7,546)</u>	<u>(8,304)</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

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	Within 2 to 5 years	More than 5 years
	\$'000	\$'000	\$'000	\$'000	\$'000
Group (Continued)					
2015					
Non-derivative financial liabilities					
Variable interest rate loans	12,653	(14,394)	(5,536)	(2,144)	(6,714)
Fixed interest rate loans	943	(1,097)	(235)	(862)	-
Convertible loan notes	2,700	(2,835)	(2,835)	-	-
Finance lease liabilities	731	(807)	(191)	(612)	(4)
Trade and other payables*	22,406	(22,406)	(22,406)	-	-
	<u>39,433</u>	<u>(41,539)</u>	<u>(31,203)</u>	<u>(3,618)</u>	<u>(6,718)</u>

* Exclude deferred revenue and excess of progress billings over construction contracts-in-progress

Company

2016

Non-derivative financial liabilities

Trade and other payables	518	(518)	(518)	-	-
Intra-group financial guarantees	-	(13,396)	(13,396)	-	-
	<u>518</u>	<u>(13,914)</u>	<u>(13,914)</u>	<u>-</u>	<u>-</u>

2015

Non-derivative financial liabilities

Convertible loan notes	2,700	(2,835)	(2,835)	-	-
Trade and other payables	5,466	(5,466)	(5,466)	-	-
Intra-group financial guarantees	-	(21,710)	(21,710)	-	-
	<u>8,166</u>	<u>(30,011)</u>	<u>(30,011)</u>	<u>-</u>	<u>-</u>

The maturity analysis shows the contractual undiscounted cash flows of the Group 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

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 exposures within acceptable parameters, while optimising the return.

The Group does not use derivatives to hedge its exposure in the fluctuations in foreign currencies and interest rates.

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') and United States dollar ('USD').

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:

	Group	
	2016	2015
	\$'000	\$'000
Fixed rate instruments		
Loans and borrowings	(1,048)	(4,374)
Bills payable	(582)	(5,414)
Fixed deposits	512	15,011
	<u>(1,118)</u>	<u>(5,223)</u>
Variable rate instruments		
Loans and borrowings	<u>(12,049)</u>	<u>(12,653)</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

18 Financial instruments (Continued)

Risk management framework (Continued)

(iii) Market risk (Continued)

Interest rate risk (Continued)

Sensitivity analysis for variable rate instruments

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

	2016		2015	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
	\$'000	\$'000	\$'000	\$'000
Group				
Profit before tax				
Variable rate instruments	(120)	120	(127)	127

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 profits/(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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

18 Financial instruments (Continued)

Accounting classifications and fair values

Fair values versus carrying amounts

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.

Group	Note	Carrying amount				Fair value				
		Designated at fair value	Loans and receivables	Available- for-sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
31 December 2016										
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	-	12,477	-	-	12,477	-	-	-	-
Cash and cash equivalents	11	-	25,028	-	-	25,028	-	-	-	-
		-	37,505	-	-	37,505	-	-	-	-
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	-	759	-	759
Finance lease liabilities	14	-	-	-	283	283	-	280	-	280
Trade and other payables*	16	-	-	-	11,248	11,248	-	-	-	-
		-	-	-	24,345	24,345	-	-	-	-
31 December 2015										
Financial assets measured at fair value										
Other investments:										
- Unquoted equity securities	7	-	-	3,750	-	3,750	-	-	3,750	3,750
- Zero-coupon convertible bonds	7	2,268	-	-	-	2,268	-	-	2,268	2,268
		2,268	-	3,750	-	6,018	-	-	-	-
Financial assets not measured at fair value										
Trade and other receivables	10	-	18,553	-	-	18,553	-	-	-	-
Cash and cash equivalents	11	-	36,900	-	-	36,900	-	-	-	-
		-	55,453	-	-	55,453	-	-	-	-
Financial liabilities not measured at fair value										
Variable interest rate loans	14	-	-	-	12,653	12,653	-	12,653	-	12,653
Fixed interest rate loans	14	-	-	-	943	943	-	945	-	945
Finance lease liabilities	14	-	-	-	731	731	-	784	-	784
Convertible loan notes	14	-	-	-	2,700	2,700	-	2,700	-	2,700
Trade and other payables*	16	-	-	-	22,406	22,406	-	-	-	-
		-	-	-	39,433	39,433	-	-	-	-

* Exclude deferred revenue and excess of progress billings over construction contracts-in-progress

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

18 Financial instruments (Continued)

Accounting classifications and fair values (Continued)

Company	Note	Carrying amount					Fair value			
		Designated at fair value \$'000	Loans and receivables \$'000	Available- for-sale \$'000	Other financial liabilities \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
31 December 2016										
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				
31 December 2015										
Financial assets measured at fair value										
Other investments:										
- Unquoted equity securities	7	-	-	3,750	-	3,750	-	-	3,750	3,750
- Zero-coupon convertible bonds	7	2,268	-	-	-	2,268	-	-	2,268	2,268
		2,268	-	3,750	-	6,018				
Financial assets not measured at fair value										
Trade and other receivables	10	-	7,133	-	-	7,133				
Cash and cash equivalents	11	-	28,364	-	-	28,364				
		-	35,497	-	-	35,497				
Financial liabilities not measured at fair value										
Convertible loan notes	14	-	-	-	2,700	2,700	-	2,700	-	2,700
Trade and other payables	16	-	-	-	5,466	5,466				
		-	-	-	8,166	8,166				

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

18 Financial instruments (Continued)

Accounting classifications and fair values (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 \$'000	Zero-coupon convertible bonds \$'000
Group and Company		
At 1 January 2015	3,750	2,148
Total unrealised gains recognised in profit or loss	-	120
At 31 December 2015	3,750	2,268
Total unrealised gains recognised in profit or loss	-	(1,340)
Impairment loss recognised in profit or loss	(3,750)	-
At 31 December 2016	-	928

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

19 Measurement of fair values (Continued)

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 fair value through profit or loss and available-for-sale investments 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

	Continuing operations		Discontinued operation (see Note 25)		Consolidated	
	2016	2015	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Group						
Sale of goods	73,332	64,631	-	45,350	73,332	109,981
Revenue from construction contracts	46,900	36,451	-	-	46,900	36,451
Revenue from services rendered	5,287	5,091	-	-	5,287	5,091
Rental income	3,451	2,805	-	-	3,451	2,805
	128,970	108,978	-	45,350	128,970	154,328

Sources of estimation uncertainty

Revenue and profit recognition on projects are dependent on estimating the eventual outcome of the construction contract, as well as work done to date. Actual outcome in terms of total costs or revenue may be higher or lower than estimated at the reporting date, which would affect the revenue and profit recognised in future years. As at the reporting date, management considered that all costs to complete and revenue can be reliably estimated.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

21 Other income

	Group	
	2016	2015
	\$'000	\$'000
Bad debts written back	-	5
Gain on disposal of property, plant and equipment	173	-
Government grants	439	269
Interest income	160	20
Maintenance service income	144	61
Rental income	16	66
Reversal of payables	453	-
Others	300	205
	<u>1,685</u>	<u>626</u>

22 Finance costs

	Group	
	2016	2015
	\$'000	\$'000
Interest expenses:		
- bank loans	496	442
- convertible loan notes	54	410
- finance leases	44	34
	<u>594</u>	<u>886</u>

23 Tax (credit)/expense

	Group	
	2016	2015
	\$'000	\$'000
Current tax (credit)/expense		
Current year	11	90
Overprovision in respect of prior years	(41)	(27)
	<u>(30)</u>	<u>63</u>
Deferred tax expense/(credit)		
Origination and reversal of temporary differences	90	(15)
Overprovision in respect of prior years	(68)	(32)
	<u>22</u>	<u>(47)</u>
Tax expense on continuing operations	<u>(8)</u>	<u>16</u>

In 2015, tax expense on continuing operations excludes the tax credit from discontinued operation of \$180,000, which has been included in "profit from discontinued operation, net of tax" in the income statement (see Note 25).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

23 Tax (credit)/expense (Continued)

	Group	
	2016	2015
	\$'000	\$'000
Reconciliation of effective tax rate		
Loss before tax	(11,238)	(3,501)
Tax using Singapore tax rate at 17% (2015: 17%)	(1,910)	(595)
Effect of different tax rates in other countries	(19)	(25)
Tax exempt income and tax incentives under Productivity and Innovation Credit scheme	(291)	(124)
Singapore statutory stepped income exemption	(23)	(38)
Non-deductible expenses	2,250	658
Effect of previously unrecognised tax losses	-	(13)
Under/(Over) provision in respect of prior years	(109)	(59)
Deferred tax assets not recognised	94	212
	(8)	16

24 (Loss)/Profit for the year

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

		Group	
	Note	2016	2015
		\$'000	\$'000
Amortisation of deferred revenue		(1,300)	(1,300)
Amortisation of intangible assets	5	86	668
Allowance for inventory obsolescence		43	439
Audit fees paid to:			
- auditors of the Company		230	217
- other auditors		7	7
Non-audit fees paid to auditors of the Company		26	24
Bad debts written-off		168	86
Depreciation of property, plant and equipment	4	1,633	2,837
Foreign exchange loss - net		33	1,040
Loss on disposal of property, plant and equipment		-	443
Operating lease expenses		5,844	4,516
Plant and equipment written-off		9	34
Staff costs		13,876	27,606
Contributions to defined contribution plans, included in staff costs		803	1,266
Included in other expenses are:			
Impairment loss on available-for-sale investment		3,750	-
Impairment loss on goodwill		1,580	-
Impairment loss on trade and other receivables		288	362
Impairment loss on plant and equipment		955	-
Net change in fair value of zero-coupon convertible bonds		1,340	(120)
Provision for onerous contract	17	1,993	-

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

25 Discontinued operation

On 30 November 2015, the Group sold its entire Switchgear segment.

	Group 2015 \$'000
Results of discontinued operation	
Revenue	45,350
Expenses	(51,059)
Results from operating activities	(5,709)
Tax credit	180
Results from operating activities, net of tax	(5,529)
Gain on sale of discontinued operation	15,517
Profit for the year	<u>9,988</u>
Basic and diluted earnings per share (cents)	<u>4.86</u>

Profit for the year from discontinued operation of \$9,988,000 was attributable entirely to the owners of the Company. Of the loss from continuing operations of \$3,517,000, an amount of \$3,493,000 was attributable to the owners of the Company.

	Group 2015 \$'000
Cash flows (used in)/from discontinued operation	
Net cash (used in) operating activities	(674)
Net cash (used in) investing activities	(830)
Net cash from financing activities	489
Net cash flows for the year	<u>(1,015)</u>

Effect of disposal on the financial position of the Group

	Note	2015 \$'000
Property, plant and equipment	4	(7,747)
Intangible assets	5	(8,727)
Other investment		(62)
Deferred tax assets	15	(262)
Inventories		(7,742)
Trade and other receivables		(19,297)
Cash and cash equivalents		(1,702)
Trade and other payables		22,400
Loans and borrowings		5,528
Deferred tax liabilities	15	22
Non-controlling interests		194
Foreign currency translation reserve		(636)
Net assets and liabilities		<u>(18,031)</u>
Consideration received, satisfied in cash		33,548
Cash and cash equivalents disposed of		(1,702)
Net cash inflow		<u>31,846</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

26 (Loss)/Earnings per share

Basic and diluted (loss)/earnings per share

The calculation of basic and diluted (loss)/earnings per share was based on weighted average number of ordinary shares outstanding of 219,120,000 (2015: 205,448,000), calculated as follows:

Profit attributable to ordinary shareholders

	2016			2015		
	Continuing operations	Discontinued operation	Total	Continuing operations	Discontinued operation	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Group						
Net (loss)/profit attributable to ordinary shareholders	(11,194)	-	(11,194)	(3,493)	9,988	6,495

Weighted-average number of ordinary shares

	Note	2016 '000	2015 '000
Group			
Issued ordinary shares at 1 January	12	205,448	205,448
Effect of convertible loan option exercised		10,869	-
Effect of shares issued in November 2016		2,803	-
Weighted-average number of ordinary shares during the year		219,120	205,448

In 2015, 18,000,000 options are excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

The Company does not have any dilutive potential ordinary shares in existence for the current year.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

27 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 Executive Directors ('GED') review internal management reports on at least a quarterly basis. The following summary describes the operations in each Group's reportable segments:

Air-conditioning (Aircon)	:	trading of air-conditioners, air-condition components, systems and units, air-condition installation, servicing and re-conditioning.
Investment	:	properties investment holding.
Paint	:	manufacturing and distribution of paints and chemicals.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

27 Operating segments (Continued)

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 GED. 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.

