

FINANCIAL STATEMENTS

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DIRECTORS' STATEMENT

The Directors present their report together with the audited Consolidated Financial Statements of the Group for the financial year ended 31 December 2016 and the Statement of Financial Position and Statement of Changes in Equity of the Company as at 31 December 2016.

In the opinion of the Directors, the Consolidated Financial Statements of the Group and the Statement of Financial Position and Statement of Changes in Equity of the Company as set out on pages 51 to 84 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 and changes in equity of the Company for the financial year then ended and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts when they fall due.

1 DIRECTORS

The Directors of the Company in office at the date of this report are:

Lim Jit Poh (Chairman)
Kua Hong Pak (Deputy Chairman)
Sim Wing Yew (Chief Executive Officer)
Goh Yeow Tin
Ho Kah Leong
Ong Teong Wan
Sim Cheek Lim
Teo Geok Har, Nancy

2 ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate, except for the options mentioned in paragraphs 3 and 4 below.

3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The Directors of the Company holding office at the end of the financial year had no interests in the share capital and debentures of the Company and its related corporations as recorded in the register of Directors' shareholdings kept by the Company under Section 164 of the Singapore Companies Act, Cap. 50, except as follows:

Shareholdings registered in the name of Directors			
	At 1 January 2016	At 31 December 2016	At 21 January 2017
Interest in the Company			
(a) Ordinary shares			
Lim Jit Poh	190,000	190,000	190,000
Kua Hong Pak	54,000	54,000	54,000
Ho Kah Leong	39,000	39,000	39,000
Ong Teong Wan	40,000	40,000	40,000
Sim Cheek Lim	100,000	100,000	100,000

DIRECTORS' STATEMENT

3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES (cont'd)

		Shareholdings registered in the name of Directors		
		At 1 January 2016	At 31 December 2016	At 21 January 2017
Interest in related company, SBS Transit Ltd				
(a)	Ordinary shares			
	Sim Wing Yew	10,000	110,000	110,000
	Kua Hong Pak	90,000	90,000	90,000
(b)	Options to subscribe for ordinary shares			
	Sim Wing Yew	340,000	240,000	240,000
Interest in holding company, ComfortDelGro Corporation Limited				
(a)	Ordinary shares			
	Lim Jit Poh	4,425	244,425	244,425
	Kua Hong Pak	1,524,530	3,924,530	3,924,530
	Sim Wing Yew	420,000	500,000	500,000
	Ho Kah Leong	83,540	83,540	83,540
(b)	Options to subscribe for ordinary shares			
	Lim Jit Poh	240,000	–	–
	Kua Hong Pak	6,000,000	3,600,000	3,600,000
	Sim Wing Yew	200,000	120,000	120,000

4 SHARE OPTIONS

The 2001 VICOM Share Option Scheme ("The 2001 Scheme")

The 2001 Scheme for a period of 10 years was approved by the shareholders of the Company at an Extraordinary General Meeting held on 27 April 2001. It expired on 26 April 2011 and hence no option has been granted since then. The existing options granted will continue to vest according to the terms and conditions of The 2001 Scheme and the respective grants. The 2001 Scheme is administered by the Remuneration Committee comprising Messrs Teo Geok Har, Nancy (Chairman), Ho Kah Leong, Lim Jit Poh and Sim Cheok Lim.

Statutory information regarding options granted pursuant to The 2001 Scheme is as follows:

- the dates of expiration of options as defined in the circular dated 5 April 2001 are 10 years after the relevant offer date for the Executive Options, and 5 years after the relevant offer date for the Non-Executive Options, unless such option has ceased by reason of Rule 11 of the Rules of The 2001 Scheme relating to termination of employment, bankruptcy, misconduct or death of the grantee;
- the options may be exercised only after the first anniversary of the relevant offer dates of the options; and
- the persons to whom the options have been granted may also be eligible for participation in any other share option scheme implemented by any subsidiary or associated company (as the case may be) of the Company, at the absolute discretion of the Remuneration Committee administering The 2001 Scheme.

DIRECTORS' STATEMENT

4 SHARE OPTIONS (cont'd)

As at the end of the financial year, details of the unissued ordinary shares of the Company under options granted pursuant to The 2001 Scheme were as follows:

Date of grant	Number of options to subscribe for ordinary shares			Outstanding at 31 December 2016	Subscription price per share	Expiry date
	Outstanding at 1 January 2016	Exercised	Lapsed			
13 July 2010	20,000	20,000	–	–	\$2.680	12 July 2020
	20,000	20,000	–	–		

- (i) The last grant of share options was issued to the Directors of the Company on 24 February 2005 and expired on 23 February 2010. As such, there were no share options granted to the Directors since 24 February 2005 and no outstanding share options held by the Directors since 23 February 2010 as all options granted were exercised. Details of the options granted and exercised by the Directors since the commencement of The 2001 Scheme up to 31 December 2016 are not disclosed as there were no movements in options granted and exercised and such details had been disclosed in the prior years.
- (ii) No options have been granted to the controlling shareholders or their associates, parent group employees, and no employee has received 5% or more of the options available under the scheme.
- (iii) No options have been granted at a discount to the market price of shares of the Company.

5 AUDIT AND RISK COMMITTEE

At the date of this report, the Audit and Risk Committee comprises four non-executive independent Directors:

Goh Yeow Tin (Chairman)
Ho Kah Leong
Ong Teong Wan
Teo Geok Har, Nancy

The Audit and Risk Committee carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act, Cap. 50 and the Code of Corporate Governance 2012.

In performing its functions, the Audit and Risk Committee reviewed the overall scope of both internal and external audits and the assistance given by the Company's officers to the auditors. It met with the Company's internal and external auditors four times during the year to discuss the scope and results of their respective audits, and at least once annually without the presence of Management. The Audit and Risk Committee has reviewed the independence of the external auditors, Deloitte & Touche LLP, including the scope of the non-audit services performed and confirmed that the auditors are independent.

In addition, the Audit and Risk Committee has reviewed the Financial Statements of the Group and of the Company before their submission to the Board of Directors of the Company and provided assurance to the Board on the adequacy of financial, operational, compliance and information technology controls.

The Audit and Risk Committee has full access to and has the co-operation of the Management and has been given the resources required for it to discharge its function properly. It also has full discretion to invite any director and executive officer to attend its meetings. The external and internal auditors have unrestricted access to the Audit and Risk Committee.

The Audit and Risk Committee has recommended to the Board of Directors, the nomination of Deloitte & Touche LLP for re-appointment as auditors of the Company at the forthcoming Annual General Meeting.

DIRECTORS' STATEMENT

6 AUDITORS

The auditors, Deloitte & Touche LLP, have expressed their willingness to accept re-appointment.

ON BEHALF OF THE DIRECTORS

Lim Jit Poh

Chairman

Sim Wing Yew

Chief Executive Officer

Singapore

8 February 2017

INDEPENDENT AUDITOR'S REPORT

To the Members of VICOM Ltd

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying Financial Statements of VICOM Ltd (the "Company") and its subsidiaries (the "Group") which comprise the Statements of Financial Position of the Group and the Company as at 31 December 2016, and the Income Statement, Comprehensive Income Statement, Statement of Changes in Equity and Cash Flow Statement of the Group and Statement of Changes in Equity of the Company for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies, as set out on pages 51 to 84.

In our opinion, the accompanying Consolidated Financial Statements of the Group and the Statement of Financial Position and Statement of Changes in Equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") 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 of the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current year. 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.

Goodwill impairment review

Under FRS 36, the Group is required to test goodwill for impairment annually, or more frequently if there are indicators that goodwill might be impaired. This assessment requires the exercise of significant judgement about future market conditions, including growth rates and discount rates. The goodwill are disclosed in Notes 3 and 12 of the Financial Statements.

