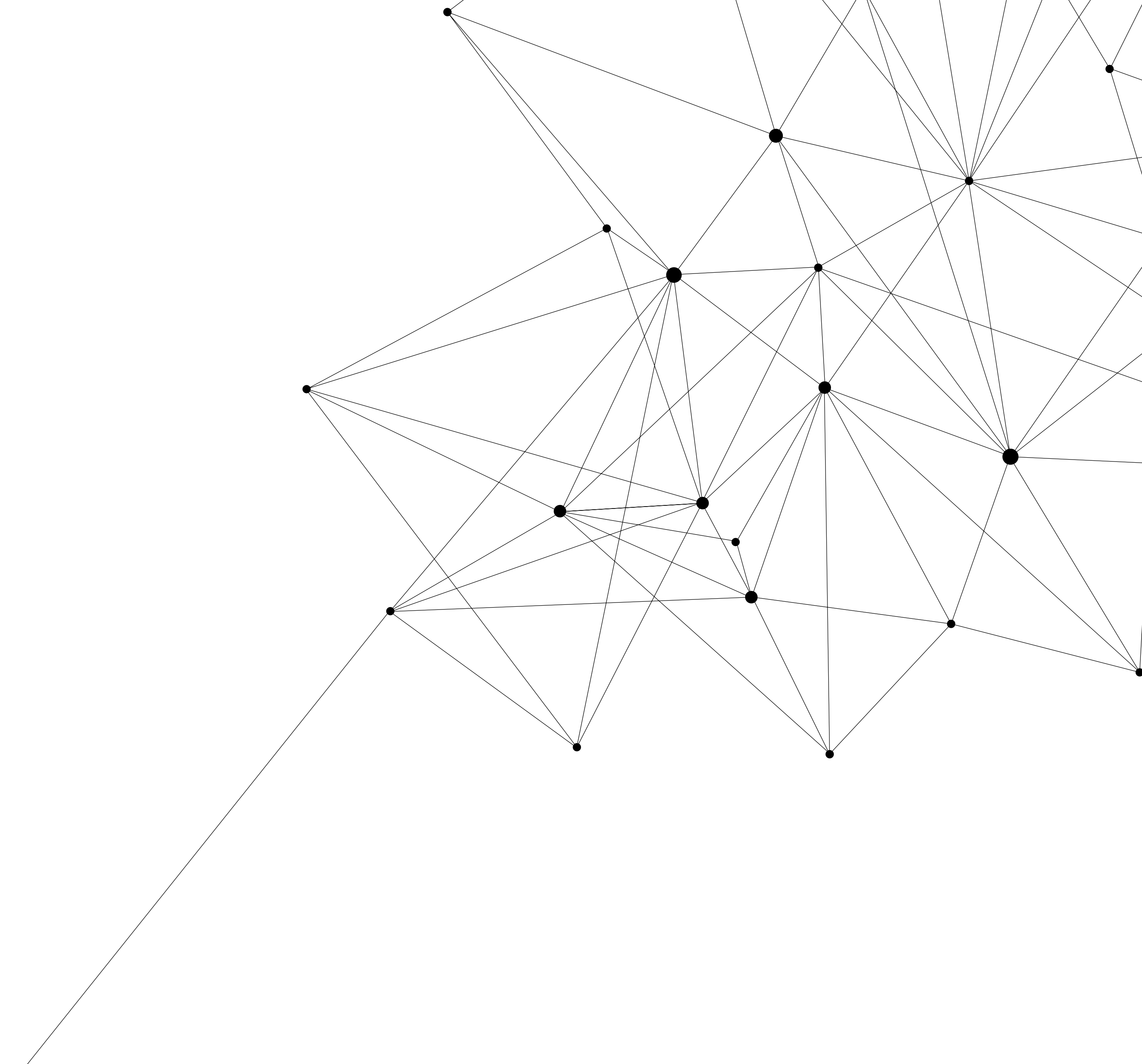

CONTENTS

DIRECTORS' STATEMENT

The Directors present their statement together with the audited Consolidated Financial Statements of the Group for the financial year ended 31 December 2019 and the Statement of Financial Position and Statement of Changes in Equity of the Company as at 31 December 2019.

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 56 to 101 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 2019, 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 statement are:

Lim Jit Poh	(Chairman)
Yang Ban Seng	(Deputy Chairman)
Sim Wing Yew	(Chief Executive Officer)
Shim Phyau Wui, Victor	(Lead Independent Director)
Goh Yeow Tin	
June Seah Lee Kiang	
Soh Chung Hian, Daniel	
Tan Kim Siew	
Tan Poh Hong	(Appointed on 25 April 2019)
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.

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 name of Directors		
	At 1 January 2019	At 31 December 2019	At 21 January 2020
Interest in the Company			
(a) Ordinary shares			
Lim Jit Poh	190,000	190,000	190,000
Sim Wing Yew	10,000	10,000	10,000
Shim Phyau Wui, Victor (Deemed Interest)	6,000	6,000	6,000
Interest in related company, SBS Transit Ltd			
(a) Ordinary shares			
Sim Wing Yew	230,000	70,000	70,000
Interest in holding company, ComfortDelGro Corporation Limited			
(a) Ordinary shares			
Lim Jit Poh	244,425	244,425	244,425
Yang Ban Seng	157,168	7,168	7,168
Yang Ban Seng (Deemed Interest)	18,185	18,185	18,185
Sim Wing Yew	500,000	450,000	450,000
Shim Phyau Wui, Victor (Deemed Interest)	19,000	19,000	19,000
(b) Options to subscribe for ordinary shares			
Yang Ban Seng	660,000	660,000	660,000

4 OPTIONS TO TAKE UP UNISSUED SHARES

During the financial year, no options to take up unissued shares of the Company or any corporation in the Group were granted.

5 OPTIONS EXERCISED

During the financial year, there were no shares of the Company or any corporation in the Group issued by virtue of the exercise of an option to take up unissued shares.

6 UNISSUED SHARES UNDER OPTION

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

7 AUDIT AND RISK COMMITTEE

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

Soh Chung Hian, Daniel	(Chairman)
Goh Yeow Tin	
Shim Phyau Wui, Victor	
Tan Poh Hong	(Appointed on 25 April 2019)
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 2018.