Information about reportable segments

	Aircon \$'000	Switchgear (Discontinued) \$'000	Investment \$'000	Paint \$'000	Total \$'000
Revenue and expenses					
2016					
Total revenue from external customers	121,521	-	3,911	3,538	128,970
Inter-segment revenue	32	-	548	3	583
Total revenue of reportable segments	121,553	-	4,459	3,541	129,553
Finance income	23	-	-	11	34
Finance costs	327	-	-	213	540
Depreciation and amortisation	897	-	418	381	1,696
Reportable segment profit/(loss) before tax	2,271	-	(4,658)	(2,542)	(4,929)
Other material non-cash items:					
- Allowance for inventory obsolescence	43	-	-	-	43
- Amortisation of deferred revenue	-	-	(1,300)	-	(1,300)
- Bad debts written-off	148	-	20	-	168
- Impairment loss on goodwill	-	-	-	1,580	1,580
- Impairment loss on trade and other receivables - net	107	-	97	84	288
- Impairment loss on plant and equipment	-	-	687	268	955
- Provision for onerous contract	-	-	1,993	-	1,993
Reportable segment assets	58,687	-	10,283	9,813	78,783
Capital expenditure	748	-	344	1,138	2,230
Reportable segment liabilities	38,298	-	16,044	7,246	61,588
Revenue and expenses					
2015 (Restated)					
External revenue	104,445	45,350	3,323	1,210	154,328
Inter-segment revenue	60	110	1,094	-	1,264
Total revenue of reportable segments	104,505	45,460	4,417	1,210	155,592
Finance income	13	5	2	-	20
Finance costs	412	519	42	21	994
Depreciation and amortisation	1,246	1,881	355	15	3,497
Reportable segment profit/(loss) before tax	1,020	9,808	(1,891)	192	9,129
Other material non-cash items:					
- Allowance for inventory obsolescence	413	26	-	-	439
- Amortisation of deferred revenue	-	-	(1,300)	-	(1,300)
- Bad debts written-off	36	16	34	-	86
- Loss on disposal of property, plant and equipment	443	-	-	-	443
- Impairment loss on trade and other receivables - net	120	242	-	-	362
Reportable segment assets	53,308	-	11,418	8,986	73,712
Capital expenditure	929	2,341	431	225	3,926
Reportable segment liabilities	35,269	-	17,639	2,473	55,381

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

27 Operating segments (Continued)

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

	2016 \$'000	2015 \$'000 Restated
Revenue		
Total revenue for reportable segments	129,553	155,592
Elimination of inter-segment revenue	(583)	(1,264)
Elimination of discontinued operation	-	(45,350)
Consolidated revenue	128,970	108,978
Profit or loss before tax		
Total (loss)/profit before tax for reportable segments	(4,929)	9,129
Other losses	(6,309)	(2,823)
	(11,238)	6,306
Elimination of discontinued operation	-	(9,807)
Consolidated loss before tax	(11,238)	(3,501)
Assets		
Total assets for reportable segments	78,783	73,712
Other assets	4,029	35,328
Elimination of inter-segment assets	(2,714)	(1,934)
Consolidated total assets	80,098	107,106
Liabilities		
Total liabilities for reportable segments	61,588	55,381
Other liabilities	523	6,936
Elimination of inter-segment liabilities	(7,973)	(4,709)
Consolidated total liabilities	54,138	57,608

Other material items

	Reportable segment totals \$'000	Adjustments \$'000	Consolidated totals \$'000
2016			
Finance income	34	126	160
Finance costs	540	54	594
Depreciation and amortisation	1,696	23	1,719
Allowance for inventory obsolescence	43	-	43
Amortisation of deferred revenue	(1,300)	-	(1,300)
Bad debts written-off	168	-	168
Impairment loss on goodwill	1,580	-	1,580
Impairment loss on trade and other receivables - net	288	-	288
Impairment loss on plant and equipment	955	-	955
Provision for onerous contract	1,993	-	1,993
Capital expenditure	2,230	18	2,248

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

27 Operating segments (Continued)

Other material items (Continued)

	Reportable segment totals	Adjustments	Consolidated totals
	\$'000	\$'000	\$'000
2015 (Restated)			
Finance income	20	5	25
Finance costs	994	411	1,405
Depreciation and amortisation	3,497	8	3,505
Allowance for inventory obsolescence	439	–	439
Amortisation of deferred revenue	(1,300)	–	(1,300)
Bad debts written-off	86	–	86
Loss on disposal of property, plant and equipment	443	–	443
Impairment loss on trade and other receivables - net	362	–	362
Capital expenditure	3,926	6,051	9,977

Geographical information

Geographical segments are analysed by three principal geographical areas: Singapore, Malaysia and other countries.

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

	Revenue	Non-current assets*
	\$'000	\$'000
31 December 2016		
Singapore	127,718	23,023
Malaysia	1,252	107
	<u>128,970</u>	<u>23,130</u>
31 December 2015 (Restated)		
Singapore	149,544	30,256
Malaysia	3,886	–
Other countries**	898	–
Switchgear (discontinued)	(45,350)	–
	<u>108,978</u>	<u>30,256</u>

* Non-current assets consist of property, plant and equipment, intangible assets and other investments.

** Other countries include Sri Lanka, Hong Kong, Thailand, Vietnam, Indonesia, India, etc.

Major customer

Revenue from one customer of the Group's Aircon segment represents approximately \$18,930,000 (2015: \$4,212,000) of the Group's total revenue.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

28 Acquisition of subsidiary

On 1 September 2015, the Group completed its acquisition of 100% equity interest in Loh & Sons Paints Co (S) Pte Ltd ('L&S'), obtaining control of L&S.

In the four months to 31 December 2015, L&S contributed revenue of \$1,210,000 and profit after tax of \$106,000 to the Group's results. If the acquisition had occurred on 1 January 2015, management estimates that consolidated revenue would have been \$111,510,000 and consolidated loss from continuing operations for the year would have been \$2,850,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2015.

Following the completion of the final purchase price allocation during the financial year, the Group made adjustments to the provisional fair value originally recorded in the prior year. Accordingly, the comparatives are restated. There is no impact on (loss)/earnings per share.

The effect of the adjustments made during the 12-month period from acquisition date (the 'Window Period') is set out below:

	Note	Fair values recognised on acquisition \$'000	Adjustments during Window Period \$'000	Total \$'000
Property, plant and equipment	4	6,024	-	6,024
Inventories		317	-	317
Deferred tax liabilities	15	-	(1,105)	(1,105)
Total identifiable net assets		6,341	(1,105)	5,236
Intangible assets				
- Goodwill	5	976	604	1,580
- Customer relationships	5	-	118	118
- Trademark	5	-	383	383
Total		976	1,105	2,081
Acquisition of subsidiary, net of cash acquired		7,317	-	7,317

The Group incurred acquisition related costs of \$258,000 on legal fees and due diligence costs in 2015. These costs have been included in 'administrative expenses'.

In 2016, the Group acquired 75% equity interests in Natural Cool Distribution (JB) Sdn. Bhd., through its wholly owned subsidiary Natural Cool Airconditioning & Engineering Pte Ltd, for cash consideration of \$103,000 and recorded a goodwill of \$27,000. As the impact on the Group is not significant, no further disclosure has been made.

Measurement of fair values

The valuation technique used for measuring the fair value of material assets acquired was as follow:

Asset acquired	Valuation technique
Property, plant and equipment	<i>Market comparison technique and cost technique:</i> The valuation model considers quoted market prices for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

29 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2016	2015
	\$'000	\$'000
Within one year	5,998	5,793
Between one and five years	15,184	20,392
	21,182	26,185

The Group leases a number of office space, hostel facilities and warehouse under operating leases. The leases typically run for a period of 1 to 10 years, with an option to renew the lease after that date. Lease payments are usually increased upon renewal to reflect market rentals. There is no contingent rental.

Leases as lessor

The Group's leased properties are subleased to external customers. The lease contain an initial non-cancellable period of 1 year to 3 years. Subsequent renewals are negotiated with the lessees at market rates. None of the leases include contingent rentals.

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

	Group	
	2016	2015
	\$'000	\$'000
Within one year	2,640	3,196
Between one and five years	2,054	1,206
	4,694	4,402

30 Contingencies

	Group		Company	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Corporate guarantees				
Banking facilities for subsidiaries	-	-	13,396	21,710

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.

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 subsidiary to which the guarantee was given for the benefit of.

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

30 Contingencies (Continued)

The intra-group financial guarantee is 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 at the reporting 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 2016, the net current liabilities of these subsidiaries amounted to approximately \$6,423,000 (2015: \$4,072,000).

31 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 staff of the Group and the Company are considered as key management personnel.

Key management personnel compensation, included in staff costs comprised:

	Group	
	2016	2015
	\$'000	\$'000
Short-term employee benefits	3,513	8,130
Post-employment benefits	87	133
	<u>3,600</u>	<u>8,263</u>

Included in key management personnel compensation is Directors' remuneration of the Company of \$2,333,000 (2015: \$4,897,000).

Key management personnel and Director transactions

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

A number of these entities transacted with the Group during the year. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

From time to time, Directors of the Group, or their related entities, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

31 Related parties (Continued)

Other related party transactions

	Group	
	2016	2015
	\$'000	\$'000
Related parties		
Sale of goods	(275)	(241)
Purchase of goods	-	597

32 Internal investigation involving the Paint Segment

In February 2017, the Board formed an internal investigation committee to review the alleged irregular transactions and activities entered into and conducted by certain subsidiaries in the Paint segment. These transactions and activities relate mainly to companies set up by employees (including persons that may be connected to the Company's former Directors) to operate a competing business using the assets and resources of these subsidiaries, and the incurrence and payment of unsupported expenses.

As at the date of this report, the investigation is still in progress. Accordingly, the Board is unable to quantify the actual financial impact, if any, on the Group's results for the financial year ended 31 December 2016.

33 Subsequent event

Claim by an ex-employee

In March 2017, the Company has received a claim from a former employee who is seeking damages in the sum of approximately \$2.5 million against the Company for alleged wrongful termination of his service agreement with the Company in February 2017. No legal proceedings have been commenced against the Company. The Company is of the opinion that there are no merits to the claim and is seeking formal legal advice to deny and challenge the demand made.

CORPORATE GOVERNANCE REPORT

DISCLOSURE TABLE FOR ANNUAL REPORT IN COMPLIANCE TO THE CODE OF CORPORATE GOVERNANCE 2012 AND CATALIST RULES

The Board of Directors (the "Board") of Natural Cool Holdings Limited (the "Company" and together with its subsidiaries, the "Group") is 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 2016 ("FY2016"), with specific reference made to the principles of the Code of Corporate Governance 2012 (the "Code") and the disclosure guide developed by the Singapore Exchange Securities Trading Limited (the "SGX-ST") in January 2015 (the "Guide").