Our audit procedures included critically challenging the key assumptions on growth rate and discount rate used by Management in the impairment review as disclosed in Note 3 to the Financial Statements. We performed sensitivity analysis around the key inputs including the growth rate and discount rate used in cash flow forecasts. We compared the growth rate to recent business performance, trend analysis and growth rate for the relevant country. For the discount rate, we compared it to the weighted average cost of capital. We found Management's key assumptions to be within the reasonable range of our expectations.

Allowance for expected credit losses for trade receivables

The Group makes allowances for expected credit losses based on an assessment of the recoverability of trade receivables. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation as disclosed in Note 3 to the Financial Statements.

Our audit procedures included critically challenging Management's assessment review for the allowance for expected credit losses. We have evaluated the design and implementation of key controls over the allowance for expected credit losses; assessed Management's assumptions about risk of default and expected credit loss rate; and assessed movement in the allowance for expected credit losses, write-off and recoveries of receivables. We found Management's key assumptions to be within the reasonable range of our expectations.

INDEPENDENT AUDITOR'S REPORT

To the Members of VICOM Ltd

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the Financial Statements and our auditor's report thereon. The Directors' Statement was obtained prior to the date of this auditor's report and the remaining other information included in the annual report is expected to be made available to us after that date.

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

In connection with our audit of the Financial Statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Responsibilities of Management and Directors for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

INDEPENDENT AUDITOR'S REPORT

To the Members of VICOM Ltd

Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

The engagement partner on the audit resulting in this independent auditor's report is Ang Poh Choo.

DELOITTE & TOUCHE LLP

Public Accountants and
Chartered Accountants
Singapore

8 February 2017

STATEMENTS OF FINANCIAL POSITION

31 December 2016

	Note	The Group		The Company	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
ASSETS					
Current assets					
Cash and cash equivalents	5	105,681	100,064	102,955	98,193
Trade receivables	6	13,259	13,762	2,125	2,281
Other receivables and prepayments	7	1,948	1,662	965	788
Inventories		21	19	–	–
Total current assets		120,909	115,507	106,045	101,262
Non-current assets					
Subsidiaries	8	–	–	25,941	25,941
Associate	9	25	25	–	–
Club memberships	10	219	251	219	251
Vehicles, premises and equipment	11	47,164	49,638	24,668	26,407
Goodwill	12	11,325	11,325	–	–
Total non-current assets		58,733	61,239	50,828	52,599
Total assets		179,642	176,746	156,873	153,861
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	13	21,298	21,205	5,168	4,608
Due to subsidiaries	14	–	–	36,194	38,631
Income tax payable		5,752	6,567	3,029	2,601
Total current liabilities		27,050	27,772	44,391	45,840
Non-current liability					
Deferred tax liabilities	15	1,769	1,722	263	240
Total liabilities		28,819	29,494	44,654	46,080
Capital, reserves and non-controlling interests					
Share capital	16	36,284	36,225	36,284	36,225
Other reserves	17	3,073	3,078	3,073	3,078
Foreign currency translation reserve		(265)	(244)	–	–
Accumulated profits		110,760	107,196	72,862	68,478
Equity attributable to shareholders of the Company		149,852	146,255	112,219	107,781
Non-controlling interests		971	997	–	–
Total equity		150,823	147,252	112,219	107,781
Total liabilities and equity		179,642	176,746	156,873	153,861

See accompanying notes to the Financial Statements.

GROUP INCOME STATEMENT

Year ended 31 December 2016

	Notes	The Group	
		2016 \$'000	2015 \$'000
Revenue	18	101,181	106,707
Staff costs	19	(44,453)	(45,916)
Depreciation and amortisation	10, 11	(6,462)	(6,101)
Repairs and maintenance costs		(1,579)	(1,436)
Materials and consumables		(2,523)	(2,647)
Contract services		(3,701)	(3,866)
Premises costs		(3,668)	(3,728)
Utilities and communication costs		(1,568)	(1,641)
Other operating costs		(4,793)	(4,924)
Total operating costs		(68,747)	(70,259)
Operating profit		32,434	36,448
Interest income		1,527	1,133
Profit before taxation		33,961	37,581
Taxation	20	(5,362)	(5,701)
Profit after taxation	21	28,599	31,880
Attributable to:			
Shareholders of the Company		28,162	31,417
Non-controlling interests		437	463
		28,599	31,880
Earnings per share (in cents):			
Basic	22	31.77	35.45
Diluted	22	31.77	35.45

See accompanying notes to the Financial Statements.

GROUP COMPREHENSIVE INCOME STATEMENT

Year ended 31 December 2016

	The Group	
	2016 \$'000	2015 \$'000
Profit after taxation	28,599	31,880
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange differences arising on translation of foreign operations	(21)	(137)
Other comprehensive income for the year	(21)	(137)
Total comprehensive income for the year	28,578	31,743
Total comprehensive income attributable to:		
Shareholders of the Company	28,141	31,280
Non-controlling interests	437	463
	28,578	31,743

See accompanying notes to the Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2016

	The Group						
	Attributable to shareholders of the Company						
	Share capital \$'000	Other reserves \$'000	Foreign currency translation reserve \$'000	Accumulated profits \$'000	Total \$'000	Non-controlling interests \$'000	Total equity \$'000
Balance at 1 January 2015	36,225	3,078	(107)	99,707	138,903	985	139,888
Total comprehensive income for the year							
Profit for the year	-	-	-	31,417	31,417	463	31,880
Other comprehensive income for the year	-	-	(137)	-	(137)	-	(137)
Total	-	-	(137)	31,417	31,280	463	31,743
Transactions recognised directly in equity							
Payment of dividends (Note 27)	-	-	-	(23,928)	(23,928)	-	(23,928)
Total	-	-	-	(23,928)	(23,928)	-	(23,928)
Payments to non-controlling interests	-	-	-	-	-	(451)	(451)
Balance at 31 December 2015	36,225	3,078	(244)	107,196	146,255	997	147,252
Total comprehensive income for the year							
Profit for the year	-	-	-	28,162	28,162	437	28,599
Other comprehensive income for the year	-	-	(21)	-	(21)	-	(21)
Total	-	-	(21)	28,162	28,141	437	28,578
Transactions recognised directly in equity							
Exercise of share options	59	(5)	-	-	54	-	54
Payment of dividends (Note 27)	-	-	-	(24,598)	(24,598)	-	(24,598)
Total	59	(5)	-	(24,598)	(24,544)	-	(24,544)
Payments to non-controlling interests	-	-	-	-	-	(463)	(463)
Balance at 31 December 2016	36,284	3,073	(265)	110,760	149,852	971	150,823

See accompanying notes to the Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2016

	The Company			
	Share capital \$'000	Other reserves \$'000	Accumulated profits \$'000	Total equity \$'000
Balance at 1 January 2015	36,225	3,078	60,303	99,606
Profit for the year, representing total comprehensive income for the year	-	-	32,103	32,103
Transactions recognised directly in equity				
Payment of dividends (Note 27)	-	-	(23,928)	(23,928)
Total	-	-	(23,928)	(23,928)
Balance at 31 December 2015	36,225	3,078	68,478	107,781
Profit for the year, representing total comprehensive income for the year	-	-	28,982	28,982
Transactions recognised directly in equity				
Exercise of share options	59	(5)	-	54
Payment of dividends (Note 27)	-	-	(24,598)	(24,598)
Total	59	(5)	(24,598)	(24,544)
Balance at 31 December 2016	36,284	3,073	72,862	112,219

See accompanying notes to the Financial Statements.