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

8 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
12 February 2020

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 Statement of Financial Position of the Group and the Company as at 31 December 2019, and the Group Income Statement, Group Comprehensive Income Statement, Group Statement of Changes in Equity and Group Cash Flow Statement 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 56 to 101.

In our opinion, the Consolidated Financial Statements of the Group and the Statement of Financial Position and the Statement of Changes in Equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)s") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the 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.

<u>Allowance for expected credit losses for trade receivables</u>

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 reasonable.

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 SFRS(I)s, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair Financial Statements and to maintain accountability of assets.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF VICOM LTD

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 Tsia Chee Wah.

DELOITTE & TOUCHE LLP
Public Accountants and
Chartered Accountants
Singapore

12 February 2020

STATEMENTS OF FINANCIAL POSITION

31 DECEMBER 2019

	Note	The Group		The Company	
		2019 $'000	2018 $'000	2019 $'000	2018 $'000
ASSETS					
Current assets					
Cash and cash equivalents	5	92,851	104,097	88,973	74,627
Trade receivables	6	16,181	16,857	2,244	2,334
Other receivables and prepayments	7	1,827	1,638	1,168	1,012
Inventories		21	28	–	–
Total current assets		110,880	122,620	92,385	77,973
Non-current assets					
Subsidiaries	8	–	–	25,941	25,941
Associate	9	25	25	–	–
Club memberships	10	–	155	–	155
Financial assets at fair value through other comprehensive income	11	1,349	–	1,349	–
Vehicles, premises and equipment	12	55,458	56,089	20,089	21,885
Right-of-use assets	13	26,007	–	18,931	–
Goodwill	14	11,325	11,325	–	–
Total non-current assets		94,164	67,594	66,310	47,981
Total assets		**205,044**	**190,214**	**158,695**	**125,954**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	15	24,180	22,804	7,465	6,757
Due to subsidiaries	16	–	–	46,624	15,704
Provision for relocation costs	17	6,589	–	–	–
Lease liabilities	18	1,210		566	–
Income tax payable		6,923	6,890	3,762	3,676
Total current liabilities		38,902	29,694	58,417	26,137
Non-current liabilities					
Deferred tax liabilities	19	1,548	1,661	193	244
Lease liabilities	18	32,304	–	25,476	–
Provision for relocation costs	17	–	7,053	–	–
Total non-current liabilities		33,852	8,714	25,669	244
Total liabilities		72,754	38,408	84,086	26,381
Capital, reserves and non-controlling interests					
Share capital	20	36,284	36,284	36,284	36,284
Other reserves	21	3,065	3,073	3,065	3,073
Foreign currency translation reserve		(1)	21	–	–
Accumulated profits		91,977	111,456	35,260	60,216
Equity attributable to shareholders of the Company		131,325	150,834	74,609	99,573
Non-controlling interests		965	972	–	–
Total equity		132,290	151,806	74,609	99,573
Total liabilities and equity		**205,044**	**190,214**	**158,695**	**125,954**

See accompanying notes to the Financial Statements.

GROUP INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2019

	Note	The Group 2019 $'000	The Group 2018 $'000
Revenue	22	103,703	100,063
Other income	23	–	7,743
Staff costs	24	(46,667)	(44,857)
Depreciation and amortisation	10, 12, 13	(7,412)	(6,424)
Contract services		(3,448)	(3,395)
Materials and consumables		(2,506)	(2,461)
Premises costs		(1,805)	(3,700)
Repairs and maintenance costs		(1,694)	(1,669)
Utilities and communication costs		(1,642)	(1,507)
Other operating costs		(4,337)	(4,083)
Total operating costs		(69,511)	(68,096)
Operating profit		34,192	39,710
Finance costs	25	(918)	–
Interest income		1,657	1,427
Profit before taxation		34,931	41,137
Taxation	26	(6,052)	(5,978)
Profit after taxation	27	28,879	35,159
Attributable to:			
Shareholders of the Company		28,412	34,700
Non-controlling interests		467	459
		28,879	35,159
Earnings per share (in cents):			
Basic	28	32.05	39.15
Diluted	28	32.05	39.15

See accompanying notes to the Financial Statements.

GROUP COMPREHENSIVE INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2019

	Note	The Group 2019 $'000	The Group 2018 $'000
Profit after taxation		28,879	35,159
Items that may be reclassified subsequently to Profit or Loss			
Exchange differences arising on translation of foreign operations		(22)	15
Items that may not be reclassified subsequently to Profit or Loss			
Fair value adjustment on equity investments	21	(8)	–
Other comprehensive (loss) income for the year		(30)	15
Total comprehensive income for the year		28,849	35,174
Total comprehensive income attributable to:			
Shareholders of the Company		28,382	34,715
Non-controlling interests		467	459
		28,849	35,174

See accompanying notes to the Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2019

	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 2018	**36,284**	**3,073**	**6**	**108,969**	**148,332**	**977**	**149,309**
Total comprehensive income for the year							
Profit for the year	–	–	–	34,700	34,700	459	35,159
Other comprehensive income for the year	–	–	15	–	15	–	15
Total	–	–	15	34,700	34,715	459	35,174
Transactions recognised directly in equity							
Payment of dividends (Note 33)	–	–	–	(32,213)	(32,213)	–	(32,213)
Total	–	–	–	(32,213)	(32,213)	–	(32,213)
Payments to non-controlling interests	–	–	–	–	–	(464)	(464)
Balance at 31 December 2018	**36,284**	**3,073**	**21**	**111,456**	**150,834**	**972**	**151,806**
Adoption of SFRS(I) 16 (Note 2)	–	–	–	(7,204)	(7,204)	(43)	(7,247)
Balance at 1 January 2019 (Restated)	36,284	3,073	21	104,252	143,630	929	144,559
Total comprehensive income for the year							
Profit for the year	–	–	–	28,412	28,412	467	28,879
Other comprehensive income for the year	–	(8)	(22)	–	(30)	–	(30)
Total	–	(8)	(22)	28,412	28,382	467	28,849
Transactions recognised directly in equity							
Payment of dividends (Note 33)	–	–	–	(40,687)	(40,687)	–	(40,687)
Total	–	–	–	(40,687)	(40,687)	–	(40,687)
Payments to non-controlling interests	–	–	–	–	–	(431)	(431)
Balance at 31 December 2019	**36,284**	**3,065**	**(1)**	**91,977**	**131,325**	**965**	**132,290**