Guideline	Code and/or Guide Description	Company's Compliance or Explanation
General	<p>(a) Has the Company complied with all the principles and guidelines of the Code?</p> <p>If not, please state the specific deviations and alternative corporate governance practices adopted by the Company in lieu of the recommendations in the Code.</p> <p>(b) In what respect do these alternative corporate governance practices achieve the objectives of the principles and conform to the guidelines of the Code?</p>	<p>The Company has complied with the principles and guidelines as set out in the Code and the Guide, where applicable.</p> <p>Appropriate explanations have been provided in the relevant sections below where there are deviations from the Code and/or the Guide.</p> <p>The alternative corporate governance practices which the Company have adopted in relation to board composition and remuneration are more suited to the Group's current size of operations and nature of business and take into account business competition (in particular, for key talent). Further details are provided in the relevant sections below.</p>

CORPORATE GOVERNANCE REPORT

Guideline	Code and/or Guide Description	Company's Compliance or Explanation																																
BOARD MATTERS																																		
The Board's Conduct of Affairs																																		
1.1	What is the role of the Board?	<p>During FY2016, the Board comprises the following members:</p> <table><tr><th colspan="2">Table 1.1 – Composition of the Board for FY2016</th></tr><tr><th>Name of Director</th><th>Designation</th></tr><tr><td>1 Joseph Ang Choon Cheng ⁽²⁾</td><td>Executive Chairman</td></tr><tr><td>2 Tsng Joo Peng</td><td>Executive Director and Chief Executive Officer</td></tr><tr><td>3 Eric Ang Choon Beng ⁽²⁾</td><td>Executive Director</td></tr><tr><td>4 Lim Siang Kai ⁽²⁾</td><td>Lead Independent Director</td></tr><tr><td>5 Wu Chiaw Ching ⁽²⁾</td><td>Independent Director</td></tr><tr><td>6 William Da Silva ⁽²⁾</td><td>Independent Director</td></tr><tr><td>7 Choy Bing Choong ⁽¹⁾</td><td>Executive Director and Chief Investment Officer</td></tr></table> <p>Notes:-</p> <p>(1) Mr Choy Bing Choong resigned as Executive Director on 20 October 2016 and was terminated as Chief Investment Officer of the Company with effect from 23 April 2017.</p> <p>(2) Messrs Joseph Ang Choon Cheng, Eric Ang Choon Beng, Lim Siang Kai, Wu Chiaw Ching and William Da Silva were removed by shareholders via ordinary resolutions passed at an Extraordinary General Meeting ("EGM") held on 8 February 2017 (the "Removal of Directors"). Mr Tsng Joo Peng remains as Director of the Company following the Removal of Directors. Please see following table for the reconstituted Board.</p> <table><tr><th colspan="2">Composition of the new Board with effect from 8 February 2017</th></tr><tr><th>Name of Director</th><th>Designation</th></tr><tr><td>1 Goh Teck Sia ⁽¹⁾</td><td>Independent Non-Executive Chairman</td></tr><tr><td>2 Tsng Joo Peng</td><td>Executive Director and Chief Executive Officer</td></tr><tr><td>3 Wong Leon Keat ⁽¹⁾⁽²⁾</td><td>Executive Director and Chief Corporate Officer</td></tr><tr><td>4 Lau Lee Hua ⁽¹⁾</td><td>Independent Director</td></tr><tr><td>5 Ronnie Tan Siew Bin ⁽¹⁾</td><td>Independent Director</td></tr></table> <p>Note:-</p> <p>(1) Messrs Goh Teck Sia, Wong Leon Keat, Ronnie Tan Siew Bin and Ms Lau Lee Hua were appointed by shareholders at an EGM held on 8 February 2017.</p> <p>(2) Mr Wong Leon Keat was appointed as appointed chief corporate officer with effect from 20 March 2017.</p>	Table 1.1 – Composition of the Board for FY2016		Name of Director	Designation	1 Joseph Ang Choon Cheng ⁽²⁾	Executive Chairman	2 Tsng Joo Peng	Executive Director and Chief Executive Officer	3 Eric Ang Choon Beng ⁽²⁾	Executive Director	4 Lim Siang Kai ⁽²⁾	Lead Independent Director	5 Wu Chiaw Ching ⁽²⁾	Independent Director	6 William Da Silva ⁽²⁾	Independent Director	7 Choy Bing Choong ⁽¹⁾	Executive Director and Chief Investment Officer	Composition of the new Board with effect from 8 February 2017		Name of Director	Designation	1 Goh Teck Sia ⁽¹⁾	Independent Non-Executive Chairman	2 Tsng Joo Peng	Executive Director and Chief Executive Officer	3 Wong Leon Keat ⁽¹⁾⁽²⁾	Executive Director and Chief Corporate Officer	4 Lau Lee Hua ⁽¹⁾	Independent Director	5 Ronnie Tan Siew Bin ⁽¹⁾	Independent Director
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5 Ronnie Tan Siew Bin ⁽¹⁾	Independent Director																																	

CORPORATE GOVERNANCE REPORT

Guideline	Code and/or Guide Description	Company's Compliance or Explanation																
		<p>As at the date of this Report, the Board comprises 5 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:</p> <ul style="list-style-type: none">● protect and enhance long-term shareholder value;● review management performance;● identify key stakeholder groups and recognise that their perceptions affect the company's reputation;● set the company's values and standards, and ensure that obligations to shareholders and other stakeholders are understood and met;● develops the overall strategy for the Group and supervises its management; and● providing leadership, developing its strategic direction, establishing risk policy and goals for the management as well as monitoring the achievement of these goals.																
1.3	Has the Board delegated certain responsibilities to committees? If yes, please provide details.	<p>The Board has delegated certain responsibilities to the Audit Committee (the "AC"), the Remuneration Committee (the "RC"), the Nominating Committee (the "NC") (collectively, the "Board Committees"). With the appointment of the new Board, the various Board Committees have been reconstituted as follows:</p> <table><tr><th></th><th>AC</th><th>NC</th><th>RC</th></tr><tr><td>Chairman</td><td>Lau Lee Hua</td><td>Ronnie Tan Siew Bin</td><td>Goh Teck Sia</td></tr><tr><td>Member</td><td>Goh Teck Sia</td><td>Goh Teck Sia</td><td>Lau Lee Hua</td></tr><tr><td>Member</td><td>Ronnie Tan Siew Bin</td><td>Lau Lee Hua</td><td>Ronnie Tan Siew Bin</td></tr></table>		AC	NC	RC	Chairman	Lau Lee Hua	Ronnie Tan Siew Bin	Goh Teck Sia	Member	Goh Teck Sia	Goh Teck Sia	Lau Lee Hua	Member	Ronnie Tan Siew Bin	Lau Lee Hua	Ronnie Tan Siew Bin
	AC	NC	RC															
Chairman	Lau Lee Hua	Ronnie Tan Siew Bin	Goh Teck Sia															
Member	Goh Teck Sia	Goh Teck Sia	Lau Lee Hua															
Member	Ronnie Tan Siew Bin	Lau Lee Hua	Ronnie Tan Siew Bin															

CORPORATE GOVERNANCE REPORT

Guideline	Code and/or Guide Description	Company's Compliance or Explanation																																																																																																				
1.4	Have the Board and Board Committees met in the last financial year?	<p>The Board meets on a half yearly basis, and as and when circumstances require. In FY2016, the number of the Board and Board Committee meetings held and the attendance of each Board member are shown below</p> <table><tr><th colspan="5">Table 1.4(a) - Board and Board Committee Meetings in FY2016</th></tr><tr><th></th><th>Board</th><th>AC</th><th>NC</th><th>RC</th></tr><tr><td>Number of Meetings Held</td><td>4</td><td>2</td><td>1</td><td>2</td></tr><tr><th>Name of Director</th><th colspan="4">Number of Meetings Attended</th></tr><tr><td>Joseph Ang Choon Cheng ⁽²⁾</td><td>4</td><td>2*</td><td>1*</td><td>2*</td></tr><tr><td>Eric Ang Choon Beng ⁽²⁾</td><td>4</td><td>2*</td><td>1*</td><td>2*</td></tr><tr><td>Tsng Joo Peng</td><td>4</td><td>2*</td><td>1*</td><td>2*</td></tr><tr><td>Lim Siang Kai ⁽²⁾</td><td>4</td><td>2</td><td>1</td><td>2</td></tr><tr><td>Wu Chiaw Ching ⁽²⁾</td><td>4</td><td>2</td><td>1</td><td>2</td></tr><tr><td>William Da Silva ⁽²⁾</td><td>4</td><td>2</td><td>1</td><td>2</td></tr><tr><td>Choy Bing Choong ⁽¹⁾</td><td>4</td><td>2*</td><td>1*</td><td>2*</td></tr></table> <p>Subsequent to the reconstitution of the Board and Board Committee on 8 February 2017, the number of the Board and Board Committee Meetings held and the attendance of each new Board member are as follows:</p> <table><tr><th colspan="5">Table 1.4(b) - Board and Board Committee Meetings held subsequent to 8 February 2017</th></tr><tr><th></th><th>Board</th><th>AC</th><th>NC</th><th>RC</th></tr><tr><td>Number of Meetings Held</td><td>1</td><td>1</td><td>1</td><td>1</td></tr><tr><th>Name of Director</th><th colspan="4">Number of Meetings Attended</th></tr><tr><td>Goh Teck Sia ⁽³⁾</td><td>0</td><td>0</td><td>0</td><td>0</td></tr><tr><td>Wong Leon Keat ⁽³⁾</td><td>1</td><td>1*</td><td>1*</td><td>1*</td></tr><tr><td>Tsng Joo Peng</td><td>1</td><td>1*</td><td>1*</td><td>1*</td></tr><tr><td>Lau Lee Hua ⁽³⁾</td><td>1</td><td>1</td><td>1</td><td>1</td></tr><tr><td>Ronnie Tan Siew Bin ⁽³⁾</td><td>1</td><td>1</td><td>1</td><td>1</td></tr></table> <p>Note: * By Invitation (1) Resigned with effect from 20 October 2016 (2) Removed with effect from 8 February 2016 (3) Appointed with effect from 8 February 2016</p>	Table 1.4(a) - Board and Board Committee Meetings in FY2016						Board	AC	NC	RC	Number of Meetings Held	4	2	1	2	Name of Director	Number of Meetings Attended				Joseph Ang Choon Cheng ⁽²⁾	4	2*	1*	2*	Eric Ang Choon Beng ⁽²⁾	4	2*	1*	2*	Tsng Joo Peng	4	2*	1*	2*	Lim Siang Kai ⁽²⁾	4	2	1	2	Wu Chiaw Ching ⁽²⁾	4	2	1	2	William Da Silva ⁽²⁾	4	2	1	2	Choy Bing Choong ⁽¹⁾	4	2*	1*	2*	Table 1.4(b) - Board and Board Committee Meetings held subsequent to 8 February 2017						Board	AC	NC	RC	Number of Meetings Held	1	1	1	1	Name of Director	Number of Meetings Attended				Goh Teck Sia ⁽³⁾	0	0	0	0	Wong Leon Keat ⁽³⁾	1	1*	1*	1*	Tsng Joo Peng	1	1*	1*	1*	Lau Lee Hua ⁽³⁾	1	1	1	1	Ronnie Tan Siew Bin ⁽³⁾	1	1	1	1
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1.5	What are the types of material transactions which require approval from the Board?	<p>The Company's Constitution allow for meetings to be held through audio visual communication equipment. When 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 to the Company's Constitution.</p> <p>Specifically, matters that require the Board's approval include, amongst others, the following:</p> <ul style="list-style-type: none"> • 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 issues 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, etc; • approval of resolutions and corresponding documentation to be put forward to shareholders at a general meeting including approval of all circulars, prospectuses, etc; • 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, corporate social responsibility policy, etc; 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.
1.6	(a) Are new Directors given formal training? If not, please explain why.	<p>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.</p>

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	(b) What are the types of information and training provided to (i) new Directors and (ii) existing Directors to keep them up-to-date?	<p>Briefings, updates and trainings for the Directors in FY2016 include:</p> <ul style="list-style-type: none"> • The External Auditors ("EA") had briefed the AC on changes or amendments to accounting standards during AC meetings; • The Company Secretary had briefed the Board on new releases issued by the SGX-ST and the Accounting and Corporate Regulatory Authority that are relevant to the Board; • The Chief Executive Officer ("CEO") updates the Board at each board meeting on business and strategic developments of the Group; and • Messrs Goh Teck Sia, Wong Leon Keat and some key management staffs had attended a training session on 21 March 2017 conducted by TMF Singapore H Pte. Ltd. in relation to the Compliance Framework by Listed Company covering the following items: <ul style="list-style-type: none"> (i) Companies Act - Directors' duties (ii) Securities & Futures Act, Cap. 289 - Disclosure of interest (iii) Code on Takeovers and Mergers (iv) Code of Corporate Governance 2012 (v) Catalyst Rules - Chapters 7, 8, 9, 10 & 12
Board Composition and Guidance 2.1 2.2 3.3	Does the Company comply with the guideline on the proportion of Independent Directors on the Board? If not, please state the reasons for the deviation and the remedial action taken by the Company.	<p>Guideline 2.1 of the Code is met as the Independent Directors make up 3/5 of the Board.</p> <p>The Board believes there is a strong element of independence in the Board, 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.</p>