GROUP CASH FLOW STATEMENT

Year ended 31 December 2016

	The Group	
	2016 \$'000	2015 \$'000
Operating activities		
Profit before taxation	33,961	37,581
Adjustments for:		
Depreciation and amortisation	6,462	6,101
Interest income	(1,527)	(1,133)
Gain on disposal of vehicles, premises and equipment	(11)	(5)
Allowance for expected credit losses	746	613
Bad debts written off	–	6
Operating cash flows before movements in working capital	39,631	43,163
Trade receivables	(243)	(1,084)
Other receivables and prepayments	(137)	(118)
Inventories	(2)	2
Trade and other payables	93	(208)
Cash generated from operations	39,342	41,755
Income tax paid	(6,130)	(5,400)
Net cash from operating activities	33,212	36,355
Investing activities		
Purchase of vehicles, premises and equipment	(3,978)	(3,719)
Proceeds from disposal of vehicles, premises and equipment	19	13
Interest received	1,378	779
Net cash used in investing activities	(2,581)	(2,927)
Financing activities		
Proceeds from exercise of share options	54	–
Payments to non-controlling interests	(463)	(451)
Dividends paid (Note 27)	(24,598)	(23,928)
Net cash used in financing activities	(25,007)	(24,379)
Net effect of exchange rate changes in consolidating subsidiaries	(7)	(13)
Net increase in cash and cash equivalents	5,617	9,036
Cash and cash equivalents at beginning of year	100,064	91,028
Cash and cash equivalents at end of year (Note 5)	105,681	100,064

See accompanying notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

1 GENERAL

The Company (Registration No. 198100320K) is incorporated in the Republic of Singapore with its registered office at 205 Braddell Road, Singapore 579701. Its principal place of business is at 385 Sin Ming Drive, Singapore 575718. The Company is listed on the Singapore Exchange Securities Trading Limited.

The principal activities of the Company are those of an investment holding company and the provision of motor vehicle evaluation and other related services. The principal activities of the companies in the Group are in the business of testing services which include the provision of motor vehicle inspection services and provision of non-vehicle testing, inspection and consultancy services, as described in Note 8.

The Financial Statements are expressed in Singapore dollars and all values are rounded to the nearest thousand (\$'000) except when otherwise indicated.

The Consolidated Financial Statements of the Group for the financial year ended 31 December 2016 and the Statement of Financial Position and Statement of Changes in Equity of the Company as at 31 December 2016 were authorised for issue by the Board of Directors on 8 February 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING – The Financial Statements have been prepared in accordance with the historical cost basis, except as disclosed in the accounting policies below and are drawn up in accordance with the provisions of the Singapore Companies Act, Cap. 50 and Singapore Financial Reporting Standards (“FRSs”).

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these Consolidated Financial Statements is determined on such a basis, except for share-based payment transactions that are within the scope of FRS 102 *Share-based Payments*, leasing transactions that are within the scope of FRS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in FRS 2 *Inventories* or value in use in FRS 36 *Impairment of Assets*.

ADOPTION OF NEW AND REVISED FINANCIAL STANDARDS – In the current financial year, the Group has adopted all the new and revised 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 has no material effect on the amounts reported for the current or prior years.

NEW/REVISED STANDARDS AND IMPROVEMENTS TO THE STANDARDS NOT YET ADOPTED – The Group has not applied the following accounting standards that are relevant to the Group and have been issued as at the end of the reporting period but are not yet effective:

FRS 115	– <i>Revenue from Contracts with Customers (with classifications issued)</i> ¹
FRS 116	– <i>Leases</i> ²

¹ Applies to annual periods beginning on or after 1 January 2018, with early application permitted.

² Applies to annual periods beginning on or after 1 January 2019, with early application permitted, if FRS 115 is adopted.

These standards are not expected to have any material impact on the Group's Financial Statements when they are adopted, except for the additional disclosures in respect of the new standards and the effects of FRS 116 which may result in certain operating lease arrangements being recorded in the Statements of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

BASIS OF CONSOLIDATION – The Consolidated Financial Statements incorporate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

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

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the Group Income Statement and Group Comprehensive Income Statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or Loss and each component of Other Comprehensive Income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination (see below) and the non-controlling interests' share of changes in equity since the date of the combination. Losses are attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

In the Statement of Financial Position of the Company, investments in subsidiaries and associates are carried at cost less any impairment in net recoverable value that has been recognised in Profit or Loss.

BUSINESS COMBINATIONS – The acquisition of subsidiaries is accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of acquisition, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group to the former owners of the acquiree in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under FRS 103 *Business Combinations* are recognised at their fair values at the acquisition date except for deferred tax assets or liabilities which are recognised and measured in accordance with FRS 12 *Income Taxes*. Acquisition-related costs are recognised in Profit or Loss as incurred.

The interest of the non-controlling shareholders in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities as recognised.

FINANCIAL INSTRUMENTS – Financial assets and financial liabilities are recognised on the Group's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial assets

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances and short-term deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade and other receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "trade and other receivables". Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method less allowance for expected credit losses. Receivables at amortised cost are assets that are held for collection of contractual cash flows. Interest is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

Provision for impairment of financial assets

Trade and other receivables are assessed for indicators of impairment at the end of each reporting period.

The Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost.

For trade receivables, the Group applies the simplified approach permitted under FRS 109, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The carrying amount of the trade and other receivables is reduced through the use of an allowance account.

When a trade and other receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to Profit or Loss. Changes in the carrying amount of the allowance account are recognised in Profit or Loss.

In determining the recoverability of a receivable, the Group considers any change in the credit quality of the receivables from the date credit was initially granted up to the reporting date and expected credit losses as at end of the reporting period. It considers available, reasonable and supportive forward-looking information, where relevant.

A default on a financial asset is when the counterparty fails to make contractual payments within a specific period after the credit period granted.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include taking into consideration observable data about the significant financial difficulty of the issuer or the borrower; a breach of contract, such as a default or past due event; it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Where receivables have been written off, the Group continues to recover the receivable due. Where recoveries are made, these are recognised in Profit or Loss.

Financial liabilities and equity instruments

Classification as debt or equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Trade and other payables

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest method, with interest expense recognised on an effective yield basis.

LEASES – Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases (net of any incentive received from lessor) are charged to Profit or Loss on a straight-line basis over the term of the relevant lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

INVENTORIES – Inventories, comprise of spare parts for the testing services equipment, are stated at cost. Cost comprises cost of purchase and those costs that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method.

CLUB MEMBERSHIPS – Club memberships acquired are recorded at cost less accumulated amortisation and any accumulated impairment losses.

VEHICLES, PREMISES AND EQUIPMENT – Vehicles, premises and equipment are stated at cost or valuation, less accumulated depreciation and any provision for impairment.

All vehicles, premises and equipment are initially recorded at cost. One leasehold land was revalued based on valuation by an external independent valuer. That leasehold land of the Company and of the Group was valued at open market value on the basis of existing use by a firm of professional valuers in March 1995. The Group and the Company have no fixed policy on the frequency of valuation of its leasehold land. As the valuation was carried out for the purpose of updating the book value of the leasehold land at that time and was a one-off revaluation, the Group and the Company have opted for an exemption under FRS 16, *Property, Plant and Equipment* to further revalue its leasehold land. All other vehicles, premises and equipment are stated at historical cost less accumulated depreciation.

On the disposal of premises carried at valuation, the revaluation surplus relating to the premises is transferred directly to accumulated profits.