See accompanying notes to the Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2019

	The Company			
	Share capital $'000	**Other reserves $'000**	**Accumulated profits $'000**	**Total equity $'000**
Balance at 1 January 2018	**36,284**	**3,073**	**69,040**	**108,397**
Profit for the year, representing total comprehensive income for the year	–	–	23,389	23,389
Transactions recognised directly in equity				
Payment of dividends (Note 33)	–	–	(32,213)	(32,213)
Total	–	–	(32,213)	(32,213)
Balance at 31 December 2018	**36,284**	**3,073**	**60,216**	**99,573**
Adoption of SFRS(I) 16 (Note 2)	–	–	(7,020)	(7,020)
Balance at 1 January 2019 (Restated)	36,284	3,073	53,196	92,553
Total comprehensive income for the year				
Profit for the year	–	–	22,751	22,751
Other comprehensive income for the year	–	(8)	–	(8)
Total	–	(8)	22,751	22,743
Transactions recognised directly in equity				
Payment of dividends (Note 33)	–	–	(40,687)	(40,687)
Total	–	–	(40,687)	(40,687)
Balance at 31 December 2019	**36,284**	**3,065**	**35,260**	**74,609**

See accompanying notes to the Financial Statements.

GROUP CASH FLOW STATEMENT

YEAR ENDED 31 DECEMBER 2019

	2019 $'000	2018 $'000
Operating activities		
Profit before taxation	34,931	41,137
Adjustments for:		
Depreciation of property, plant and equipments and amortisation of club memberships	6,071	6,424
Depreciation of right-of-use assets	1,341	–
Interest expense	918	–
Interest income	(1,657)	(1,427)
Loss (Gain) on disposal of vehicles, premises and equipment and surrender of lease	2	(14,813)
Provision for relocation costs	–	7,053
Allowance for expected credit losses	435	305
Operating cash flows before movements in working capital	42,041	38,679
Trade receivables	241	(3,745)
Other receivables and prepayments	(190)	(3)
Inventories	7	(8)
Trade and other payables	912	(68)
Cash generated from operations	43,011	34,855
Interest paid	(918)	–
Income tax paid	(6,132)	(4,793)
Net cash from operating activities	35,961	30,062
Investing activities		
Purchase of vehicles, premises and equipment	(5,372)	(26,197)
Purchase of unquoted equity instruments held at fair value through other comprehensive income	(1,357)	–
Interest received	1,658	1,478
Proceeds from disposal of vehicles, premises and equipment and surrender of lease	82	23,901
Net cash used in investing activities	(4,989)	(818)
Financing activities		
Repayments of lease liabilities	(1,081)	–
Payments to non-controlling interests	(431)	(464)
Dividends paid (Note 33)	(40,687)	(32,213)
Net cash used in financing activities	(42,199)	(32,677)
Net effect of exchange rate changes in consolidating subsidiaries	(19)	16
Net decrease in cash and cash equivalents	(11,246)	(3,417)
Cash and cash equivalents at beginning of year	104,097	107,514
Cash and cash equivalents at end of year (Note 5)	92,851	104,097

See accompanying notes to the Financial Statements.

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 expressed in thousand ($'000) except when otherwise indicated.

The Consolidated Financial Statements of the Group for the financial year ended 31 December 2019 and the Statement of Financial Position and Statement of Changes in Equity of the Company as at 31 December 2019 were authorised for issue by the Board of Directors on 12 February 2020.

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 SFRS(I)s.

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 Group 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 SFRS(I) 2 *Share-based Payment*, leasing transactions that are within the scope of SFRS(I) 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in SFRS(I) 1-2 *Inventories* or value in use in SFRS(1) 1-36 *Impairment of Assets*.

ADOPTION OF NEW AND REVISED FINANCIAL STANDARDS – In the current financial year, the Group has adopted all the new and revised SFRS(I)s that are relevant to its operations and effective for annual periods beginning on 1 January 2019.

The adoption of these new and revised SFRS(I)s has no material effect on the amounts reported for the current or prior years except as disclosed below.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

ADOPTION OF NEW AND REVISED FINANCIAL STANDARDS (CONT'D)

SFRS(I) 16 *Leases*

SFRS(I) 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of SFRS(I) 16 on the Group's and Company's Financial Statements is described below.

The date of initial application of SFRS(I) 16 for the Group is 1 January 2019.

The Group has applied SFRS(I) 16 using the cumulative catch-up approach which:

- requires the Group to recognise the cumulative effect of initially applying SFRS(I) 16 as an adjustment to the opening balance of retained earnings at the date of initial application; and
- does not permit restatement of comparatives, which continue to be presented under SFRS(I) 1-17 *Leases* and SFRS(I) INT 4 *Determining whether an Arrangement contains a Lease*.

(a) Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to SFRS(I) 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with SFRS(I) 1-17 and SFRS(I) INT 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. SFRS(I) 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in SFRS(I) 1-17 and SFRS(I) INT 4.

The Group applies the definition of a lease and related guidance set out in SFRS(I) 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). The new definition in SFRS(I) 16 does not significantly change the scope of contracts that meet the definition of a lease for the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

ADOPTION OF NEW AND REVISED FINANCIAL STANDARDS (CONT'D)

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

(b) Impact on lessee accounting

Former operating leases

SFRS(I) 16 changes how the Group accounts for leases previously classified as operating leases under SFRS(I) 1-17, which were off-balance-sheet.

Applying SFRS(I) 16, for all leases, the Group:

(i) Recognises right-of-use assets and lease liabilities in the Statements of Financial Position, initially measured at the present value of the remaining lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with SFRS(I) 16.C8(b)(ii), except for the right-of-use asset for property leases which were measured on a retrospective basis as if the Standard had been applied since the commencement date;

(ii) Recognises depreciation of right-of-use assets and interest on lease liabilities in the Comprehensive Income Statement; and

(iii) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Cash Flow Statement.