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2.3 4.3	<p>Has the independence of the Independent Directors been reviewed in the last financial year?</p> <p>(a) Is there any Director who is deemed to be independent by the Board, notwithstanding the existence of a relationship as stated in the Code that would otherwise deem him not to be independent? If so, please identify the Director and specify the nature of such relationship.</p> <p>(b) What are the Board's reasons for considering him independent? Please provide a detailed explanation.</p>	<p>The NC has reviewed and confirmed the independence of the Independent Directors in accordance with the Code. The Independent Directors have also confirmed their independence in accordance with the Code.</p> <p>Mr Goh Teck Sia, the Independent Non-Executive Chairman of the Company, had been appointed as an advisor to the Company on 20 March 2017, with specific and ad-hoc responsibilities to advise the Company on, inter alia, law enforcement by the Audit Committee amongst other things, the internal investigation review commissioned by the Audit Committee which is currently still on-going, and other commercial security matters of the Group. Mr Goh has confirmed that his appointment as an advisor to the Company will not prejudice his independency as an Independent Director of the Company and he has also confirmed that he remains independent in accordance with Guideline 2.3 of the Code.</p> <p>The Board (with the exception of Mr Goh) have taken into consideration the recommendation from the Nominating Committee and had considered Mr Goh to be independent mainly due to amongst other things, the ad-hoc nature of Mr Goh's responsibilities, the specific skills and knowledge that Mr Goh possesses, the terms of his appointment and the principles enshrined in Guideline 2.3(d) of the Code.</p>
2.4	Has any Independent Director served on the Board for more than nine years since the date of his first appointment? If so, please identify the Director and set out the Board's reasons for considering him independent.	There are no Independent Director that had served on the Board for more than nine years.

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2.5	What are the steps taken by the Board to progressively renew the Board composition?	<p>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.</p> <p>The Board would conduct regular reviews on its existing competencies which includes considering factors such as the expertise, skills and perspectives so as to ensure that the Board dynamics remain optimal to meet changing challenges in the Industry and in countries such as Singapore and Malaysia which the Group operates in.</p>																											
2.6	<p>(a) What is the Board's policy with regard to diversity in identifying Director nominees?</p> <p>(b) Please state whether the current composition of the Board provides diversity on each of the following – skills, experience, gender and knowledge of the Company, and elaborate with numerical data where appropriate.</p> <p>(c) What steps have the Board taken to achieve the balance and diversity necessary to maximise its effectiveness?</p>	<p>The Board's policy in identifying Director nominees is primarily to have an appropriate mix of members with complementary skills, core competencies and experience for the Group, regardless of gender.</p> <p>The current Board composition provides a diversity of skills, experience and knowledge to the Company as follows:</p> <table> <tr> <th colspan="3">Table 2.6 – Balance and Diversity of the Board</th></tr> <tr> <th></th><th>Number of Directors</th><th>Proportion of Board (%)</th></tr> <tr> <td>Core Competencies</td><td></td><td></td></tr> <tr> <td>- Accounting or finance</td><td>2</td><td>40</td></tr> <tr> <td>- Business management</td><td>5</td><td>100</td></tr> <tr> <td>- Legal or corporate governance</td><td>3</td><td>60</td></tr> <tr> <td>- Relevant industry knowledge or experience</td><td>1</td><td>20</td></tr> <tr> <td>- Strategic planning experience</td><td>5</td><td>100</td></tr> <tr> <td>- Customer based experience or knowledge</td><td>2</td><td>40</td></tr> </table> <p>The Board has taken the following steps to maintain or enhance its balance and diversity:</p> <ul style="list-style-type: none"> Annual review by the NC to assess if the existing attributes and core competencies of the Board are complementary and enhance the efficacy of the Board; and Annual evaluation by the Directors of the skill sets the other Directors possess, with a view to understand the range of expertise which is lacking by the Board. <p>The NC will consider the results of these exercises in its recommendation for the appointment of new Directors and/or the re-appointment of incumbent Directors.</p>	Table 2.6 – Balance and Diversity of the Board				Number of Directors	Proportion of Board (%)	Core Competencies			- Accounting or finance	2	40	- Business management	5	100	- Legal or corporate governance	3	60	- Relevant industry knowledge or experience	1	20	- Strategic planning experience	5	100	- Customer based experience or knowledge	2	40
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2.8	Have the Non-Executive Directors/Independent Directors met in the absence of key management personnel in the last financial year?	The Independent Directors who were newly appointed on 8 February 2017 have met up informally in the absence of key management personnel.
<u>Chairman and Chief Executive Officer</u>		
3.1	Are the duties between Chairman and CEO segregated?	<p>The roles of the Non-Executive Chairman and CEO are separate to ensure a clear division of their responsibilities, increased accountability and greater capacity of the Board for independent decision making.</p> <p>The 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 Non-Executive Chairman sets the meeting agenda and ensures that Directors are provided with complete, adequate and timely information. Board papers are sent to Directors at least three days in advance in order for Directors to be adequately prepared for the meeting. The 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 in such relationship and in discussion at meetings. Management staffs who have prepared the papers or who can provide additional insight into the matters to be discussed are invited to carry out presentations or attend the Board meeting at the relevant time. The Non-Executive Chairman also facilitates the effective contribution of Non-Executive Directors and promotes high standards of corporate governance.</p> <p>The CEO works with the Board to determine the strategy for the Group and is responsible for the Group's business performance. The CEO also works with the management of the Group to ensure that the Group operates in accordance with its strategic and operational objectives.</p>
3.4	Have the Independent Directors met in the absence of other Directors?	The Independent Directors who were newly appointed on 8 February 2017 have met once in the absence of other Directors.

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Guideline	Code and/or Guide Description	Company's Compliance or Explanation
<u>Board Membership</u>		
4.1	What are the duties of the NC?	<p>The NC is guided by key terms of reference as follows:</p> <ul style="list-style-type: none"> (a) evaluate and review nominations for appointment and re-appointment to the Board and the various committees; (b) nominate a Director for re-election at the Annual General Meeting ("AGM"), having regard to the Director's contribution and performance; (c) to determine annually whether or not a Director is independent as set out in the guidelines of the Code; (d) recommend to the Board the process for the evaluation of 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, 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 duties as 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. <p>The NC holds at least one (1) meeting in each financial year.</p>
4.4	(a) What is the maximum number of listed company board representations that the Company has prescribed for its Directors? What are the reasons for this number?	<p>The Board has not capped the maximum number of listed company board representations each Director may hold.</p>

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	<p>(b) If a maximum has not been determined, what are the reasons?</p> <p>(c) What are the specific considerations in deciding on the capacity of Directors?</p>	<p>The NC is of the view that all the Directors are able to devote to the Company's affairs in light of their other commitments. However, a Director who holds more than six listed company 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 is able to and has been adequately carrying his duties as a Director of the Company.</p> <p>The considerations in assessing the capacity of Directors include the following:</p> <ul style="list-style-type: none"> • 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. <p>The measures and evaluation tools in place to assess the performance and consider competing time commitments of the Directors include the following:</p> <ul style="list-style-type: none"> • Declarations by individual Directors of their other listed company board directorships and principal commitments; • 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 set out in Section 5 of this report. <p>The Board was reconstituted on 8 February 2017. Save for Mr Tsng Joo Peng, the rest of the Board do not have sufficient basis to demonstrate that they have discharged their duties adequately for FY2016.</p> <p>For Mr Tsng, based on information available to the Board, the rest of the Board is of the view that he has devoted sufficient time and attention to the Company's affairs, and is satisfied that he has discharged his duties adequately for FY2016.</p>
4.5	Are there alternate Directors?	<p>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 succession plans.</p> <p>The Company does not have any alternate Directors.</p>

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4.6	Please describe the board nomination process for the Company in the last financial year for (i) selecting and appointing new Directors and (ii) re-electing incumbent Directors.	<p>For the Directors who were appointed on 8 February 2017, their nomination and appointment were via ordinary resolutions proposed by Mr Ong Mun Wah and Ms Edi Ng, who collectively held no less than 10% of the issued share capital of the Company, who convened an EGM pursuant to Section 177 of the Companies Act (Cap. 50) of Singapore which was subsequently voted for by shareholders of the Company. The former Directors of the Company were also removed via separate resolutions proposed at the same EGM. Save for the aforementioned, the Board has confirmed generally the following:</p> <p>Table 4.6(a) – Process for the Selection and Appointment of New Directors</p> <table> <tr> <td>1.</td><td>Determination of selection criteria</td><td>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.</td></tr> <tr> <td>2.</td><td>Search for suitable candidates</td><td>The NC would consider candidates proposed by the Directors, key management personnel or substantial shareholders, and may engage external search consultants where necessary.</td></tr> <tr> <td>3.</td><td>Assessment of shortlisted candidates</td><td>The NC would meet and interview the shortlisted candidates to assess their suitability.</td></tr> <tr> <td>4.</td><td>Appointment of Director</td><td>The NC would recommend the selected candidate to the Board for consideration and approval.</td></tr> </table> <p>Table 4.6(b) – Process for the Re-electing Incumbent Directors</p> <table> <tr> <td>1.</td><td>Assessment of Director</td><td>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 skills, high levels of professional skills and appropriate personal qualities.</td></tr> </table>	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.	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 skills, high levels of professional skills and appropriate personal qualities.
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		<p>Table 4.6(b) – Process for the Re-electing Incumbent Directors</p> <p>2. Re-appointment of Director</p> <p>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.</p> <p>Pursuant to Regulation 101 of the Company's Constitution, at least one-third of the Directors are required to retire by rotation and submit themselves for re-election at each AGM of the Company. The Company's Constitution also provides that every Director must retire from office and submit themselves for re-nomination and re-election at least once every three years. Regulation 105 of the Company's Constitution provides that any Director appointed to fill casual vacancy shall hold office until the next AGM and shall then be eligible for re-election.</p> <p>As such, the Board has accepted the NC's recommendations to seek the approval of shareholders at the forthcoming AGM to re-elect Messrs Goh Teck Sia, Wong Leon Keat, Ronnie Tan Siew Bin and Ms Lau Lee Hua who will be retiring pursuant to Regulation 105 of the Company's Constitution. As majority of the board members were newly appointed at the EGM held on 8 February 2017, there would be no Directors retiring under Regulation 101 of the Company's Constitution.</p> <p>For the Directors who were appointed on 8 February 2017, the NC had considered the Directors' potential contribution and performance based on their professional and business experience.</p> <p>Mr Wong Leon Keat will upon re-election as a Director, remain as Executive Director and Chief Corporate Officer of the Company.</p> <p>Mr Goh Teck Sia will upon re-election as a Director of the Company, remain an Independent Director and Non-Executive Chairman of the Board, Chairman of the RC and member of the AC and NC. The Board considers Mr Goh Teck Sia independent for the purposes of Rule 704(7) of the Catalyst Rules.</p>