Capital projects in progress comprising development and construction costs incurred during the period of construction are carried at cost, less any recognised provision for impairment. Depreciation on these assets, on the same basis as other vehicles, premises and equipment, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of the assets, other than capital projects in progress, over their estimated useful lives, using the straight-line method, on the following bases:

Leasehold land and buildings	–	Over the remaining lease period
Furniture, fittings and equipment	–	5 years
Workshop machinery, tools and equipment	–	5 to 20 years
Motor vehicles	–	5 years
Computers and automated equipment	–	5 years

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

On disposal of an item of vehicles, premises and equipment, the difference between the sale proceeds and its carrying amount is recognised in Profit or Loss.

Fully depreciated vehicles, premises and equipment still in use are retained in the Financial Statements.

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

The results and assets and liabilities of associates are incorporated in these Consolidated Financial Statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with FRS 105. Under the equity method, an investment in an associate is initially recognised in the Consolidated Statement of Financial Position at cost and adjusted thereafter to recognise the Group's share of the Profit or Loss and Other Comprehensive Income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in Profit or Loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

GOODWILL – Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the excess is recognised immediately in Profit or Loss.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any provision for impairment.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the provision for impairment is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. A provision for impairment recognised for goodwill is not reversed in a subsequent period.

On divestment of a subsidiary, the attributable amount of goodwill is included in the determination of the Profit or Loss on divestment.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

IMPAIRMENT OF TANGIBLE ASSETS – At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the provision for impairment (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. A provision for impairment is recognised immediately in Profit or Loss.

Where provision for impairment subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no provision for impairment been recognised for the asset (cash-generating unit) in prior years. A reversal of provision for impairment is recognised immediately in Profit or Loss.

PROVISIONS – Provisions are recognised when the Group and the Company have a present obligation (legal or constructive) as a result of a past event, it is probable that the Group and the Company will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the present value of the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

SERVICE BENEFITS – These comprise the following:

- (i) **Retirement Benefits** – The Company and some of the subsidiaries participate in defined contribution retirement benefit plan (Central Provident Fund for Singapore-incorporated subsidiaries and Employees Provident Fund for Malaysia-incorporated subsidiary). Payments made to the plan are charged as an expense as they fall due.
- (ii) **Employee Leave Entitlement** – Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.
- (iii) **Share-Based Payments** – Under The 2001 Scheme which expired on 26 April 2011, the Company issued share options to certain employees and Directors. Share options are measured at fair value of the equity instruments (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the share options is expensed on a straight-line basis over the vesting period with a corresponding adjustment against share option reserve, based on the Group's and the Company's estimate of the number of equity instruments that will eventually vest.

Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

GOVERNMENT GRANT – Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grant will be received. Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the Statement of Financial Position and transferred to Profit or Loss on a systematic and rational basis over the useful lives of the related assets.

Government grants in relation to expenses incurred are recognised as other operating income in the period which they become receivable.

REVENUE RECOGNITION – Revenue is measured at the fair value of the consideration received or receivable, net of discounts and sales related taxes.

Rendering of services

Revenue from inspection and testing services is recognised as and when service is completed.

Where the outcome of a consultancy project cannot be estimated reliably, project revenue is recognised to the extent of project costs incurred that are probably recoverable. Project costs are recognised as expenses in the period in which they are incurred.

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

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

INCOME TAX – Current income tax liabilities (and assets) for current and prior periods are recognised at the amounts expected to be paid to (or recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets/liabilities are recognised for deductible/taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. The principal temporary differences arise from depreciation and future tax benefits from certain provisions not allowed for tax purposes until a later period. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Current and deferred tax are recognised as an expense or income in Profit or Loss, except when they relate to items credited or debited outside Profit or Loss (either in Other Comprehensive Income or directly in equity), in which case the tax is also recognised outside Profit or Loss (either in Other Comprehensive Income or directly in equity), or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION – The individual Financial Statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The Consolidated Financial Statements of the Group and the Statement of Financial Position and Statement of Changes in Equity of the Company are presented in Singapore dollars, which is the functional currency of the Company, and the presentation currency for the Consolidated Financial Statements.

In preparing the Financial Statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rate of exchange prevailing on the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are translated at rates prevailing at the end of each reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in Profit or Loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in Profit or Loss for the period except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognised in Other Comprehensive Income. For such non-monetary items, any exchange component of that gain or loss is also recognised in Other Comprehensive Income.

For the purpose of presenting Consolidated Financial Statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Singapore dollars using exchange rates prevailing at the end of the reporting period. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in Other Comprehensive Income and accumulate in the Group's currency translation reserve. Such translation differences are recognised in Profit or Loss in the period in which the foreign operation is disposed of.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges of such investments, are recognised in Other Comprehensive Income and accumulated in the currency translation reserve.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgements in applying the Group's accounting policies

In the application of the Group's accounting policies, which are described in Note 2, Management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Management is of the opinion that any instances of applications of judgements are not expected to have a significant effect on the amounts recognised in the Financial Statements (apart from those involving estimations, which are dealt with below).

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (cont'd)

Key sources of estimation uncertainty

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

Goodwill impairment review

The Group tests goodwill annually for impairment, or more frequently if there are indicators that goodwill might be impaired.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units ("CGU") to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. No provision for impairment has been recognised. The carrying amount of goodwill at the end of the reporting period is disclosed in Note 12.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates and growth rates.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by Management for the next year and extrapolates cash flows for the following 4 years based on an estimated growth rates of approximately 2.2% (2015 : 2.9%). The estimated growth rate does not exceed the average long-term growth rate for the relevant country in which the CGU operates.

The discount rate applied to the forecast is assumed at 5.39% (2015 : 5.80%).

As at 31 December 2016 and 31 December 2015, any reasonably possible changes to the key assumptions applied are not likely to cause the recoverable amount to be below the carrying amount of the CGU.

Allowance for expected credit losses

The Group makes allowances for expected credit losses based on an assessment of the recoverability of trade receivables. The impairment provisions for trade receivables are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The identification of loss allowance requires use of judgement and estimates. Where the expectation is different from the original estimate, such difference will have an impact on the carrying amount of the trade receivables and loss allowance in the period in which such estimate has been changed. The carrying amount of trade receivables is disclosed in Note 6.

4 HOLDING COMPANY AND RELATED COMPANY/PARTY TRANSACTIONS

The Company is a subsidiary of ComfortDelGro Corporation Limited, incorporated in the Republic of Singapore, which is also the Company's ultimate holding company. Related companies in these Financial Statements refer to members of the holding company's group of companies.

Some of the Group's transactions and arrangements and terms thereof are arranged by or between members of the holding company's group of companies. The intercompany balances are unsecured, interest-free and repayable on demand unless otherwise stated.

Transactions between the Company and its subsidiaries, which are related companies of the Company, have been eliminated on consolidation and are not disclosed in this note.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

4 HOLDING COMPANY AND RELATED COMPANY/PARTY TRANSACTIONS (cont'd)

Significant related company transactions are as follows:

	The Group	
	2016 \$'000	2015 \$'000
Inspection and testing services charged to related companies	(2,325)	(2,348)
Diesel outlet (variable rental) income charged to related company	(401)	(422)
Rental income charged to related companies	(482)	(455)
Assessment fee charged to related companies	(372)	(327)
Other fees charged to related companies	(79)	(77)
Corporate service charges paid to holding company	350	350
Other charges paid to holding company	110	107
Other charges paid to related companies	216	319
Rental expense paid to related companies	207	206

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad debts allowance in respect of the amounts owed by related companies.