Lease incentives (e.g. free rent period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under SFRS(I) 1-17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

Under SFRS(I) 16, right-of-use assets are tested for impairment in accordance with SFRS(I) 1-36 *Impairment of Assets*.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes tablets and personal computers, small items of office furniture and telephones), the Group has opted to recognise a lease expense on a straight-line basis as permitted by SFRS(I) 16. This expense is presented within other operating expenses in the Statement of Profit or Loss.

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying SFRS(I) 1-17.

- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.

- The Group has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

ADOPTION OF NEW AND REVISED FINANCIAL STANDARDS (CONT'D)

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

(c) Impact on lessor accounting

SFRS(I) 16 does not change substantially how a lessor accounts for leases. Under SFRS(I) 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, SFRS(I) 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

(d) Financial impact of initial application of SFRS(I) 16

The weighted average lessee's incremental borrowing rate applied to the lease liabilities recognised in the Statement of Financial Position on 1 January 2019 is 2.689%.

The following table shows the operating lease commitments disclosed applying SFRS(I) 1-17 at 31 December 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the Statement of Financial Position at the date of initial application.

	The Group	The Company
	2019	2019
	$'000	$'000
Operating lease commitments at 31 December 2018	16,031	12,593
Less: Short-term leases and leases of low value assets	(6)	–
Less: Effect of discounting the above amounts	(2,228)	(1,997)
Add: Present value of the lease payments due in periods covered by extension options that are included in the lease term and not previously included in operating lease commitments	20,808	16,013
Lease liabilities recognised as at 1 January 2019	**34,605**	**26,609**

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statements of Financial Position immediately before the date of initial application, except for the right-of-use assets for property leases which were measured on a modified retrospective basis as if the Standard had been applied since the commencement date. Consequently, right-of-use assets of $27,358,000 and $19,589,000 and the net impact on accumulated profits of $7,247,000 and $7,020,000 relating to the lease liabilities above were recognised on 1 January 2019 for the Group and Company respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 not yet effective:

- Amendments to SFRS(I) 1-1 *Presentation of Financial Statements* and SFRS(I) 1-8 *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material* (1)

- Amendments to References to the Conceptual Framework in SFRS(I) Standards (1)

(1) Applies to annual periods beginning on or after 1 January 2020.

Management anticipates that the adoption of the above amendments to SFRS(I) in future periods will not have a material impact on the Financial Statements of the Group in the period of their initial adoption.

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

- 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 Group 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 Group obtains control over the subsidiary and ceases when the Group 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 Group gains control until the date when the Group ceases to control the subsidiary.

Profit or Loss and each component of Other Comprehensive Income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Group 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 those consistently by the Group.

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 Group.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

BASIS OF CONSOLIDATION (CONT'D)

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 are 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 SFRS(I) 3 *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 SFRS(I) 1-12 *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 recognised.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year from acquisition date.

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.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through Profit or Loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through Profit or Loss are recognised immediately in Profit or Loss.

Financial assets

All financial assets are recognised and de-recognised on a trade date basis where the purchase or sale of financial assets is under a contract whose terms require delivery of assets within the time frame established by the market concerned.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

FINANCIAL INSTRUMENTS (CONT'D)

Financial assets (Cont'd)

Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortised cost less impairment loss:

- the financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are subsequently measured at fair value through profit or loss ("FVTPL").

Despite the aforegoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and

- the Group may irrevocably designate a debt investment that meets the amortised cost or fair value through other comprehensive income ("FVTOCI") criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination to which SFRS(I) 3 applies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

FINANCIAL INSTRUMENTS (CONT'D)

Financial assets (Cont'd)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in Other Comprehensive Income and accumulated in the investments revaluation reserve. The cumulative gain or loss will not be reclassified to Profit or Loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

The Group has designated its investment in equity instruments, which comprises of an unquoted equity security and is not held for trading, as at FVTOCI on initial application of SFRS(I) 9 (see Note 11).

Dividends on this investment in equity instruments is recognised in Profit or Loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

<u>Impairment of financial assets</u>

The Group applies the simplified approach permitted by SFRS(I) 9 for trade receivables. The expected credit losses ("ECL") on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors as well as current and forecast general economic conditions at the reporting date. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the rate of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information, where relevant. The internal credit rating of these financial assets are categorised as "Doubtful". The basis for recognition of ECL for financial assets with significant increase in credit risk since initial recognition is lifetime ECL – not credit impaired.

A default on a financial asset is when the counterparty fails to make contractual payments within a specific period after the credit period granted. The internal credit rating of these financial assets are categorised as "Non-performing". The basis for recognition of ECL for financial assets with evidence indicating credit-impaired is lifetime ECL – credit impaired.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of 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 receivables due. Where recoveries are made, these are recognised in Profit or Loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

FINANCIAL INSTRUMENTS (CONT'D)

Financial assets (Cont'd)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is 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.

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.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in Profit of Loss.

LEASES (before 1 January 2019) – 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. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

FINANCIAL INSTRUMENTS (CONT'D)

Financial liabilities and equity instruments (Cont'd)

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.

LEASES (from 1 January 2019)

The Group as lessor

The Group enters into lease agreements as a lessor with respect to its leasehold buildings.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

When a contract includes lease and non-lease components, the Group applies SFRS(I) 15 to allocate the consideration under the contract to each component.

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses the incremental borrowing rate specific to the lessee.

The Group determines its incremental borrowing rate based on the quotes from reputable banks in accordance to the type of asset, tenure and country where the assets are situated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

LEASES (from 1 January 2019) (Cont'd)

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the Statements of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); or
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under SFRS(I) 1-37 *Provisions, Contingent Liabilities and Contingent Assets*. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

LEASES (from 1 January 2019) (Cont'd)

The right-of-use assets are presented as a separate line in the Statements of Financial Position.