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Guideline	Code and/or Guide Description	Company's Compliance or Explanation						
		<p>Table 4.6(b) – Process for the Re-electing Incumbent Directors</p> <table border="1"> <tr> <td data-bbox="304 1431 341 1503">2.</td><td data-bbox="304 1178 373 1431">Re-appointment of Director (continued)</td><td data-bbox="304 371 456 1178">Mr Ronnie Tan Siew Bin will upon re-election as a Director of the Company, remain an Independent Director of the Company, Chairman of the NC and member of the AC and RC. The Board considers Mr Ronnie Tan Siew Bin independent for the purposes of Rule 704(7) of the Catalyst Rules.</td></tr> <tr> <td data-bbox="485 1431 603 1503"></td><td data-bbox="485 1178 603 1431"></td><td data-bbox="485 371 603 1178">Ms Lau Lee Hua will upon re-election as a Director of the Company, remain an Independent Director of the Company, Chairman of the AC and member of the NC and RC. The Board considers Ms Lau Lee Hua independent for the purposes of Rule 704(7) of the Catalyst Rules.</td></tr> </table>	2.	Re-appointment of Director (continued)	Mr Ronnie Tan Siew Bin will upon re-election as a Director of the Company, remain an Independent Director of the Company, Chairman of the NC and member of the AC and RC. The Board considers Mr Ronnie Tan Siew Bin independent for the purposes of Rule 704(7) of the Catalyst Rules.			Ms Lau Lee Hua will upon re-election as a Director of the Company, remain an Independent Director of the Company, Chairman of the AC and member of the NC and RC. The Board considers Ms Lau Lee Hua independent for the purposes of Rule 704(7) of the Catalyst Rules.
2.	Re-appointment of Director (continued)	Mr Ronnie Tan Siew Bin will upon re-election as a Director of the Company, remain an Independent Director of the Company, Chairman of the NC and member of the AC and RC. The Board considers Mr Ronnie Tan Siew Bin independent for the purposes of Rule 704(7) of the Catalyst Rules.						
		Ms Lau Lee Hua will upon re-election as a Director of the Company, remain an Independent Director of the Company, Chairman of the AC and member of the NC and RC. The Board considers Ms Lau Lee Hua independent for the purposes of Rule 704(7) of the Catalyst Rules.						
4.7	Please provide Directors' key information.	The key information of the Directors, including their appointment dates and directorships held in the past 3 years, are set out on pages 13 to 14 of this annual report.						
Board Performance								
5.1 5.2 5.3	What is the performance criteria set to evaluate the effectiveness of the Board as a whole and its Board Committees, and for assessing the contribution by each Director to the effectiveness of the Board?	<p>The Board was not able to carry out any evaluation on the effectiveness of the Board as a whole and its Board Committees and the assessment of the contribution by each Director to the effectiveness of the Board for the Board was reconstituted on 8 February 2017.</p> <p>Notwithstanding the aforementioned, Table 5 below sets out the performance criteria, as recommended by the NC and approved by the Board, to be relied upon to evaluate the effectiveness of the Board as a whole and its Board Committees, and for assessing the contribution by each Director to the effectiveness of the Board:</p>						

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		<p>Table 5</p> <table> <tr> <th data-bbox="293 1279 357 1503">Performance Criteria</th><th data-bbox="293 730 357 1279">Board and Board Committees</th><th data-bbox="293 353 357 730">Individual Directors</th></tr> <tr> <td data-bbox="357 1279 644 1503">Qualitative</td><td data-bbox="357 730 644 1279"> <ol style="list-style-type: none"> 1. Size and composition 2. Conduct of Meetings 3. Access to information 4. Board processes 5. Strategic planning 6. Board accountability 7. Risk management and Internal Control 8. Compensation 9. Financial Reporting 10. Communication with shareholders </td><td data-bbox="357 353 644 730"> <ol style="list-style-type: none"> 1. Commitment of time 2. Knowledge and abilities 3. Teamwork 4. Independence 5. Overall effectiveness </td></tr> <tr> <td data-bbox="644 1279 708 1503">Quantitative</td><td data-bbox="644 730 708 1279">Measuring and monitoring performance</td><td data-bbox="644 353 708 730">Attendance at Board and Board Committee meetings</td></tr> </table> <p>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, thereafter propose amendments if any, to the Board for approval.</p> <p>The NC did not propose any changes to the performance criteria for FY2016 as compared to the previous financial year as the economic climate and the Group's principal business activities remained the same since FY2015.</p> <p>For FY2016, due to the re-constitution of the board members resulting from the EGM held on 8 February 2017, the Board was unable to perform the requisite review of the performance of the Board and the Board Committees in accordance with the performance criteria as set out above. The Board undertake to review the performance of the Board and the Board Committees in FY2017.</p> <p>In view of the abovementioned circumstances, the Board is unable to opine if the performance objectives were met but will undertake to review and assess the Board, its Board Committees and the individual Directors performance in FY2017.</p>	Performance Criteria	Board and Board Committees	Individual Directors	Qualitative	<ol style="list-style-type: none"> 1. Size and composition 2. Conduct of Meetings 3. Access to information 4. Board processes 5. Strategic planning 6. Board accountability 7. Risk management and Internal Control 8. Compensation 9. Financial Reporting 10. Communication with shareholders 	<ol style="list-style-type: none"> 1. Commitment of time 2. Knowledge and abilities 3. Teamwork 4. Independence 5. Overall effectiveness 	Quantitative	Measuring and monitoring performance	Attendance at Board and Board Committee meetings
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Quantitative	Measuring and monitoring performance	Attendance at Board and Board Committee meetings									
	<p>(a) What was the process upon which the Board reached the conclusion on its performance for the financial year?</p> <p>(b) Has the Board met its performance objectives?</p>										

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Guideline	Code and/or Guide Description	Company's Compliance or Explanation																
Access to Information																		
6.1 10.3	What types of information does the Company provide to Independent Directors to enable them to understand its business, the business and financial environment as well as the risks faced by the Company? How frequently is the information provided?	<p>It is the aim of the Board to provide shareholders with a balanced and understandable assessment of the Company's performance, position and prospects. This responsibility extends to the half-year and full-year financial results announcements, other price-sensitive public reports and reports to regulators (if required).</p> <p>Management provides the Board with key information that is complete, adequate and timely. The types of information which are provided by Management to Independent Directors are set out in the table below:</p> <table><tr><th colspan="2">Table 6 – Types of information provided by key management personnel to Independent Directors</th></tr><tr><th>Information</th><th>Frequency</th></tr><tr><td>1. Board papers (with background or explanatory information relating to the matters brought before the Board, where necessary)</td><td>Half yearly</td></tr><tr><td>2. Updates to the Group's operations and the markets in which the Group operates in</td><td>Half yearly</td></tr><tr><td>3. Budgets and/or forecasts (with variance analysis), management accounts (with financial ratios analysis), and External Auditors' report(s)</td><td>Monthly</td></tr><tr><td>4. Reports on on-going or planned corporate actions</td><td>Half yearly</td></tr><tr><td>5. Enterprise risk framework and internal auditors' ("IA") report(s)</td><td>Half yearly</td></tr><tr><td>6. Shareholding statistics</td><td>Yearly</td></tr></table> <p>Management recognises the importance of circulating information on a timely basis to ensure that the Board has adequate time to review the materials to facilitate a constructive and effective discussion during the scheduled meetings. As such, Management endeavours to circulate information for the Board meetings at least five days prior to the meetings to allow sufficient time for the Directors' review.</p> <p>Key management personnel will also provide any additional material or information that is requested by Directors or that is necessary to enable the Board to make a balanced and informed assessment of the Group's performance, position and prospects.</p>	Table 6 – Types of information provided by key management personnel to Independent Directors		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. Budgets and/or forecasts (with variance analysis), management accounts (with financial ratios analysis), and External Auditors' report(s)	Monthly	4. Reports on on-going or planned corporate actions	Half yearly	5. Enterprise risk framework and internal auditors' ("IA") report(s)	Half yearly	6. Shareholding statistics	Yearly
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6.3	What is the role of the Company Secretary?	<p>The role of the Company Secretary, the appointment and removal of whom is a matter for the Board as a whole, is as follows:</p> <ul style="list-style-type: none"> • 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 the relevant rules and regulations, including requirements of the Company's Constitution, Companies Act, Securities and Futures Act and the SGX-ST Listing Manual Section B: Rules of Catalyst 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.
REMUNERATION MATTERS		
Developing Remuneration Policies		
7.1	What is the role of the RC?	<p>The RC is guided by key terms of reference as follows:</p> <ul style="list-style-type: none"> (a) review 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 of and recommendation for remuneration and bonus.
7.3	Were remuneration consultants engaged in the last financial year?	No remuneration consultants were engaged by the Company in FY2016.
8.4	Are "claw-back" provisions provided for in the service agreements of Executive Directors and key management personnel?	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.