5 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Cash and bank balances	3,102	2,015	895	608
Fixed deposits with financial institutions	102,579	98,049	102,060	97,585
Total	105,681	100,064	102,955	98,193

Fixed deposits are placed on a staggered basis based on the Group's cash flow projections, bore interest at effective interest rates of between 1.22% to 1.97% (2015 : 1.17% to 1.95%) per annum and for a weighted average tenure of approximately 429 days (2015 : 384 days). These deposits are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

6 TRADE RECEIVABLES

	The Group		The Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Outside parties	14,505	14,308	799	797
Allowance for expected credit losses	(1,298)	(789)	(86)	(21)
Allowance for discount allowed	(413)	(300)	–	–
Net	12,794	13,219	713	776
Holding company (Note 4)	–	–	–	–
Subsidiaries (Note 4)	–	–	1,312	1,324
Related companies (Note 4)	465	543	100	181
Total	13,259	13,762	2,125	2,281

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

6 TRADE RECEIVABLES (cont'd)

The average credit period on sale of goods and provision of services is 30 days (2015 : 30 days).

Before accepting any new corporate customer, the Group assesses the potential customer's credit quality and defines credit limits by customer.

An allowance has been made for estimated irrecoverable amounts from the provision of services to outside parties of \$1,298,000 (2015 : \$789,000). This allowance which has been determined by reference to past default experience and expected credit losses, ranging from 2% to 13.1% (2015 : 2.2% to 3.2%) for receivable that are current to more than 180 days past due. The expected credit losses incorporate forward looking estimates. In calculating the expected credit loss rates, the Group and the Company considers historical loss rates for each category of customers, taking into consideration information including internal and external credit ratings, and adjust for forward-looking macroeconomic data.

Approximately 66% (2015 : 67%) of the Group's trade receivables are neither past due nor impaired. Included in the Group's trade receivable balance are debtors with a carrying amount of \$3,689,000 (2015 : \$3,991,000) which are past due at the reporting date for which the Group has not provided an allowance as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. On the average, these trade receivables are past due for 43 days (2015 : 66 days).

Approximately 94% (2015 : 95%) of the Company's trade receivables are neither past due nor impaired. Included in the Company's trade receivable balance are debtors with a carrying amount of \$53,000 (2015 : \$95,000) which are past due at the reporting date for which the Company has not provided an allowance as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Company does not hold any collateral over these balances. On the average, these trade receivables are past due for 17 days (2015 : 34 days).

Movements in allowance for expected credit losses:

	The Group		The Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Balance at beginning of the year	789	287	21	24
Amounts written off during the year	(237)	(111)	(3)	–
Increase (Decrease) in allowance recognised in Profit or Loss	746	613	68	(3)
Balance at end of the year	1,298	789	86	21

The Group's and Company's trade receivables that are not denominated in the functional currencies of the respective entities are as follows:

	The Group		The Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Denominated in:				
Malaysian ringgit	4	110	–	–
United States dollars	145	181	–	–

As at 31 December 2016, included in the gross carrying amounts of the trade receivables and allowance of the Group and the Company are credit impaired financial assets amounting to \$1,025,000 (2015 : \$525,000) and \$76,000 (2015 : \$8,000) respectively.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

6 TRADE RECEIVABLES (cont'd)

During the year, the credit impaired financial assets of the Group and the Company written off amounted to \$237,000 (2015 : \$111,000) and \$3,000 (2015 : \$Nil) respectively; and the allowance recognised in Profit or Loss amounted to \$669,000 (2015 : \$349,000) and \$68,000 (2015 : reversal of \$16,000) respectively.

During the year, the gross carrying amounts of trade receivables of the Group and the Company transferred from lifetime expected credit losses to credit impaired financial assets amounted to \$68,000 (2015 : \$349,000) and \$3,000 (2015 : \$Nil) respectively.

7 OTHER RECEIVABLES AND PREPAYMENTS

	The Group		The Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Other receivables	780	536	–	29
Interest receivable	804	655	778	628
Deposits	118	199	10	14
Prepayments	246	272	177	117
Total	1,948	1,662	965	788

The Group's and Company's other receivables and interest receivable are due from outside parties and these receivables are current. The Group and Company has not recognised any allowance as the Management assessed the credit risk to be low.

8 SUBSIDIARIES

	The Company	
	2016 \$'000	2015 \$'000
Unquoted equity shares, at cost	25,941	25,941

Details of subsidiaries at 31 December 2016 are as follows:

Name of entity	Principal activity	Country of incorporation/ operation	Company's effective interest		Cost of investment	
			2016 %	2015 %	2016 \$'000	2015 \$'000
VICOM Inspection Centre Pte Ltd	Provision of vehicle inspection services	Singapore	100	100	4,160	4,160
JIC Inspection Services Pte Ltd	Vehicle inspection and other related services	Singapore	78	78	5,663	5,663
Setsco Services Pte Ltd	Provision of testing, inspection and consultancy services	Singapore	100	100	16,118	16,118

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

8 SUBSIDIARIES (cont'd)

Name of entity	Principal activity	Country of incorporation/ operation	Company's effective interest		Cost of investment	
			2016 %	2015 %	2016 \$'000	2015 \$'000
Subsidiaries of Setsco Services Pte Ltd						
Setsco Services (M) Sdn Bhd	Provision of testing, inspection and consultancy services	Malaysia	100	100	-	-
Setsco Consultancy International Pte Ltd	Provision of professional inspection and engineering services	Singapore	100	100	-	-
SETS Services DMCC	Building inspection services	United Arab Emirates	100	-	-	-
					25,941	25,941

All the companies are audited by Deloitte & Touche LLP, Singapore, except for Setsco Services (M) Sdn Bhd, which is audited by another firm of auditors, WT Ng & Co, Kuala Lumpur. There is no requirement for SETS Services DMCC to be audited as at 31 December 2016.

The Group is in compliance with Listing Rules 712 and 715 of The Singapore Exchange Securities Trading Limited as suitable auditing firms have been appointed to meet the Group's audit obligations. In accordance to Rule 716, the Audit and Risk Committee and Board of Directors of the Company confirmed that they are satisfied that the appointment of different auditor for Setsco Services (M) Sdn Bhd would not compromise the standard and effectiveness of the audit of the Group.

Information about the composition of the Group at the end of the financial year is as follows:

Principal activity	Place of incorporation and operation	Number of wholly-owned subsidiaries	
		2016	2015
Provision of vehicle inspection services	Singapore	1	1
Provision of testing inspection and consultancy services	Singapore	1	1
Provision of professional inspection and engineering services	Singapore	1	1
Provision of testing inspection and consultancy services	Malaysia	1	1
Building inspection services	United Arab Emirates	1	-
		5	4
Principal activity	Place of incorporation and operation	Number of non wholly-owned subsidiaries	
		2016	2015
Vehicle inspection and other related services	Singapore	1	1

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9 ASSOCIATE

	The Group		The Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Unquoted equity shares, at cost	50	50	-	-
Less: Share of post-acquisition reserves	(25)	(25)	-	-
Net	25	25	-	-

a) Details of the associate at 31 December 2016 is as follows:

Associate of Setsco Consultancy International Pte Ltd	Principal activity	Country of incorporation/ operations	Group's effective interest		Cost of investment	
			2016 %	2015 %	2016 \$'000	2015 \$'000
Setsco Middle East Laboratory LLC	Provision of testing, inspection, training, certification and consultancy services	Abu Dhabi, United Arab Emirates/ Dormant	49	49	50	50

The associate was set up on 30 November 2010 and has been dormant since 2012. The accounts have not been audited. The associate is insignificant.

b) Summarised financial information in respect of the Group's associate is set out below:

	2016 \$'000	2015 \$'000
Total assets	80	80
Total liabilities	(29)	(29)
Net assets	51	51
Group's share of associate's net assets	25	25
Loss for the year	-	-
Group's share of associate's loss for the year	-	-

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10 CLUB MEMBERSHIPS

	The Group and The Company	
	2016 \$'000	2015 \$'000
Cost:		
At beginning and end of year	451	451
Accumulated amortisation:		
At beginning of year	64	32
Amortisation for the year	32	32
At end of the year	96	64
Accumulated impairment:		
At beginning and end of year	136	136
Carrying amounts at end of year	219	251

In 2014, the Company had reassessed the useful life of the club membership from indefinite useful life to 10 years. Accordingly, the Company has amortised the club membership over 10 years.