The Group applies SFRS(I) 1-36 to determine whether a right-of-use asset is impaired.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Other operating costs' in the Comprehensive Income Statement.

As a practical expedient, SFRS(I) 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

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.

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 of the assets, other than capital projects in progress, over their estimated useful lives, using the straight-line method, on the following bases:

	Number of years
Leasehold land and buildings	Over the remaining lease period
Furniture, fittings and equipment	5 to 7
Workshop machinery, tools and equipment	
– General workshop machinery, tools and equipment	3 to 10
– Specialised inspection and testing equipment	20
Motor vehicles	5 to 10
Computers and automated equipment	3 to 5

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 SFRS(I) 5. 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

IMPAIRMENT OF NON-FINANCIAL ASSETS EXCLUDING GOODWILL – At the end of each reporting year, the Group reviews the carrying amounts of its non-financial 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.

Intangible assets with indefinite useful lives are tested for impairment annually, or more frequently if there is an indication that the asset may be impaired.

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 has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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 year, taking into account the risks and uncertainties surrounding the obligation.

DEFERRED INCOME – Deferred income arises from advance receipts from customers that are recognised to Profit or Loss when the services are rendered.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

GOVERNMENT GRANTS – 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 – The Group recognises revenue from the following major sources:

- Vehicle inspection services; and
- Testing and inspection testing.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product to a customer or when services are rendered.

<u>Vehicle inspection services</u>

Revenue from vehicle inspection services is recognised at a point in time upon completion of the inspection services.

<u>Testing and inspection testing</u>

Revenue from testing services for aerospace, marine and offshore, biotechnology, oil and petrochemical, building construction and electronics manufacturing industries is recognised at a point in time upon completion of the final test report.

<u>Interest income</u>

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

<u>Dividend income</u>

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

<u>Rental income</u>

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 year.

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 and associate, 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 year 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.

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 year, monetary items denominated in foreign currencies are translated at rates prevailing at the end of each reporting year. 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION (CONT'D)

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.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of a foreign operation and translated at the closing rate.

CASH AND CASH EQUIVALENTS IN THE GROUP CASH FLOW STATEMENT – Cash and cash equivalents in the Group Cash Flow Statement comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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.

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:

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONT'D)

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 13.

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 1.0% (2018 : 2.5%). 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 4.70% (2018 : 5.39%).

As at 31 December 2019 and 31 December 2018, 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.

Significant related company transactions are as follows:

	The Group	
	2019 $'000	2018 $'000
Inspection and testing services charged to related companies	(2,036)	(2,132)
Refuelling outlet (variable rental) income charged to related company	(284)	(248)
Rental income charged to related companies	(420)	(508)
Assessment fee charged to related companies	(259)	(262)
Other fees charged to related companies	(74)	(55)
Corporate service charges paid to holding company	492	361
Other charges paid to holding company	88	111
Other charges paid to related companies	200	137
Rental expense paid to related companies	189	180

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	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Cash and bank balances	3,539	29,422	448	717
Fixed deposits with financial institutions	89,312	74,675	88,525	73,910
Total	92,851	104,097	88,973	74,627

Fixed deposits are placed on a staggered basis based on the Group's cash flow projections, bore interest at effective interest rates of between 1.68% to 2.14% (2018 : 1.50% to 1.99%) per annum and for a weighted average tenure of approximately 275 days (2018 : 376 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	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Outside parties	18,174	18,491	739	855
Allowance for expected credit losses	(2,128)	(1,814)	(152)	(110)
Allowance for discount allowed	(318)	(376)	–	–
Net	15,728	16,301	587	745
Holding company (Note 4)	3	–	–	–
Subsidiaries (Note 4)	–	–	1,504	1,408
Related companies (Note 4)	450	556	153	181
Total	16,181	16,857	2,244	2,334

The average credit period on sale of goods and provision of services is 30 days (2018 : 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 the Group of $2,128,000 (2018 : $1,814,000) and of the Company of $152,000 (2018 : $110,000). This allowance which has been determined by reference to past default experience and expected credit losses, ranging from 2% to 4.5% (2018 : 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 and adjust for forward-looking macroeconomic data.

Approximately 63% (2018 : 57%) 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 $4,700,000 (2018 : $6,299,000) 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 52 days (2018 : 63 days).

Approximately 91% (2018 : 91%) 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 $67,000 (2018 : $99,000) 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 38 days (2018 : 32 days).

6 TRADE RECEIVABLES (CONT'D)

Movements in allowance for expected credit losses:

	The Group		The Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Balance at beginning of the year	1,814	1,542	110	79
Amounts written off during the year	(121)	(33)	–	–
Increase (Decrease) in allowance recognised in Profit or Loss	435	305	42	31
Balance at end of the year	2,128	1,814	152	110

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	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Denominated in:				
Malaysian ringgit	2	–	–	–
Great Britain Pound	1	26	–	–
United States dollar	166	118	–	–

As at 31 December 2019, 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 $1,823,000 (2018 : $1,483,000) and $146,000 (2018 : $103,000) respectively.

During the year, the credit impaired financial assets of the Group and the Company written off amounted to $121,000 (2018 : $33,000) and $Nil (2018 : $Nil) respectively; and the allowance recognised in Profit or Loss amounted to $427,000 (2018 : $240,000) and $42,000 (2018 : $31,000) 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 $34,000 (2018 : $13,000) and $1,000 (2018 : $13,000) respectively.

7 OTHER RECEIVABLES AND PREPAYMENTS

	The Group		The Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Other receivables	484	430	130	89
Interest receivable	860	860	824	829
Deposits	133	123	10	9
Prepayments	350	225	204	85
Total	1,827	1,638	1,168	1,012

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	
	2019	2018
	$'000	$'000
Unquoted equity shares, at cost	25,941	25,941

Details of subsidiaries are as follows:

Name of entity	Principal activity	Country of incorporation /operation	Company's effective interest		Cost of investment	
			2019	2018	2019	2018
			%	%	$'000	$'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
Setsco Services (M) Sdn Bhd (1)	Provision of testing, inspection and consultancy services	Malaysia	100	100	–	–
<u>Subsidiaries of Setsco Services Pte Ltd</u>						
Setsco Consultancy International Pte Ltd	Provision of professional inspection and engineering services	Singapore	100	100	–	–
SETS Services DMCC (2)	Building inspection services	United Arab Emirates	100	100	–	–
					25,941	25,941

All the companies are audited by Deloitte & Touche LLP, Singapore, except for as indicated below:

(1) Audited by WT Ng & Co, Malaysia.
(2) Audited by Ethics Plus Public Accountants, United Arab Emirates.