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Disclosure on Remuneration																																																																																																				
9	What is the Company's remuneration policy?	Management has confirmed that the Group's remuneration policy is to align remuneration with the interests of shareholders and link rewards to corporate and individual performance so as to promote the long-term sustainability of the Group.																																																																																																		
9.1 9.2	Has the Company disclosed each Director's and the CEO's remuneration as well as a breakdown (in percentage or dollar terms) into base/ fixed salary, variable or performance-related income/ bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives? If not, what are the reasons for not disclosing so?	<p>The breakdown for the remuneration of the Directors for FY2016 is as follows:</p> <table><tr><th colspan="7">Table 9 – Directors' Remuneration</th></tr><tr><th>Name</th><th>Remuneration Band</th><th>Salary (%)</th><th>Bonus (%)</th><th>Benefits-in-kind (%)</th><th>Directors Fees (%)</th><th>Total (%)</th></tr><tr><td>Teng Joo Peng</td><td>S\$500,000 to S\$749,999</td><td>82</td><td>6</td><td>12</td><td>-</td><td>100</td></tr><tr><td>Joseph Ang Choon Cheng ⁽²⁾</td><td>S\$500,000 to S\$749,999</td><td>87</td><td>7</td><td>6</td><td>-</td><td>100</td></tr><tr><td>Eric Ang Choon Beng ⁽²⁾</td><td>S\$250,000 to S\$499,999</td><td>88</td><td>7</td><td>5</td><td>-</td><td>100</td></tr><tr><td>Benjamin Choy Bing Choong ⁽¹⁾</td><td>S\$250,000 to S\$499,999</td><td>92</td><td>7</td><td>1</td><td>-</td><td>100</td></tr><tr><td>Wu Chiaw Ching ⁽²⁾</td><td>Below S\$250,000</td><td>-</td><td>-</td><td>-</td><td>100</td><td>100</td></tr><tr><td>Lim Siang Kai ⁽²⁾</td><td>Below S\$250,000</td><td>-</td><td>-</td><td>-</td><td>100</td><td>100</td></tr><tr><td>William da Silva ⁽²⁾</td><td>Below S\$250,000</td><td>-</td><td>-</td><td>-</td><td>100</td><td>100</td></tr><tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Wong Leon Keat ⁽³⁾</td><td>S\$500,000 to S\$749,999</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr><tr><td>Goh Teck Sia ⁽⁴⁾</td><td>Below S\$250,000</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr><tr><td>Lau Lee Hua ⁽⁴⁾</td><td>Below S\$250,000</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr><tr><td>Ronnie Tan Siew Bin ⁽⁴⁾</td><td>Below S\$250,000</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr></table> <p>(1) Resigned on 20 October 2016 (2) Removed on 8 February 2017 (3) Appointed on 8 February 2017. Remuneration Band is based on Mr Wong's service agreement which was entered into on 20 March 2017. (4) Appointed on 8 February 2017 and to be approved at the forthcoming AGM. Remuneration Bands are based on proposed Directors' fees to be approved by shareholders at the forthcoming AGM.</p>	Table 9 – Directors' Remuneration							Name	Remuneration Band	Salary (%)	Bonus (%)	Benefits-in-kind (%)	Directors Fees (%)	Total (%)	Teng Joo Peng	S\$500,000 to S\$749,999	82	6	12	-	100	Joseph Ang Choon Cheng ⁽²⁾	S\$500,000 to S\$749,999	87	7	6	-	100	Eric Ang Choon Beng ⁽²⁾	S\$250,000 to S\$499,999	88	7	5	-	100	Benjamin Choy Bing Choong ⁽¹⁾	S\$250,000 to S\$499,999	92	7	1	-	100	Wu Chiaw Ching ⁽²⁾	Below S\$250,000	-	-	-	100	100	Lim Siang Kai ⁽²⁾	Below S\$250,000	-	-	-	100	100	William da Silva ⁽²⁾	Below S\$250,000	-	-	-	100	100								Wong Leon Keat ⁽³⁾	S\$500,000 to S\$749,999	-	-	-	-	-	Goh Teck Sia ⁽⁴⁾	Below S\$250,000	-	-	-	-	-	Lau Lee Hua ⁽⁴⁾	Below S\$250,000	-	-	-	-	-	Ronnie Tan Siew Bin ⁽⁴⁾	Below S\$250,000	-	-	-	-	-
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		<p>After reviewing the industry practice and analysing the advantages and disadvantages in relation to the disclosure of 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.</p> <p>Management has confirmed that there are no termination, retirement, post-employment benefits that may be granted to Directors, the CEO and key management personnel.</p>																																								
9.3	(a) Has the Company disclosed each key management personnel's remuneration, in bands of S\$250,000 or more in detail, as well as a breakdown (in percentage or dollar terms) into base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives? If not, what are the reasons for not disclosing so?	<p>Management has confirmed the breakdown for the remuneration of the Company's key management personnel (who are not Directors or the CEO) for FY2016 is as follows:</p> <table><tr><th colspan="5">Table 9.3 – Remuneration of Key Management Personnel</th></tr><tr><th>Name</th><th>Salary (%)</th><th>Bonus (%)</th><th>Benefits-in-kind (%)</th><th>Total (%)</th></tr><tr><td colspan="5">S\$250,000 to S\$499,999</td></tr><tr><td>Sean Leaw Wei Siang</td><td>88</td><td>8</td><td>4</td><td>100</td></tr><tr><td>Kelvin Neo Han Cheng</td><td>69</td><td>30</td><td>1</td><td>100</td></tr><tr><td>Tan Kian Yong</td><td>71</td><td>28</td><td>1</td><td>100</td></tr><tr><td colspan="5">Below S\$250,000</td></tr><tr><td>Ng Quek Peng⁽¹⁾</td><td>100</td><td>-</td><td>-</td><td>100</td></tr></table> <p>(1) Appointed on 24 November 2016 and ceased on 15 February 2017.</p> <p>In March 2017, the Company received a letter of demand from Harry Elias Partnership acting on behalf of Ng Quek Peng ("Mr Ng"), the Company's former Chief Corporate Officer, seeking damages in the sum of approximately S\$2.51 million for alleged wrongful termination of his service agreement with the Company. No legal proceedings have been commenced against the Company at this stage and the Company is of the opinion that there are no merits to the claim and is seeking legal advice to deny and challenge the demand made by Mr Ng. The remuneration stated above therefore only reflects salaries paid in FY2016.</p>	Table 9.3 – Remuneration of Key Management Personnel					Name	Salary (%)	Bonus (%)	Benefits-in-kind (%)	Total (%)	S\$250,000 to S\$499,999					Sean Leaw Wei Siang	88	8	4	100	Kelvin Neo Han Cheng	69	30	1	100	Tan Kian Yong	71	28	1	100	Below S\$250,000					Ng Quek Peng ⁽¹⁾	100	-	-	100
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	(b) Please disclose the aggregate remuneration paid to the top five key management personnel (who are not Directors or the CEO).	The total remuneration paid to the top 3 key management personnel for FY2016 was S\$1,158,939.																									
9.4	Is there any employee who is an immediate family member of a Director or the CEO, and whose remuneration exceeds S\$50,000 during the last financial year? If so, please identify the employee and specify the relationship with the relevant Director or the CEO.	<table><tr><th colspan="5">Table 9.4 - Remuneration of Employees who are immediate family members of a Director</th></tr><tr><th>Name</th><th>Salary (%)</th><th>Bonus (%)</th><th>Benefits-in-kind (%)</th><th>Total (%)</th></tr><tr><td>S\$50,000 to S\$99,999</td><td></td><td></td><td></td><td></td></tr><tr><td>Yap Geok Khim ⁽¹⁾</td><td>100</td><td>-</td><td>-</td><td>100</td></tr><tr><td>Aaron Ang⁽²⁾</td><td>100</td><td>-</td><td>-</td><td>100</td></tr></table> <p>(1) Spouse of Joseph Ang Choon Cheng, former Executive Chairman and also a sister-in-law of Eric Ang Choon Beng, former Executive Director. (2) Son of Joseph Ang Choon Cheng, former Executive Chairman and also a nephew of Eric Ang Choon Beng, former Executive Director.</p>	Table 9.4 - Remuneration of Employees who are immediate family members of a Director					Name	Salary (%)	Bonus (%)	Benefits-in-kind (%)	Total (%)	S\$50,000 to S\$99,999					Yap Geok Khim ⁽¹⁾	100	-	-	100	Aaron Ang ⁽²⁾	100	-	-	100
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Yap Geok Khim ⁽¹⁾	100	-	-	100																							
Aaron Ang ⁽²⁾	100	-	-	100																							
9.5	Please provide details of the employee share scheme(s).	The Company had no employee share schemes during FY2016.																									

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9.6	<p>(a) Please describe how the remuneration received by Executive Directors and key personnel has been determined by the performance criteria.</p> <p>(b) What were the performance conditions used to determine their entitlement under the short term and long term incentive schemes?</p>	<p>The remuneration received by the Executive Directors and key management personnel takes into consideration his or her individual performance and contribution towards the overall performance of the Group for FY2016. 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.</p> <p>The following performance conditions were chosen 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:</p> <table border="1"> <thead> <tr> <th colspan="3">Table 9.6(b)</th></tr> <tr> <th>Performance Conditions</th><th>Short-term Incentives (such as performance bonus)</th><th>Long-term Incentives (such as the PSP)</th></tr> </thead> <tbody> <tr> <td>Qualitative</td><td> 1. Leadership 2. People development 3. Commitment 4. Teamwork 5. Current market and industry practices 6. Macro-economic factors </td><td>None</td></tr> <tr> <td>Quantitative</td><td>PBT of at least S\$3.5 million</td><td>None</td></tr> </tbody> </table>	Table 9.6(b)			Performance Conditions	Short-term Incentives (such as performance bonus)	Long-term Incentives (such as the PSP)	Qualitative	1. Leadership 2. People development 3. Commitment 4. Teamwork 5. Current market and industry practices 6. Macro-economic factors	None	Quantitative	PBT of at least S\$3.5 million	None
Table 9.6(b)														
Performance Conditions	Short-term Incentives (such as performance bonus)	Long-term Incentives (such as the PSP)												
Qualitative	1. Leadership 2. People development 3. Commitment 4. Teamwork 5. Current market and industry practices 6. Macro-economic factors	None												
Quantitative	PBT of at least S\$3.5 million	None												

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	(c) Were all of these performance conditions met? If not, what were the reasons?	Yes, the RC has reviewed and is satisfied that, save for Mr Wong Leon Keat who was appointed on 8 February 2017, the performance conditions were met for FY2016.
ACCOUNTABILITY AND AUDIT		
<u>Risk Management and Internal Controls</u>		
11.3	(a) In relation to the major risks faced by the Company, including financial, operational, compliance, information technology and sustainability, please state the bases for the Board's view on the adequacy and effectiveness of the Company's internal controls and risk management systems.	<p>In arriving at its view on the adequacy and effectiveness of the Company's internal controls and risk management systems, the Board had taken into consideration the following:</p> <ul style="list-style-type: none"> • the views of the external auditors in making assessment of the internal controls over financial reporting matters; • the internal controls established and maintained by the Group; • the work performed by the internal auditors; • discussions between the AC and auditors in the absence of key management personnel to review and address any potential concerns; and • the assurance received from the CEO and the CFO <p>In addition, the Board has also considered the progress of the on-going internal investigation in respect of alleged irregular transactions and activities entered into and conducted by certain subsidiaries in the Group's paint business, and will rectify any internal control weaknesses identified during the course of the investigation.</p> <p>On the bases of the aforementioned, the Board is of the view that, on the whole, the Company's internal controls (including financial, operational, compliance and information technology), and risk management systems are adequate and effective for FY2016.</p>

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	(b) In respect of the past 12 months, has the Board received the assurance from the CEO and the CFO as well as the IA that: (i) the financial records have been properly maintained and the financial statements give true and fair view of the Company's operations and finances; and (ii) the Company's risk management and internal control systems are effective? If not, how does the Board assure itself of points (i) and (ii) above?	<p>Yes, the Board has obtained such assurance from the CEO, CFO and internal auditors in respect of FY2016.</p> <p>The Board has relied on the Independent Auditors' report as set out in this Annual Report as assurance that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances.</p> <p>The Board has additionally relied on the internal auditor's reports in respect of operational scope issued to the Company since FY2016 as assurances that the Company's risk management and internal control systems are effective.</p>

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12.1 12.4	Audit Committee	
	What is the role of the AC?	<p>All members of the AC are independent and Non-Executive Directors who do not have any management and significant business relationships with the Company or any substantial shareholder of the Company. None of the AC members were previous partners or Directors of the Company's external audit firm within the last twelve months and none of the AC members hold any financial interest in the external audit firm.</p> <p>The duties and roles of the AC is guided by the following key terms of reference:</p> <ul style="list-style-type: none"> (a) review with the EA and IA the audit plans, their evaluation of the system of internal accounting controls, and their audit report including the scope and results of the external audit, the independence and objectivity of the external auditors; (b) review the financial statements including reviewing the significant financial reporting issues and judgments so as to ensure the integrity of the financial statements of the Group and the Company and any announcements relating to the Company's financial performance, before submission to the Board for approval; (c) review the internal control procedures, its scope and the results and to ensure coordination between the EA/IA and the management and review the assistance given by management to the EA, and discuss problems and concerns, if any, arising from the interim and final audits; (d) review and report to the Board at least annually the adequacy and effectiveness of the Group's internal controls; (e) review the effectiveness of the Group's IA function; (f) review and discuss with the EA 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; (g) make recommendation to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the EA; (h) review interested person transactions (if any) falling within the scope of Chapter 9 of the Listing Manual; (i) review potential conflicts of interest, if any; (j) 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 (k) generally undertake such other functions and duties as may be required by statute or the SGX-ST Listing Manual, or by such amendments as may be made from time to time.

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Guideline	Code and/or Guide Description	Company's Compliance or Explanation																								
12.5	Has the AC met with the auditors in the absence of key management personnel?	Yes, the AC has met with the IA and the EA once in the absence of key management personnel in FY2016.																								
12.6	Has the AC reviewed the independence of the EA? (a) Please provide a breakdown of the fees paid in total to the EA for audit and non-audit services for the financial year. (b) If the EA have supplied a substantial volume of non-audit services to the Company, please state the bases for the AC's view on the independence of the EA.	<p>The AC has reviewed the non-audit services provided by the EA and is satisfied that the nature and extent of such services would not prejudice the independence of the EA, and has recommended the re-appointment of the EA at the forthcoming AGM.</p> <table border="1"> <thead> <tr> <th colspan="3">Table 12.6(a) – Fees Paid/Payable to the EA for FY2016</th></tr> <tr> <th></th><th>S\$</th><th>% of total</th></tr> </thead> <tbody> <tr> <td colspan="3">Audit fees</td></tr> <tr> <td>- Current year</td><td>204,280</td><td>80</td></tr> <tr> <td>- Under provision in prior year</td><td>25,300</td><td>10</td></tr> <tr> <td colspan="3">Non-audit fees</td></tr> <tr> <td>- Tax compliance</td><td>25,983</td><td>10</td></tr> <tr> <td>Total</td><td>255,563</td><td>100</td></tr> </tbody> </table> <p>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 satisfy the AC 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 FY2016 were not substantial.</p>	Table 12.6(a) – Fees Paid/Payable to the EA for FY2016				S\$	% of total	Audit fees			- Current year	204,280	80	- Under provision in prior year	25,300	10	Non-audit fees			- Tax compliance	25,983	10	Total	255,563	100
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Non-audit fees																										
- Tax compliance	25,983	10																								
Total	255,563	100																								
12.7	Does the Company have a 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 can, in confidence, raise concerns about improper conduct for investigation. The procedures for whistle blowing policy are made public to the employees of the Group. For the financial year ended 31 December 2016, a report has been made to the Board regarding possible irregularities in the Company's Paint Division.																								