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11 VEHICLES, PREMISES AND EQUIPMENT

	Leasehold buildings \$'000	Leasehold land \$'000	Furniture, fittings and equipment \$'000	Workshop machinery, tools and equipment \$'000	Motor vehicles \$'000	Computers and automated equipment \$'000	Capital projects in progress \$'000	Total \$'000
Group								
Cost or valuation:								
At 1 January 2015	55,549	14,813	1,080	36,175	2,691	1,144	479	111,931
Additions	450	–	184	1,946	533	454	152	3,719
Disposals	–	–	(65)	(1,157)	(263)	(101)	–	(1,586)
Transfers from capital projects in progress	461	–	–	–	–	–	(461)	–
Exchange differences	(117)	–	(3)	(58)	(29)	(3)	–	(210)
At 31 December 2015	56,343	14,813	1,196	36,906	2,932	1,494	170	113,854
Additions	248	–	94	3,300	279	57	–	3,978
Disposals	(14)	–	(38)	(2,224)	(191)	(57)	–	(2,524)
Transfers from capital projects in progress	162	–	8	–	–	–	(170)	–
Exchange differences	(14)	–	–	(10)	(3)	–	–	(27)
At 31 December 2016	56,725	14,813	1,260	37,972	3,017	1,494	–	115,281
Comprising:								
At cost	56,725	7,513	1,260	37,972	3,017	1,494	–	107,981
At valuation	–	7,300	–	–	–	–	–	7,300
Total	56,725	14,813	1,260	37,972	3,017	1,494	–	115,281
Accumulated depreciation:								
At 1 January 2015	27,219	4,171	366	25,470	1,530	1,055	–	59,811
Depreciation	1,970	412	302	2,901	416	68	–	6,069
Disposals	–	–	(63)	(1,153)	(261)	(101)	–	(1,578)
Exchange differences	(17)	–	(2)	(47)	(17)	(3)	–	(86)
At 31 December 2015	29,172	4,583	603	27,171	1,668	1,019	–	64,216
Depreciation	2,002	411	295	3,105	464	153	–	6,430
Disposals	(14)	–	(38)	(2,217)	(190)	(57)	–	(2,516)
Exchange differences	(4)	–	–	(6)	(3)	–	–	(13)
At 31 December 2016	31,156	4,994	860	28,053	1,939	1,115	–	68,117
Carrying amounts:								
At 31 December 2016	25,569	9,819	400	9,919	1,078	379	–	47,164
At 31 December 2015	27,171	10,230	593	9,735	1,264	475	170	49,638

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

11 VEHICLES, PREMISES AND EQUIPMENT (cont'd)

	Leasehold buildings \$'000	Leasehold land \$'000	Furniture, fittings and equipment \$'000	Workshop machinery, tools and equipment \$'000	Motor vehicles \$'000	Computers and automated equipment \$'000	Capital projects in progress \$'000	Total \$'000
Company								
Cost or valuation:								
At 1 January 2015	38,197	14,813	231	2,264	135	133	10	55,783
Additions	178	–	48	23	–	325	–	574
Disposals	–	–	(11)	(4)	–	(22)	–	(37)
Transfers from capital projects in progress	10	–	–	–	–	–	(10)	–
At 31 December 2015	38,385	14,813	268	2,283	135	436	–	56,320
Additions	9	–	22	–	78	19	–	128
Disposals	–	–	(10)	–	(54)	(5)	–	(69)
At 31 December 2016	38,394	14,813	280	2,283	159	450	–	56,379
Comprising:								
At cost	38,394	7,513	280	2,283	159	450	–	49,079
At valuation	–	7,300	–	–	–	–	–	7,300
Total	38,394	14,813	280	2,283	159	450	–	56,379
Accumulated depreciation:								
At 1 January 2015	23,007	4,172	155	653	92	86	–	28,165
Depreciation	1,186	411	26	136	13	13	–	1,785
Disposals	–	–	(11)	(4)	–	(22)	–	(37)
At 31 December 2015	24,193	4,583	170	785	105	77	–	29,913
Depreciation	1,185	412	33	134	24	79	–	1,867
Disposals	–	–	(10)	–	(54)	(5)	–	(69)
At 31 December 2016	25,378	4,995	193	919	75	151	–	31,711
Carrying amounts:								
At 31 December 2016	13,016	9,818	87	1,364	84	299	–	24,668
At 31 December 2015	14,192	10,230	98	1,498	30	359	–	26,407

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

11 VEHICLES, PREMISES AND EQUIPMENT (cont'd)

Details of the Company's and the Group's leasehold land and buildings are as follows:

Held by	Group's effective interest	Location	Approximate land area	Tenure	Usage
The Company	100%	No. 511 Bukit Batok Street 23 Singapore 659545	9,625.0 sq metre	30 years from October 1995 with option to renew another 30 years	Inspection, testing and assessment services
The Company	100%	No. 385 Sin Ming Drive Singapore 575718	10,852.6 sq metre	30 years from January 2011	Inspection, assessment services
The Company	100%	No. 501 Yishun Industrial Park A Singapore 768732	5,190.3 sq metre	60 years from July 1983	Inspection services
The Company	100%	No. 501 Yishun Industrial Park A Singapore 768732	1,104.9 sq metre	30 years from July 2013	Inspection services
The Company	100%	No. 23 Kaki Bukit Avenue 4 Singapore 415933	9,796.9 sq metre	30 years from January 1997 with option to renew another 30 years	Inspection, assessment services
The Company	100%	No. 20 Changi North Crescent Singapore 499613	6,015.0 sq metre	30 years from May 1995	Inspection services
Setsco Services Pte Ltd	100%	No. 18 Teban Gardens Crescent Singapore 608925	9,829.7 sq metre	30 years from February 2009	Testing, inspection and consultancy services
Setsco Services (M) Sdn Bhd	100%	31 Jln Industri Mas 12 Taman Mas 47100 Puchong Selangor Darul Ehsan West Malaysia	791.5 sq metre	99 years from December 2009	Testing, inspection and consultancy services
JIC Inspection Services Pte Ltd	78%	No. 53 Pioneer Road Singapore 628505	9,190.0 sq metre	30 years from December 1994	Inspection services
JIC Inspection Services Pte Ltd	78%	No. 15 Ang Mo Kio Street 63 Singapore 569117	2,145.0 sq metre	3 years from March 2014, renewed for another 3 years from March 2017	Inspection services

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

12 GOODWILL

	The Group	
	2016 \$'000	2015 \$'000
Carrying amount:		
At beginning and end of year	11,325	11,325

Goodwill acquired in business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	The Group	
	2016 \$'000	2015 \$'000
Testing and inspection services	9,268	9,268
Vehicle inspection services	2,057	2,057
	11,325	11,325

The Group tests goodwill annually for impairment or more frequently if there are indicators that goodwill might be impaired.

13 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Outside parties	2,888	2,543	1,282	719
Holding company (Note 4)	97	97	58	54
Related companies	35	51	2	2
Accruals	14,570	15,298	3,052	2,935
Deferred income	899	612	–	–
Deposits received from customers	1,420	1,100	488	484
Others	1,389	1,504	286	414
Total	21,298	21,205	5,168	4,608

The average credit period on purchases of goods and services is 30 days (2015 : 30 days).