8 SUBSIDIARIES (CONT'D)

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 and SETS Services DMCC 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:

		Number of wholly-owned subsidiaries	
Principal activity	**Place of incorporation and operation**	**2019**	**2018**
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	1
		5	5

		Number of non wholly-owned subsidiaries	
Principal activity	**Place of incorporation and operation**	**2019**	**2018**
Vehicle inspection and other related services	Singapore	1	1

9 ASSOCIATE

	The Group		The Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Unquoted equity shares, at cost	50	50	–	–
Less: Share of post- acquisition reserves	(25)	(25)	–	–
Net	25	25	–	–

a) Details of the associate is as follows:

Associate of Setsco Consultancy International Pte Ltd	Principal activity	Country of incorporation/ operations	Group's effective interest		Cost of investment	
			2019 %	2018 %	2019 $'000	2018 $'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 and is insignificant to the Group.

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

	2019 $'000	2018 $'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	–	–

10 CLUB MEMBERSHIPS

	The Group and The Company	
	2019	2018
	$'000	$'000
Cost:		
At beginning and end of year	451	451
Accumulated amortisation:		
At beginning of year	160	128
Amortisation for the year	155	32
At end of the year	315	160
Accumulated impairment:		
At beginning and end of year	136	136
Carrying amount at end of year	–	155

11 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVTOCI")

	The Group and The Company	
	2019	2018
	$'000	$'000
Investment in equity instrument designated as at FVTOCI		
Unquoted equity shares	1,349	–

The investment in unquoted equity instrument represents an investment in research and development activities and/or the commercial application of this knowledge. The recoverability of these investments is uncertain and dependent on the outcome of these activities, which cannot presently be determined.

This investment in equity instrument is not held for trading. Instead, it is held for medium to long-term strategic purposes. Accordingly, Management has elected to designate this investment in equity instrument as at FVTOCI as they believe that recognising short-term fluctuations in the investment's fair value in Profit or Loss would not be consistent with the Group's strategy of holding this investment for long-term purposes and realising its performance potential in the long run.

No investment in equity investments measured at FVTOCI has been disposed of during the current reporting period.

12 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:								
At 1 January 2018	57,130	14,813	1,314	39,775	3,428	2,206	–	118,666
Additions	23,649	–	145	1,588	741	74	–	26,197
Disposals	(15,317)	–	(43)	(888)	(625)	(80)	–	(16,953)
Exchange differences	(2)	–	–	(3)	–	–	–	(5)
At 31 December 2018	65,460	14,813	1,416	40,472	3,544	2,200	–	127,905
Additions	164	–	89	2,548	1,219	130	1,222	5,372
Disposals	(2)	–	(10)	(229)	(668)	(62)	–	(971)
Exchange differences	(3)	–	–	(2)	(1)	–	–	(6)
At 31 December 2019	65,619	14,813	1,495	42,789	4,094	2,268	1,222	132,300
Accumulated depreciation:								
At 1 January 2018	33,235	5,406	999	30,228	2,243	1,182	–	73,293
Depreciation	2,241	412	148	2,783	519	289	–	6,392
Disposals	(6,262)	–	(43)	(876)	(604)	(80)	–	(7,865)
Exchange differences	–	–	–	(4)	–	–	–	(4)
At 31 December 2018	29,214	5,818	1,104	32,131	2,158	1,391	–	71,816
Depreciation	2,150	411	124	2,584	317	330	–	5,916
Disposals	(1)	–	(10)	(222)	(593)	(61)	–	(887)
Exchange differences	–	–	–	(2)	(1)	–	–	(3)
At 31 December 2019	31,363	6,229	1,218	34,491	1,881	1,660	–	76,842
Carrying amounts:								
At 31 December 2019	34,256	8,584	277	8,298	2,213	608	1,222	55,458
At 31 December 2018	36,246	8,995	312	8,341	1,386	809	–	56,089

12 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	Total $'000
Company							
Cost:							
At 1 January 2018	38,432	14,813	291	2,499	159	564	56,758
Additions	499	–	58	9	72	13	651
Disposals	–	–	(1)	–	–	(12)	(13)
At 31 December 2018	38,931	14,813	348	2,508	231	565	57,396
Additions	58	–	18	29	–	40	145
Disposals	(2)	–	(5)	(7)	–	(16)	(30)
At 31 December 2019	38,987	14,813	361	2,530	231	589	57,511
Accumulated depreciation:							
At 1 January 2018	26,561	5,406	220	1,070	103	236	33,596
Depreciation	1,201	412	38	149	25	103	1,928
Disposals	–	–	(1)	–	–	(12)	(13)
At 31 December 2018	27,762	5,818	257	1,219	128	327	35,511
Depreciation	1,209	411	34	144	11	131	1,940
Disposals	(1)	–	(5)	(7)	–	(16)	(29)
At 31 December 2019	28,970	6,229	286	1,356	139	442	37,422
Carrying amounts:							
At 31 December 2019	10,017	8,584	75	1,174	92	147	20,089
At 31 December 2018	11,169	8,995	91	1,289	103	238	21,885

12 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. 385 Sin Ming Drive Singapore 575718	10,852.6 sq metre	30 years from January 2011 21 years unexpired	Inspection and assessment 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 7 years unexpired	Inspection and assessment services
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 5 years 9 months unexpired	Inspection, testing and assessment services
The Company	100%	No. 20 Changi North Crescent Singapore 499613	6,015.0 sq metre	30 years from May 1995 5 years 4 months unexpired	Inspection services
The Company	100%	No. 501 Yishun Industrial Park A Singapore 768732	5,190.3 sq metre	60 years from July 1983 23 years 6 months unexpired	Inspection services
The Company	100%	No. 501 Yishun Industrial Park A Singapore 768732	1,104.9 sq metre	30 years from July 2013 23 years 6 months unexpired	Inspection services
Setsco Services Pte Ltd	100%	No. 531 Bukit Batok Street 23 Singapore 659547	7,554.5 sq metre	7 years from October 2018 with option to renew another 30 years 5 years 9 months unexpired	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 88 years 11 months unexpired	Testing, inspection and consultancy services