CORPORATE GOVERNANCE REPORT

Guideline	Code and/or Guide Description	Company's Compliance or Explanation
12.8	What are the AC's activities or the measures it has taken to keep abreast of changes to accounting standards and issues which have a direct impact on financial statements?	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. The Audit Committee has reviewed the Key Audit Matters set out in the Independent Auditors' Report and concurs with the issues raised, and the manner by which they were addressed by the External Auditors.
Internal Audit		
13.1 13.2 13.3 13.4 13.5	Please provide details of the Company's internal audit function, if any.	The Company's internal audit function is outsourced to Goh Boon Kok & Co that reports directly to the AC Chairman and administratively to the CEO. 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 Company is outsourced to. The AC is satisfied that IA is adequately qualified (given, inter alia, its adherence to standards set by internationally recognised professional bodies) and resourced, and has the appropriate standing in the Company to discharge its duties effectively.
SHAREHOLDER RIGHTS AND RESPONSIBILITIES		
Shareholder Rights		
14.2	Are shareholders informed of the rules, including voting procedures, that govern general meetings of shareholders?	Shareholders are entitled to attend the general meetings of shareholders and are afforded the opportunity to participate effectively in and vote at general meetings of shareholders. An independent polling agent is appointed by the Company for general meetings who will explain the rules, including the voting procedures, that govern the general meetings of shareholders.
14.3	Are corporations which provide nominee or custodial services allowed to appoint more than two proxies?	Currently, the Constitution of the Company allows all shareholders (members) to appoint up to two proxies to attend the general meetings and to vote on their behalf through proxy form sent in advance. On 3 January 2016, the legislation was amended, among other things, to allow certain members, defined as "relevant intermediary" to attend and participate in general meetings without being constrained by the two-proxy requirement. Relevant intermediary includes corporations holding licenses in providing nominee and custodial services and CPF Board which purchases shares on behalf of the CPF investors.

CORPORATE GOVERNANCE REPORT

Guideline	Code and/or Guide Description	Company's Compliance or Explanation
Communication with Shareholders		
15.1	Does the Company have an investor relations policy?	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. The Company will consider the appointment of a professional investor relations officer to manage the function should the need arises.
15.2 15.3 15.4	(a) Does the Company regularly communicate with shareholders and attend to their questions? How often does the Company meet with institutional and retail investors? (b) Is this done by a dedicated investor relations team (or equivalent)? If not, who performs this role? (c) How does the Company keep shareholders informed of corporate developments, apart from SGXNET announcements and the annual report?	<p>The Company does not practice selective disclosure. In line with continuous disclosure obligations of the Company pursuant to the SGX-ST Listing Manual and the Companies Act, the Board's policy is that all shareholders should be equally and timely informed of all major developments that impact the Group.</p> <p>Information will first be disseminated through SGXNET and where relevant, followed by news release and 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 so as to strengthen the relationship with its shareholders based on trust and accessibility.</p> <p>The Company has an internal investor relations function to facilitate the communications with all stakeholders, shareholders, analysts and media on a regular basis, to attend to their queries or concerns as well as to keep the investors apprised of the Group's corporate developments and financial performance.</p> <p>To enable shareholders to contact the Company easily, the contact details of the investor relations function are set out in the contents page of this Annual Report as well as on the Company's website. The Company have procedures in place for responding to investors' queries.</p>
15.5	Does the Company have a dividend policy? Is the Company paying dividends for the financial year? If not, please explain why.	<p>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.</p> <p>No dividend has been declared for FY2016 as the Company intends to conserve cash for future business growth.</p>

CORPORATE GOVERNANCE REPORT

Guideline	Code and/or Guide Description	Company's Compliance or Explanation
CONDUCT OF SHAREHOLDER MEETINGS		
16.1 16.3 16.4 16.5	How are the general meetings of shareholders conducted?	<p>The Company's Constitution do not allow for abstentia voting at general meetings of shareholders as authentication of shareholder identity information and other related security issues continue to be a concern.</p> <p>The Company requires all Directors (including the respective chairman of the Board Committees) to be present at all general meetings of shareholders, unless of exigencies. The External Auditor is also required to be present to address shareholders' queries about the conduct of audit and the preparation and content of the independent auditor's report.</p> <p>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. All minutes of general meetings will made available to shareholders upon their request.</p>
COMPLIANCE WITH APPLICABLE CATALIST RULES		
712, 715 or 716	Appointment of Auditors	The Company confirms its compliance to the Catalist Rules 712 and 715.
1204(8)	Material Contracts	There were no material contracts entered into by the Group involving the interest of the CEO, any Director, or controlling shareholder, which are either still subsisting at the end of FY2016 or if not then subsisting, entered into since the end of the previous financial year.
1204(10)	Confirmation of adequacy of internal controls	With due regard to the Company's disclosures to Guideline 11.3 of the Code, the Board (with the concurrence of the Audit Committee) is of the opinion that, on the whole, the internal controls are adequate to address the financial, operational, compliance and information technology risks of the Group.

CORPORATE GOVERNANCE REPORT

Guideline	Code and/or Guide Description	Company's Compliance or Explanation								
1204(17)	Interested Persons Transaction ("IPT")	The following are IPTs with value more than S\$100,000 transacted during FY2016. <table><tr><th>Name of Interested Person</th><th>Aggregate value of all IPTs during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)</th><th>Aggregate value of all IPTs conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000)</th></tr><tr><td>Tsng Joo Ann⁽¹⁾</td><td>S\$294,079</td><td>-</td></tr></table> <p>Note:- 1 - Brother of Tsng Joo Peng, the Chief Executive Officer of the Company</p> <p>The Company has adopted an internal policy which prohibits the Directors and officers from dealing in the securities of the Company while in possession of price-sensitive information.</p> <p>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 announcement of the relevant results.</p>			Name of Interested Person	Aggregate value of all IPTs during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all IPTs conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000)	Tsng Joo Ann ⁽¹⁾	S\$294,079	-
Name of Interested Person	Aggregate value of all IPTs during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all IPTs conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000)								
Tsng Joo Ann ⁽¹⁾	S\$294,079	-								
1204(21)	Non-sponsor fees	No non-sponsor fees were paid to the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. for FY2016.								
1204(22)	Use of Proceeds	<p>On 24 November 2016, the Company received cash consideration of S\$1.75 million from Ng Quek Peng and allotted and issued 27,000,000 Subscription Shares to Mr Ng at the issue price of S\$0.065 per subscription share (the "Share Issue").</p> <p>The estimated net proceeds from the Shares Issue are approximately S\$1.73 million. The Company intends to use the net proceeds to fund the regional and local growth and expansion of the Group's Aircon and Paint businesses. As at 22 March 2017, the Company has not utilised any of the net proceeds.</p>								

RISK MANAGEMENT POLICIES AND PROCESSES

Business Risk

In our Aircon Division, we install and service air-conditioning systems for our customers. These activities have minimum barriers to entry. In order to differentiate ourselves and diversify our business risk for our air-conditioning business unit, we operate in both the retail and commercial markets.

In addition, with our expertise, resources and track record, we are able to pitch for bigger projects at more competitive bids, and to provide a better range of products and services from design and planning, air-conditioning systems installation, electrical wirings, for residential and commercial properties, to after sales services.

Operational Risk

Operational risk refers to the loss incurred by our Group due to operational failures arising from a breakdown in internal process, deficiencies in people and management. The Group engages external consultants to review our internal processes and controls on a yearly basis to ensure that our operations processes and controls are working effectively. The quality management systems which encompass the entire manufacturing process for our air-conditioning business unit are also subject to annual audit by an ISO 9000:2000 accreditation body.

We have engaged professionals to assist our human resource personnel to improve on our annual performance appraisal system as well as establishing a training roadmap for all our staff. Remuneration for our staff is also reviewed periodically to ensure that the remuneration package offered by the Group remains competitive.

Project Risk

Delays in the completion of our Commercial business projects may occur due to unforeseen circumstances. If such delay in the completion of our projects is attributable to us, we will be liable for liquidated damages which will materially and adversely affect our financial position and performance.

To mitigate this risk, project meetings are held periodically to update management on the progress of all on-going projects. Contract-in-progress is monitored closely by the management to avoid the situation of cost overrun. In the event that management perceives a potential delay in a project, we immediately alert the main contractor. A revised project completion date will be negotiated subsequently.

Half-yearly Group performance reports are also presented to the Board of Directors for their review and comments.

Investment Risk

The businesses of our Group may be expanded through organic growth of our activities and through acquisitions of operating business entities. Investment activities are evaluated through performance of due diligence exercises and are supported by advice from external professionals. All business proposals are reviewed by the Company's Executive Directors and senior management before obtaining final approval from the Board.

Foreign Exchange Risk

The foreign exchange risk of the Group arises from sales, purchases and borrowings that are denominated in foreign currencies. The currencies giving rise to the risk are US dollars and Ringgit Malaysia. While the Group does not have any formal hedging policies against foreign exchange fluctuation, we continuously monitor the exchange rates of the major currencies.

RISK MANAGEMENT POLICIES AND PROCESSES

Credit Risk

Credit risk is managed through the application of credit approvals, setting credit limits and monitoring procedures. Our cash balances are placed with banks and regulated financial institutions. It is our Group's policy to sell to a diverse credit worthy customer base so as to mitigate our credit risk. Cash terms and/or advance payments are required for customers with lower credit rating.

While the Group faces normal business risks associated with ageing collections, we adopt the policy of making specific provisions once trade debts are deemed not collectible. Accordingly, our Group does not expect to incur material credit losses on our risk management or other financial instruments.

Interest Rate Risk

Our Group's exposure to changes in interest rates relates primarily to interest-bearing financial assets and liabilities. Interest rate risk is managed on an on-going basis with the objective of limiting the extent to which net interest expenses could be affected by an adverse movement in interest rates. We also obtain financing through bank borrowings and finance lease arrangements. It is the Group's policy to obtain the most favourable interest rates available without increasing our exposure.

Liquidity Risk

The objective of liquidity management is to ensure that the Group has sufficient funds to meet its contractual and financial obligations. To manage liquidity risk, we monitor our net cash flow and maintain a level of cash and cash equivalents deemed adequate by management for working capital purposes so as to mitigate the effects of fluctuations in cash flows.

Derivative Financial Instrument Risk

The Group does not hold or issue derivative financial instruments.

SHAREHOLDINGS STATISTICS

As at 20 March 2017

CLASS OF SHARES

Ordinary Shares

NUMBER OF SHARES

250,447,985

NUMBER OF ORDINARY SHAREHOLDERS

The number of ordinary shareholders as at 20 March 2017 is 1,192.

VOTING RIGHTS

1 vote for each Ordinary Share held

TREASURY SHARES

Nil

SHAREHOLDINGS HELD IN HANDS OF PUBLIC

Based on information provided and to the best knowledge of the Directors, approximately 50.69% 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 20 March 2017. Rule 723 of the Listing Manual (Section B: Rules of Catalyst) of the Singapore Exchange Securities Trading Limited has therefore been complied with.

ANALYSIS OF SHAREHOLDINGS BY RANGE AS AT 20 MARCH 2017

RANGE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 — 99	89	7.47	1,117	0.00
100 — 1,000	449	37.67	263,859	0.10
1,001 — 10,000	188	15.77	1,266,502	0.51
10,001 — 1,000,000	438	36.74	42,466,887	16.96
1,000,001 AND ABOVE	28	2.35	206,449,620	82.43
	1,192	100.00	250,447,985	100.00

SHAREHOLDINGS STATISTICS

As at 20 March 2017

SUBSTANTIAL SHAREHOLDERS AS AT 20 MARCH 2017

Substantial Shareholder	Shareholdings registered in the name of the substantial shareholder	Shareholdings held by substantial shareholder in the name of nominees	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⁾	12,000,000	–	11,200,000	23,200,000	9.26%
Ong Mun Wah	27,523,000	–	–	27,523,000	10.99%
Lim Teck Chuan	28,432,561	–	–	28,432,561	11.35%
Ng Quek Peng	27,000,000	–	–	27,000,000	10.78%

Note:

⁽¹⁾ Mr Tsng Joo Peng is deemed to be interested in the 1,048,426 shares pledged to Citibank Nominees Singapore Pte Ltd.

⁽²⁾ Mr Wong Leon Keat is deemed to be interested in the 11,200,000 shares held by his spouse, Mdm Edi Ng.