14 DUE TO SUBSIDIARIES

Included in the payable to subsidiaries is an amount of \$34,445,000 (2015 : \$36,787,000) pertaining to funds held under central pooling which is unsecured and repayable on demand. Subsidiaries, except wholly-owned subsidiaries, receive interest at the rate of 1.22% to 1.80% (2015 : 1.20% to 1.70%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

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15 DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised by the Group and Company, and the movements thereon, during the current and prior reporting periods:

	Accelerated tax depreciation \$'000	Provisions \$'000	Total \$'000
Group			
At 1 January 2015	1,781	(295)	1,486
Charge to Profit or Loss for the year (Note 20)	188	48	236
At 31 December 2015	1,969	(247)	1,722
Charge to Profit or Loss for the year (Note 20)	13	34	47
At 31 December 2016	1,982	(213)	1,769
Company			
At 1 January 2015	386	(178)	208
Charge to Profit or Loss for the year	1	31	32
At 31 December 2015	387	(147)	240
Charge to Profit or Loss for the year	13	10	23
At 31 December 2016	400	(137)	263

16 SHARE CAPITAL

	The Group and The Company			
	2016 Number of ordinary shares	2015	2016 \$'000	2015 \$'000
Issued and paid up:				
At beginning of year	88,622,000	88,622,000	36,225	36,225
Exercise of share options	20,000	-	59	-
At end of year	88,642,000	88,622,000	36,284	36,225

Fully paid ordinary shares carry one vote per share and carry a right to dividends.

Share options

As at 31 December 2016, all share options have been exercised. Further details of the employee share option plan are contained in Note 19(e).

NOTES TO THE FINANCIAL STATEMENTS

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17 OTHER RESERVES

	The Group		The Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Share option reserve:				
At beginning of year	5	5	5	5
Exercise of share options	(5)	–	(5)	–
At end of year	–	5	–	5
Revaluation reserve:				
At beginning and end of year	3,073	3,073	3,073	3,073
Net	3,073	3,078	3,073	3,078

The revaluation reserve relates to valuation of leasehold land (Note 11), which is not available for distribution to the Company's shareholders.

The share option reserve arises from the grant of share options to employees under the employee share option plan. Further information about share-based payments to employees is set out in Notes 16 and 19(e).

18 REVENUE

	The Group	
	2016 \$'000	2015 \$'000
Inspection and testing services	96,783	102,544
Rental income	2,705	2,741
Others	1,693	1,422
	101,181	106,707

19 STAFF COSTS

- a) Directors' remuneration (included in staff costs)

The remuneration of the Directors is determined by the Remuneration Committee having regard to the performance of the individual and the Group, as follows:

Remuneration band	The Group			Total compensation %
	Salary %	Bonus %	Others %	
2016				
\$500,000 to \$749,999				
Sim Wing Yew	47	45	8	100
2015				
\$250,000 to \$499,999				
Sim Wing Yew	49	46	5	100

NOTES TO THE FINANCIAL STATEMENTS

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19 STAFF COSTS (cont'd)

The remuneration of the non-executive Directors comprised entirely Directors' fees as follows:

	<u>The Group</u>
	<u>2016</u>
	<u>\$</u>
Lim Jit Poh	69,684
Kua Hong Pak	42,375*
Goh Yeow Tin	62,150
Ho Kah Leong	48,025
Ong Teong Wan	48,025
Sim Cheok Lim	41,434
Teo Geok Har, Nancy	50,850

*Fee paid to the Company's ultimate holding company, ComfortDelGro Corporation Limited.

b) Key executives' remuneration (included in staff costs)

The remuneration of the key executives (excluding Directors of the Group) is determined by the Remuneration Committee having regard to the performance of the individuals and the Group, as follows:

Remuneration band	<u>The Group</u>			Total compensation %
	Salary %	Bonus %	Others %	
2016				
\$250,000 to \$499,999	54	35	11	100
No. of executives : 4				
Below \$250,000				
No. of executives : 2	60	33	7	100
2015				
\$250,000 to \$499,999				
No. of executives : 3	51	38	11	100
Below \$250,000				
No. of executives : 3	61	32	7	100

The Code of Corporate Governance 2012 recommends the disclosure of the remuneration of the Directors and the Group's top five key executives. The Board had considered this matter carefully and has decided against such disclosure except for non-executive Directors. Given the wage disparities and keen competition in the industry and the likely competitive pressures resulting from such disclosures, it is felt that the disadvantages of disclosure outweigh the benefits.

NOTES TO THE FINANCIAL STATEMENTS

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19 STAFF COSTS (cont'd)

- c) The remuneration of the Directors and key executives comprises mainly of short term benefits amounting to \$2,754,000 (2015 : \$2,646,000).

	The Group	
	2016 \$'000	2015 \$'000
Cost of defined contribution plans (included in staff costs)	4,207	4,270

The employees of the Company and some of the subsidiaries are members of defined contribution retirement schemes. The Company and these subsidiaries are required to contribute a specified percentage of their payroll costs to the retirement schemes to fund the benefits. The only obligation of the Company and these subsidiaries with respect to the schemes is to make the specified contributions.

- e) Share-based Payments (included in staff costs)

Share option scheme

The Company has a share option scheme for certain employees and Directors of the Company which expired on 26 April 2011 and hence no option has been granted since then. The existing options granted will continue to vest according to the terms and conditions of the scheme and the respective grants. The scheme is administered by the Remuneration Committee. Information on the share option plans is disclosed in paragraph 4 to the Directors' statement. Options are exercisable at a subscription price determined with reference to the market price of the shares at the time of grant of the options. The vesting period is 1 year. If the options remain unexercised after a period of 10 years (5 years for non-executive Directors) from the date of the grant, the options expire. Options granted will lapse when the option holder ceases to be a full-time employee or a Director of the Group, subject to certain exceptions at the discretion of the Remuneration Committee.

	The Group and The Company			
	2016		2015	
	Number of share options	Weighted average exercise price \$	Number of share options	Weighted average exercise price \$
Outstanding at the beginning of the year	20,000	2.68	20,000	2.68
Exercised during the year	(20,000)	2.68	–	–
Outstanding at the end of the year	–	–	20,000	2.68
Exercisable at the end of the year	–	–	20,000	2.68

The weighted average share price at the date of exercise for share options exercised during the year was \$5.99 (2015 : \$Nil). There is no outstanding options at the end of the year.

No options were granted since 2011.

From 2006 onwards, no options were granted to Directors.