12 VEHICLES, PREMISES AND EQUIPMENT (CONT'D)

Held by	Group's effective interest	Location	Approximate land area	Tenure	Usage
JIC Inspection Services Pte Ltd	78%	No. 53 Pioneer Road Singapore 628505	9,190.0 sq metre	30 years from December 1994 4 years 11 months unexpired	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 2017, renewed for another 3 years from March 2020 3 years 2 months unexpired	Inspection services

13 RIGHT-OF-USE ASSETS

The Group and Company lease several land and buildings. The average lease term is 40 years (2018 : 40 years), where the Group and Company make periodic lease payments, which are used for its day to day operations.

	Land $'000	Buildings $'000	Total $'000
Group			
Cost:			
At 1 January 2019	42,898	1,082	43,980
Adjustment	(10)	-	(10)
At 31 December 2019	42,888	1,082	43,970
Accumulated depreciation:			
At 1 January 2019	16,294	328	16,622
Depreciation for the year	907	434	1,341
At 31 December 2019	17,201	762	17,963
Carrying amount:			
At 31 December 2019	25,687	320	26,007
At 1 January 2019	26,604	754	27,358

13 RIGHT-OF-USE ASSETS (CONT'D)

	Land $'000	Building $'000	Total $'000
Company			
Cost:			
At 1 January 2019	33,677	19	33,696
Adjustment	(10)	–	(10)
At 31 December 2019	33,667	19	33,686
Accumulated depreciation:			
At 1 January 2019	14,095	12	14,107
Depreciation for the year	642	6	648
At 31 December 2019	14,737	18	14,755
Carrying amount:			
At 31 December 2019	18,930	1	18,931
At 1 January 2019	19,582	7	19,589

In addition, the Group and Company have also secured the right-of-use of certain leasehold land and buildings with no future payments required. These leasehold land and buildings, amounting to $42,840,000 and $18,601,000 (2018 : $45,241,000 and $20,164,000) for the Group and Company respectively, are presented within vehicles, premises and equipment (Note 12).

14 GOODWILL

	The Group	
	2019 $'000	2018 $'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	
	2019 $'000	2018 $'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.

15 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Outside parties	3,613	3,437	2,181	2,148
Holding company (Note 4)	409	115	118	75
Related companies	87	29	2	1
Accruals	16,567	15,498	4,178	3,381
Deferred income	1,212	1,025	152	111
Deposits received from customers	1,025	1,339	616	731
Others	1,267	1,361	218	310
Total	24,180	22,804	7,465	6,757

The average credit period on purchases of goods and services is 30 days (2018 : 30 days).

16 DUE TO SUBSIDIARIES

Included in the payable to subsidiaries is an amount of $44,746,000 (2018 : $13,822,000) 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 1.68% to 1.99% (2018 : 1.62% to 1.99%) per annum.

17 PROVISION FOR RELOCATION COSTS

This pertains to estimated cost, including moving cost and calibration cost of equipment, in relation to the relocation package offered by Jurong Town Corporation and deferred until the relocation to the new premise which is expected to take place in 2020.

18 LEASE LIABILITIES

	The Group 2019 $'000	The Company 2019 $'000
Maturity analysis:		
Within one year	2,099	1,263
In the second to fifth year inclusive	6,715	5,048
After five years	42,323	33,700
	51,137	40,011
Less: Future finance charges	(17,623)	(13,969)
Total	33,514	26,042
Analysed as:		
Current	1,210	566
Non-current	32,304	25,476
Total	33,514	26,042

The Group does not face significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

19 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 2018	1,981	(64)	1,917
(Credit) Charge to Profit or Loss for the year (Note 26)	(382)	126	(256)
At 31 December 2018	1,599	62	1,661
Credit to Profit or Loss for the year (Note 26)	(77)	(36)	(113)
At 31 December 2019	1,522	26	1,548
Company			
At 1 January 2018	404	(122)	282
Credit to Profit or Loss for the year	(5)	(33)	(38)
At 31 December 2018	399	(155)	244
Credit to Profit or Loss for the year	(22)	(29)	(51)
At 31 December 2019	377	(184)	193

20 SHARE CAPITAL

	The Group and the Company			
	2019	2018	2019	2018
	Number of ordinary shares		$'000	$'000
Issued and paid up:				
At beginning and end of year	88,642,000	88,642,000	36,284	36,284

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

21 OTHER RESERVES

	The Group and the Company		
	Revaluation reserve $'000	Capital reserve $'000	Total $'000
Balance at 1 January 2018 and 2019	–	3,073	3,073
Revaluation changes during the year in other comprehensive income	(8)	–	(8)
Balance at 31 December 2019	(8)	3,073	3,065

22 REVENUE

	The Group	
	2019 $'000	2018 $'000
Inspection and testing services	98,798	95,255
Rental income	2,940	2,911
Others	1,965	1,897
	103,703	100,063

Majority of the revenue is derived from Singapore.

23 OTHER INCOME

	The Group	
	2019 $'000	2018 $'000
Gain on surrender of lease	–	14,796
Provision for relocation costs	–	(7,053)
	–	7,743

24 STAFF COSTS

a) The remuneration of the Directors (executive and non-executive) and key executives comprises mainly of short term benefits amounting to $2,794,000 (2018 : $2,588,000).

b)

	The Group	
	2019 $'000	2018 $'000
Cost of defined contribution plans (included in staff costs)	3,779	3,789

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.