TOP 20 SHAREHOLDERS AS AT 20 MARCH 2017

NO.	NAME	NO. OF SHARES HELD	%
1	LIM TECK CHUAN	28,432,561	11.35
2	ONG MUN WAH	27,523,000	10.99
3	NG QUEK PENG	27,000,000	10.78
4	TSNG JOO PENG	16,300,000	6.51
5	DBS NOMINEES PTE LTD	15,697,366	6.27
6	WONG LEON KEAT (HUANG LIANGJIE)	12,000,000	4.79
7	EDI NG	11,200,000	4.47
8	KHWAJA ASIF RAHMAN	10,000,000	3.99
9	CHIA PUAY HWEE	6,919,000	2.76
10	TANG HEOK SENG (CHEN XUSHENG)	5,712,400	2.28
11	RAFFLES NOMINEES (PTE) LTD	5,421,800	2.17
12	SBS NOMINEES PTE LTD	4,525,500	1.81
13	SEM ANG NGI	3,958,900	1.58
14	CITIBANK NOMINEES SINGAPORE PTE LTD	3,044,126	1.22
15	LEE CHEE BOON	2,940,000	1.17
16	PHILLIP SECURITIES PTE LTD	2,858,190	1.14
17	ANG JUI KHOON	2,557,400	1.02
18	TAN TEONG HOO	2,478,000	0.99
19	CHUA KENG HWEE	2,300,000	0.92
20	MAYBANK KIM ENG SECURITIES PTE LTD	2,187,603	0.87
		193,055,846	77.08

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at 55 Market Street #03-01, Raffles Place, Singapore 048941 on Tuesday, 25 April 2017 at 10.00 a.m. to transact the following businesses:-

Ordinary Business

1. To receive and adopt the Directors' Statements and Audited Financial Statements for the financial year ended 31 December 2016 and the Independent Auditors' Report thereon. **[Resolution 1]**
2. To re-elect Mr Wong Leon Keat who is retiring by rotation pursuant to Regulation 105 of the Company's Constitution as Director of the Company. **[Resolution 2]**
3. To re-elect Mr Goh Teck Sia who is retiring by rotation pursuant to Regulation 105 of the Company's Constitution as Director of the Company. **[See Explanatory Note (a)]** **[Resolution 3]**
4. To re-elect Ms Lau Lee Hua who is retiring by rotation pursuant to Regulation 105 of the Company's Constitution as Director of the Company. **[See Explanatory Note (b)]** **[Resolution 4]**
5. To re-elect Mr Ronnie Tan Siew Bin who is retiring by rotation pursuant to Regulation 105 of the Company's Constitution as Director of the Company. **[See Explanatory Note (c)]** **[Resolution 5]**
6. To approve Directors' fees of S\$150,000/- for the financial year ending 31 December 2017. (2016: S\$104,600/-) **[Resolution 6]**
7. To re-appoint Messrs KPMG LLP as Auditors of the Company and to authorise the Directors to fix their remuneration. **[Resolution 7]**
8. 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 Ordinary Resolutions, with or without modifications:-

General mandate to allot and issue new shares

9. "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) 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,

NOTICE OF ANNUAL GENERAL MEETING

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 (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 (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 shall be calculated based on the total number of issued Shares excluding treasury shares 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."

[See Explanatory Note (d)]

[Resolution 8]

Renewal of share buyback mandate

10 "That :

- (a) for the purposes of Sections 76C and 76E of the Act the exercise by the Directors of the Company of all the powers of the Company to purchase or otherwise acquire ordinary shares in the capital of the Company ("**Shares**") not exceeding in aggregate the Maximum Limit (as hereafter defined), at such price or prices as may be determined by the Directors of the Company from time to time up to the Maximum Price (as hereafter defined), whether by way of:
 - (i) market purchase(s) on the SGX-ST;and/or
 - (ii) off-market purchase(s) (if effected otherwise than on the SGX-ST) in accordance with any equal access scheme(s) as may be determined or formulated by the Directors as they consider fit, which scheme(s) shall satisfy all conditions prescribed by the Act,

NOTICE OF ANNUAL GENERAL MEETING

and otherwise in accordance with all other laws and regulations and rules of the SGX-ST as may from time to time be applicable, be and is hereby authorised and approved generally and unconditionally (the **"Share Buyback Mandate"**);

- (b) unless varied or revoked by the Company in general meeting, the authority conferred on the Directors of the Company pursuant to the Share Buyback Mandate may be exercised by the Directors of the Company at any time and from time to time during the period commencing from the date of the passing of this Resolution and expiring on the earliest of:
- (i) the conclusion of the next annual general meeting or the date by which such annual general meeting of the Company is held or required by law to be held;
 - (ii) the date on which the authority contained in the Share Buyback Mandate is varied or revoked by an ordinary resolution of shareholders of the Company in general meeting; or
 - (iii) the date on which purchases and acquisitions of Shares pursuant to the Share Buyback Mandate are carried out to the full extent mandated;
- (c) in this Resolution:

"Average Closing Price" means the average of the closing market prices of the Shares for the last five (5) Market Days on which transactions in the Shares were recorded immediately preceding the date of the market purchase by the Company or, as the case may be, the date of the making of the offer pursuant to the off-market purchase, and deemed to be adjusted in accordance with the listing rules of the SGX-ST for any corporate action that occurs after the relevant five (5) Market Days period;

"date of the making of the offer" means the date on which the Company announces its intention to make an offer for the purchase or acquisition of Shares from holders of Shares, stating therein the purchase price (which shall not be more than the Maximum Price for an off-market purchase calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the off-market purchase;

"Maximum Limit" means that number of Shares representing ten per cent. (10%) of the total number of Ordinary Shares as at the date of the passing of this Resolution (excluding any Shares which are held as treasury shares as at that date); and

"Maximum Price", in relation to a Share to be purchased or acquired, means the purchase price (excluding brokerage, commission, applicable goods and services tax and other related expenses) which shall not exceed, pursuant to a market purchase, 105% of the Average Closing Price of the Shares and pursuant to an off-market purchase, 120% of the Average Closing Price of the Shares; and

- (d) the Directors of the Company and/or any of them be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) as they and/or he may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this Resolution.

[See Explanatory Note (e)]

[Resolution 9]

By Order of the Board

Leaw Wei Siang
Sharon Yeoh
Company Secretaries
10 April 2017

Singapore

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes:

- (a) Mr Goh Teck Sia, if re-elected, will remain as the Independent Non-Executive Chairman of the Company and as a member of the Audit Committee and Nominating Committee and will also continue to remain as Chairman of the Remuneration Committee. Mr Goh Teck Sia will be considered as an Independent Director of the Company for the purposes of Rule 704 (7) of the Catalist Rules.
- (b) Ms Lau Lee Hua, if re-elected, will remain as a member of the Remuneration Committee and Nominating Committee and will also continue to remain as the Chairman of the Audit Committee. Ms Lau Lee Hua will be considered as an Independent Director of the Company for the purposes of Rule 704 (7) of the Catalist Rules.
- (c) Mr Ronnie Tan Siew Bin, 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 Ronnie Tan Siew Bin will be considered as an Independent Director of the Company for the purposes of Rule 704 (7) of the Catalist Rules.
- (d) The ordinary resolution 8 set out in item 9 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 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 shall be calculated based on the total number of issued Shares excluding treasury shares at the time of this ordinary resolution 8 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 8 above is passed and any subsequent bonus issue, consolidation or subdivision of Shares.
- (e) The ordinary resolution 9, if passed, will renew the Share Buyback Mandate and will authorise the Directors to purchase or otherwise acquire Shares on the terms and subject to the conditions of the resolution. The rationale for, the authority and limitation on, the sources of funds to be used for the purchase or acquisition including the amount of financing and the financial effects of the purchase or acquisition of Shares by the Company pursuant to the Share Buyback Mandate on the audited consolidated financial statements of the Group for the financial year ended 31 December 2016 are set out in greater detail in the Letter to Shareholders enclosed together with the Annual Report. The authority will expire at the next Annual General Meeting of the Company, unless previously revoked or waived at a general meeting.

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;
 - (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 registered office of the Company at 29 Tai Seng Avenue #07-01 Natural Cool Lifestyle Hub Singapore 534119, not less than forty-eight (48) hours before the time set for holding the Annual General Meeting.

NOTICE OF 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.

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NATURAL COOL HOLDINGS LIMITED

(Incorporated in the Republic of Singapore)
Company Registration No. 200509967G

IMPORTANT

1. Relevant intermediary may appoint more than two proxies to attend, speak and vote at the Annual General Meeting and vote (please see Note 3 for the definition of "relevant intermediary").
2. An investor who holds shares under the Supplementary Retirement Scheme ("SRS Investors") may attend and cast his vote(s) at the Meeting in person. SRS Investors who are unable to attend the Meeting but would like to vote, may inform their SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the SRS Investors shall be precluded from attending the Meeting.
3. This Proxy Form is not valid for use by SRS Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
4. By submitting an instrument appointing a proxy(ies) and/or representative(s), a member accepts and agrees to the personal data privacy terms set out in the Notes of this Proxy Form.

PROXY FORM

I/We _____ NRIC/Passport/Co. Registration No _____

of _____

being a member/members of **NATURAL COOL HOLDINGS LIMITED** hereby appoint

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

and/or (delete as appropriate)

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

or failing him/her, the Chairman of the Annual General Meeting ("AGM") of the Company, as my/our proxy/ proxies to vote for me/us and on my/our behalf at the AGM of the Company to be held at 55 Market Street #03-01, Raffles Place, Singapore 048941 on Tuesday, 25 April 2017 at 10.00 a.m. and at any adjournment thereof.

I/We have indicated with an "X" in the appropriate box below how I/we wish my/our proxy/proxies to vote. If no specific direction as to voting is given, my/our proxy/proxies may vote or abstain at his/their discretion as he/they will on any other matters arising at the AGM.

No.	Resolutions Relating To:	For	Against
AS ORDINARY BUSINESS			
1	Directors' Statement and Audited Financial Statements for the financial year ended 31 December 2016		
2	Re-election of Mr Wong Leon Keat as Director		
3	Re-election of Mr Goh Teck Sia as Director		
4	Re-election of Ms Lau Lee Hua as Director		
5	Re-election of Mr Ronnie Tan Siew Bin as Director		
6	Approval of Directors' fees for the financial year ending 31 December 2017		
7	Re-appointment of KPMG LLP as auditors		
AS SPECIAL BUSINESS			
8	Authority to allot and issue new shares		
9	Approval for renewal of Share Buyback Mandate		

* Please indicate your vote "For" or "Against" with an "X" within the box provided.

Dated this _____ day of _____ 2017

Total number of Shares in:	No. of Shares
(a) Depository Register	
(b) Register of Members	

Signature(s) of Member(s) or
Common Seal of Corporate Member

IMPORTANT : PLEASE READ NOTES OVERLEAF



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 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 AGM. 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.
3. 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;
 - (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.
4. A proxy need not be a member of the Company.
5. The instrument appointing a proxy or proxies must be deposited at the Company's registered office at 29 Tai Seng Avenue #07-01 Natural Cool Lifestyle Hub Singapore 534119 not less than forty-eight (48) hours before the time set for the Annual General Meeting.
6. 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 common seal or signed on its behalf by an attorney duly authorised in writing or by an authorised officer of the corporation.
7. Where an instrument appointing a proxy or proxies is signed on behalf of the appointer by an attorney the letter or the power of attorney (or other authority) or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
8. A corporation which is a member may by resolution of its Directors or other governing body authorises such person as it thinks fit to act as its representative at the Annual General Meeting.
9. The Company shall be entitled to reject this instrument appointing a proxy or proxies if it is incomplete, improperly completed, illegible or where the true intentions of the appointer are not ascertainable from the instructions of the appointer specified in this instruments appointing a proxy or proxies. In addition, in the case of members whose shares are entered against their names in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointer, is not shown to have shares entered against his name in the Depository Register as at seventy-two (72) hours before the time set for holding the Annual General Meeting, as certified by The Central Depository (Pte) Limited to the Company.

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 AGM 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 AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, proxy lists, minutes and other documents relating to the AGM (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: 2005009967G

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