NOTES TO THE FINANCIAL STATEMENTS

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20 TAXATION

	The Group	
	2016 \$'000	2015 \$'000
Taxation charge (credit) in respect of profit for the financial year:		
Current taxation		
Singapore	5,481	6,358
Foreign	53	72
Deferred tax (Note 15)	(27)	(2)
Adjustments in respect of under (over) provision in prior years:		
Current taxation	(219)	(965)
Deferred tax (Note 15)	74	238
	5,362	5,701

The taxation charge varied from the amount of taxation charge determined by applying the Singapore income tax rate of 17% (2015 : 17%) to profit before taxation as a result of the following differences:

	The Group	
	2016 \$'000	2015 \$'000
Profit before taxation	33,961	37,581
Taxation at the domestic income tax rate of 17% (2015 : 17%)	5,773	6,389
Non-allowable items	462	428
Tax-exempt income	(104)	(104)
Overprovision in prior years (net)	(145)	(727)
Tax benefits under Productivity and Innovation Credit Scheme	(637)	(299)
Effect of different tax rates of subsidiary operating in other jurisdiction	13	14
	5,362	5,701

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

21 PROFIT AFTER TAXATION

In addition to the charges and (credits) disclosed elsewhere in the notes to the Income Statement, this item includes the following charges (credits):

	The Group	
	2016 \$'000	2015 \$'000
Directors' fees	400	390
Foreign currency exchange adjustment (gain) loss	(2)	129
Gain on disposal of vehicles, premises and equipment	(11)	(5)
Allowance for expected credit losses	746	613
Bad debts written off	–	6
Cost of inventories recognised as expense	4	5
Government Grants:		
Special Employment Credit Scheme	(185)	(172)
Wage Credit Scheme	(791)	(626)
Temporary Employment Credit	(258)	(146)
Audit fees:		
Auditors of the Company	64	64
Other auditors	2	2
Non-audit fees:		
Auditors of the Company	22	26
Other auditors	1	1

22 EARNINGS PER SHARE

Earnings per share is calculated by dividing the Group's net profit attributable to shareholders of the Company for the year by the weighted average number of ordinary shares in issue during the financial year as follows:

	2016	2015
Profit attributable to shareholders of the Company (\$'000)	28,162	31,417
Weighted average number of ordinary shares in issue (thousands)	88,642	88,622
Basic earnings per share (in cents)	31.77	35.45

For the purpose of calculating the diluted earnings per ordinary share, the weighted average number of ordinary shares in issue is adjusted to take into account the dilutive effect arising from share options.

	2016	2015
Profit attributable to shareholders of the Company (\$'000)	28,162	31,417
Weighted average number of ordinary shares in issue (thousands)	88,642	88,622
Adjustments for share options (thousands)	–	11
Weighted average number of ordinary shares for the purpose of diluted earnings per share (thousands)	88,642	88,633
Diluted earnings per share (in cents)	31.77	35.45

NOTES TO THE FINANCIAL STATEMENTS

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23 SEGMENT INFORMATION

The Group operates predominantly in Singapore. All vehicle inspection and non-vehicle testing services are managed and reported together as one segment in order to improve productivity and efficiency as these services have similar economic characteristics and processes. Hence there are no other reportable segments to be presented.

24 CAPITAL EXPENDITURE COMMITMENTS

The Group has the following capital commitments contracted but not provided for in the Financial Statements:

	The Group	
	2016 \$'000	2015 \$'000
Purchase of vehicles, premises and equipment	976	1,626

25 OPERATING LEASE ARRANGEMENTS

The Group as lessee

	The Group	
	2016 \$'000	2015 \$'000
Minimum lease payments under operating leases recognised as an expense in the year	2,031	1,925

The annual rentals for certain premises are subject to review every year at a variable rate up to a maximum of 5.5% (2015 : 5.5%) of the immediate preceding years' annual rent. Leases are negotiated for an average term of 30 years and rentals are fixed for an average of a year.

At the end of the reporting period, the Group has commitments in respect of non-cancellable operating leases, at prevailing rental rates, as follows:

	The Group	
	2016 \$'000	2015 \$'000
Within one year	2,151	2,155
In the second to fifth year inclusive	7,470	7,197
After five years	16,274	17,863
Total	25,895	27,215

The Group as lessor

The Group rents out their lettable space in Singapore. Rental income earned by the Group during the year was \$2,705,000 (2015 : \$2,741,000).

At the end of the reporting period, the Group has contracted with tenants for the following future minimum lease payments:

	The Group	
	2016 \$'000	2015 \$'000
Within one year	2,287	2,218
In the second to fifth year inclusive	831	2,109
Total	3,118	4,327

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26 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

The Group recognises that management of financial risk is an important aspect in its drive towards creating shareholders' value. It is the Group's policy not to participate in speculative financial instruments. Management oversees financial risk management and regularly reviews its policy governing risk management practices.

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risk.

Foreign exchange risk management

The Group operates predominantly in Singapore and therefore is not exposed to any material foreign currency exchange risk.

Interest rate risk management

The Group's exposure to interest rate risks relate primarily to its fixed deposit placements with financial institutions. The Group's policy is to obtain the most favourable interest rate available without exposing itself to any unnecessary risk. Interest rate risk is managed by placing deposits on varying maturities and terms. Based on the current interest rate level, any future variations in interest rates are not expected to have significant impact on the Group's results.

Credit risk management

The Group has policies in place to ensure that customers are of adequate financial standing and have appropriate credit history. In its management of credit risk, the Group practises stringent credit review and sets counterparty credit limits. There is no significant concentration of credit risk.

Cash and deposits are kept with reputable financial institutions. There is no significant concentration of credit risk.

The carrying amount of financial assets represents the Group's maximum exposure to credit risk as disclosed in the notes to the Financial Statements.

Liquidity risk management

The Group regularly reviews its liquidity position comprising free cash flows from its operations and credit facilities with banks. It ensures that there are sufficient credit lines available to support its liquidity needs.

Fair values of financial assets and financial liabilities

The carrying amounts of cash and cash equivalents, trade and other current receivables and payables, provisions and other liabilities approximate the respective fair values due to the relatively short-term maturity of these financial instruments.

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- a. quoted prices in active markets for identical assets or liabilities (Level 1);
- b. inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2); and
- c. inputs for the asset or liability that are not based on observable market data (Level 3).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

26 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

Capital risk management policies and objectives

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the equity balance.

The Group's capital management objectives are to safeguard its ability to continue as a going concern and to maximise shareholder value. Management monitors the gross and net gearing of the Group and its implication on weighted average cost of capital in deciding the optimal capital structure. These objectives determine the Group's decisions on the amount of dividends to be paid to shareholders and the sources of capital to be raised, be it equity or debt.

No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 2015.

27 DIVIDENDS

(a) During the financial year, the Company paid dividends as follows:

	2016 \$'000	2015 \$'000
Tax-exempt one-tier final dividend in respect of the previous financial year:		
– 9.50 cents (2015 : 8.75 cents) per ordinary share	8,421	7,755
Tax-exempt one-tier special dividend in respect of the previous financial year:		
– 10.25 cents (2015 : 9.50 cents) per ordinary share	9,086	8,418
Tax-exempt one-tier interim dividend in respect of the current financial year:		
– 8.00 cents (2015 : 8.75 cents) per ordinary share	7,091	7,755
Total	24,598	23,928

(b) Subsequent to the end of the reporting period, the Directors of the Company recommended that:

- (i) a tax-exempt one-tier final dividend of 8.50 cents per ordinary share totalling \$7,535,000 be paid for the financial year ended 31 December 2016; and
- (ii) a tax-exempt one-tier special dividend of 10.00 cents per ordinary share totalling \$8,864,000 be paid for the financial year ended 31 December 2016.

The dividends are subject to approval by shareholders at the forthcoming Annual General Meeting and hence the proposed dividends have not been accrued as a liability for the current financial year.

Together with the tax exempt one-tier interim dividend of 8.00 cents per ordinary share (2015 : 8.75 cents per ordinary share), total distributions paid and proposed in respect of the financial year ended 31 December 2016 will be 26.50 cents per ordinary share (2015 : 28.50 cents per ordinary share).

28 IFRS CONVERGENCE IN 2018

Singapore-incorporated companies listed on the Singapore Exchange (SGX) will be required to apply a new Singapore financial reporting framework that is identical to the International Financial Reporting Standards (IFRS) for annual periods beginning on or after 1 January 2018. The Group will be adopting the new framework for the first time for financial year ending 31 December 2018, with retrospective application to the comparative financial year ending 31 December 2017 and the opening Statement of Financial Position as at 1 January 2017 (date of transition). Management is currently performing a detailed analysis of the transition options and other requirements of IFRS 1, including financial effects on transition to the new framework.