25 FINANCE COSTS

	The Group	
	2019 $'000	2018 $'000
Interest on lease liabilities	918	–

26 TAXATION

	The Group	
	2019 $'000	2018 $'000
Taxation charge (credit) in respect of profit for the financial year:		
Current taxation		
Singapore	6,552	6,367
Foreign	49	53
Deferred tax (Note 18)	(129)	(63)
Adjustments in respect of (over) under provision in prior years:		
Current taxation	(436)	(186)
Deferred tax (Note 18)	16	(193)
	6,052	5,978

26 TAXATION (CONT'D)

The taxation charge varied from the amount of taxation charge determined by applying the Singapore income tax rate of 17% (2018 : 17%) to profit before taxation as a result of the following differences:

	The Group	
	2019	**2018**
	$'000	**$'000**
Profit before taxation	34,931	41,137
Taxation at the domestic income tax rate of 17% (2018 : 17%)	5,938	6,993
Non-allowable (taxable) items	598	(529)
Tax-exempt income	(76)	(120)
Overprovision in prior years (net)	(420)	(379)
Effect of different tax rates of subsidiary operating in other jurisdiction	12	13
	6,052	5,978

27 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	
	2019	**2018**
	$'000	**$'000**
Directors' fees	525	465
Foreign currency exchange adjustment loss	21	23
Loss (Gain) on:		
Disposal of vehicles, premises and equipment	2	(17)
Surrender of lease	–	(14,796)
Provision for relocation costs	–	7,053
Allowance for expected credit losses	435	305
Cost of inventories recognised as expense	2	5
Government Grants:		
Special Employment Credit Scheme	(84)	(85)
Wage Credit Scheme	(161)	(277)
Temporary Employment Credit	–	(53)
Audit fees:		
Auditors of the Company	64	64
Other auditors	4	4
Non-audit fees:		
Auditors of the Company	22	27
Other auditors	1	1

28 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:

	2019	2018
Profit attributable to shareholders of the Company ($'000)	28,412	34,700
Weighted average number of ordinary shares in issue (thousands)	88,642	88,642
Basic earnings per share (in cents)	32.05	39.15

Fully diluted earnings per share is the same as the basic earnings per share as there is no dilutive shares outstanding at the end of financial year ended 31 December 2019 and 31 December 2018.

29 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.

30 CAPITAL EXPENDITURE COMMITMENTS

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

	The Group	
	2019 $'000	2018 $'000
Purchase of vehicles, premises and equipment	28,285	1,335

31 OPERATING LEASE ARRANGEMENTS

The Group as lessee

At 31 December 2019, the Group is committed to $193,000 for short-term leases.

At 31 December 2018, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2018 $'000
Within one year	1,998
In the second to fifth year inclusive	7,152
After five years	6,881
Total	16,031

31 OPERATING LEASE ARRANGEMENTS (CONT'D)

The annual rentals for certain premises are subject to review every year at a variable rate up to a maximum of 5.5% (2018 : 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.

The Group as lessor

Disclosure required by SFRS(I) 16

Operating leases, in which the Group is the lessor, relate to lettable space in Singapore owned by the Group with lease terms of between 2 to 4 years, with no extension option. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

The unguaranteed residual values do not represent a significant risk for the Group, as they relate to property which is located in a location with a constant increase in value over the last 13 years. The Group did not identify any indications that this situation will change.

Maturity analysis of operating lease payments:

	2019 $'000
Within one year	2,315
In the second to fifth year inclusive	656
Total	2,971

Disclosure required by SFRS(I) 1-17

During the year ended 31 December 2018, property rental income earned was $2,940,000. All operating lease contracts contained market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

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

	2018 $'000
Within one year	2,447
In the second to fifth year inclusive	3,212
Total	5,659

32 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

(a) *Categories of financial instruments*

	The Group		The Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Financial Assets				
Amortised cost	110,509	122,367	92,181	77,888
Financial assets at FVTOCI	1,349	–	1,349	–
Financial Liabilities				
Amortised Cost	55,457	27,493	79,363	21,619

(b) *Financial risk management policies and objectives*

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 these risks.

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.

32 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONT'D)

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).

Fair value hierarchy

The table below analyses financial instruments by the levels in the fair value hierarchy based on inputs to valuation techniques.

	Level 3	
	The Group and The Company	
	2019	2018
	$'000	$'000
Financial asset at fair value through other comprehensive income	1,349	–

The fair value of the investment is based on the net value of the investment provided by an independent third party. Any significant isolated increase or decrease in the unobservable input relating to the projected share price based on latest round of financing can result in a higher or lower fair value measurement respectively.

Equity price risk management

Equity price risk relates to price risk which exists due to changes in market prices that will affect the Group's income or the value of its holdings in investment. The objective of the Group's investment risk management is to manage and control the price risk exposures within acceptable parameters, while optimising the return on risk.

The Company is exposed to equity price risk changes arising from its investment in an unquoted equity instrument.

32 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (CONT'D)

Equity price sensitivity

A 10% increase in the equity price of the underlying investment in the unquoted equity instrument at the reporting date would increase the fair value reserve for the year by $135,000 (2018 : $Nil).

A 10% decrease in the equity price of the underlying investment in the unquoted equity instrument would have an equal but opposite effect on the fair value reserve.

This analysis assumes that all other variables remain constant.

Capital 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 2019 and 2018.

33 DIVIDENDS

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

	2019 $'000	2018 $'000
Tax-exempt one-tier final dividend in respect of the previous financial year: – 23.17 cents (2018 : 22.88 cents) per ordinary share	20,538	20,281
Tax-exempt one-tier special dividend in respect of the previous financial year: – 8.62 cents (2018 : nil cents) per ordinary share	7,641	–
Tax- exempt one-tier interim dividend in respect of the current financial year: – 14.11 cents (2018 : 13.46 cents) per ordinary share	12,508	11,932
Total	40,687	32,213

(b) Subsequent to the end of the reporting period, the Directors of the Company recommended that a tax-exempt one-tier final dividend of 24.29 cents per ordinary share totalling $21,531,000 be paid for the financial year ended 31 December 2019.

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 14.11 cents per ordinary share (2018 : 13.46 cents per ordinary share), total distributions paid and proposed in respect of the financial year ended 31 December 2019 will be 38.40 cents per ordinary share (2018 : 45.25 cents per ordinary share).